budget. But I also must acknowledge that the President and the bipartisan congressional leadership did not seek to balance the budget without counting Social Security. The bipartisan budget agreement balances only the unified budget. I don't believe we've truly balanced the budget with enactment of this year's reconciliation bills. But perhaps at least we have taken a modest step in the right direction.

One of the reasons I support the Frist amendment is that I am concerned about whether this bipartisan budget deal will accomplish its intended goal—balance of the unified deficit within five years. When I first became aware of the details of the 1997 budget agreement, I viewed it largely as a missed opportunity.

In my view, the budget was not truly balanced. It only claimed balance by using Social Security trust fund surpluses. In fact, in the year 2002 the real deficit will probably still be over $100 billion.

In addition, under this bipartisan budget deal the deficit is larger for the next three years than it is this year. This year's deficit is currently projected to be about $67 billion. The deficits for 1998–2000 will range from $80 billion to $100 billion.

Of most concern to me, budget negotiators failed to correct the upward bias that currently exists in the Consumer Price Index. There is overwhelming evidence that the Consumer Price Index, currently used to adjust tax brackets and various spending programs for inflation, overstates the actual change in the cost-of-living in the United States. The budget deal should have corrected this mistake which will add nearly $1 trillion to our national debt over the next 12 years.

Some of the economic assumptions underlying the budget deal are highly suspect. CBO's last minute revenue adjustment of $45 billion per year may be credible for the years 1997 and 1998. Its credibility for the period 1999–2007 is unclear. In addition, the balanced budget fiscal dividend assumed in the budget agreement is based on the theory that lower interest rates will result from balancing the budget with a credible deficit reduction plan and path. The real debate with regard to the Federal Reserve's interest rate policy right now is whether the Fed will raise, not lower, interest rates in the next few months, particularly since this proposal contains dramatically less savings—only $200 billion—than other proposals offered this year.

Finally, I am concerned that enactment of the tax package before the Senate will blow the progress we have made on reducing the deficit. Over the longer term, I am concerned that since many of the tax cuts are back-end loaded, they will explode in the outyears. The individual alternative minimum tax relief provisions are a perfect example. These provisions don't take effect until 2001. The cost over 1998–2002 is $350 million. The cost over 10 years is $15 billion, a 4000-percent increase. By 2007, the AMT provisions will cost the Treasury $6 billion per year.

Another example involves the Individual Retirement Account provisions in the Senate's tax bill. I know there is strong support for providing incentives for people to save. But the various IRA provisions in the Senate tax bill, particularly the new back loaded IRAs, have serious deficit implications. The IRA proposals lose about $9 billion over 1998 to 2002. Over the second five years the revenue loss is $36 billion. These types of back-end loaded tax cuts may prevent our nation from achieving long-term fiscal balance.

For all these reasons, I support careful monitoring of the federal budget deficit in 2002 and years thereafter. I believe a 60-vote point of order will force Congress and the President to immediately get back on track if our fiscal situation changes dramatically and the unified budget deficit begins to rise in 2002 and years thereafter.

If we can at least maintain unified balance of the budget, then perhaps Congress and the President will have the courage to move toward truly balancing the budget. We can perhaps then achieve the kinds of structural changes in entitlements that will put our nation on a sustainable fiscal course over the long term, as we prepare our nation and our economy for the retirement of the baby boom generation around the year 2012.

Mr. LEVIN addressed the Chair.

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

Mr. LEVIN. Mr. President, I thank the Chair and I thank my good friend from Rhode Island for his understanding at this late hour.

STOCK OPTIONS

Mr. LEVIN. Mr. President, a few minutes ago, we passed by voice vote amendment No. 556. It was an amendment which Senator MCCAIN and I authored, and I want to spend a moment describing what that amendment does.

The amendment provides that it is the sense of the Senate, based on findings that, "(1) currently businesses can deduct the value of stock options as business expense on their income tax returns, even though the stock options are not treated as an expense on the books of those same businesses; and (2) stock options are the only form of compensation that is treated that way. It is the sense of the Senate that the Committee on Finance of the Senate should hold hearings on the tax treatment of stock options."

Mr. President, for the past several years, the Wall Street Journal has published a special pull-out section of the newspaper with an annual analysis of the compensation of top corporate executives. Last year's section had this headline: "The Great Divide: CEO Pay Keeps Soaring—Leaving Everybody Else Further and Further Behind."

Business Week featured this cover story on its 47th annual pay survey: "Executive Pay: It's Out of Control."

Both publications analyze the pay of top executives at approximately 350 major American corporations, and their analysis shows that the pay of chief executive officers continues to outpace inflation, others workers' pay and the pay of CEO's in other countries, as well as company profits. According to Business Week, CEO's total average compensation rose 54 percent last year to over $5.5 million, which came on top of 1995 CEO pay increases averaging 30 percent.

Meanwhile, the average 1996 raise for the average worker, both blue collar and white collar, was about 3 percent. In 1996 the average pay of the top executive was 209 times the pay of a factory worker. Little known corporate tax loopholes are fueling these increases in executive pay with taxpayer dollars. This loophole allows companies to deduct from their taxes multimillion-dollar pay expenses that never show up on the company books as an expense. Every other form of compensation is shown as an expense on company books. There is only one exception, and that is stock options.

There is a link of all this to taxpayer dollars. Suppose a corporate executive exercises stock options to purchase company stocks and makes a profit of $10 million. Right now, the company employing the executive can claim the full $10 million as a compensation expense and deduct it on the company's income tax return.

Someone might say, so what? All companies deduct pay expenses from their taxes. That's true. But there is an important difference here. Every other type of employee pay shows up on the company books as an expense and reduces company earnings. Stock option pay is the only kind of compensation that companies can claim as an expense for tax purposes without ever showing it as an expense on their books. That's because current accounting rules encourage, but do not require, companies to treat stock option pay as a company expense, so companies can continue to game the system.

A single corporate executive exercising stock options can provide a company with a $10 million, $50 million, or even a $100 million expense which the company can deduct when reporting company earnings to Uncle Sam, but omit it when reporting company earnings to stockholders and the public. That is not right. Either stock option pay is a company expense or it isn't. Either this expense lowers a company's earnings or it doesn't. Something is clearly out of whack in a tax law when a company can say one thing at tax time and something else to investors and the public, and it is a double standard which should end.

Senator MCCAIN and I introduced legislation in April to put an end to the double standard. It simply says that a company can claim stock option pay as an expense for tax purposes to the same extent that the company treats that stock option pay as an expense on its books. Companies would no longer be able to claim that stock options cost them large amounts of money when claiming a tax benefit, but then turn around and claim that it cost them nothing when reporting them to stockholders and the public.

Opponents of the legislation claim that it would tax stock options. That is simply not true. Companies will continue to get a tax deduction, not a tax increase, on the options they claim as an expense on their books. For the options that they don't count on their books, they couldn't continue to receive a tax benefit in the form of a deduction. The choice is theirs.

Others argue that this amendment will hurt the average employees who receive stock options from the company's stock option plan. Right now, stock option pay is overwhelmingly executive pay. In 1994, in the most extensive stock option review to date which covered 6,000 publicly traded U.S. companies, Institutional Shareholders Services found that only 1 percent of the companies issued stock options to anyone other than management and 97 percent of the stock options issued went to 15 or fewer individuals per company.

Nevertheless, there are a few companies that issue stock options to all employees and do not disproportionately favor top executives. Our bill would allow those companies that provide broad-based stock option plans to continue to claim existing stock option tax benefits, even if they exclude stock option pay expenses from their books. By making this limited exception, we would ensure that average worker pay would not be affected by closing the stock option loophole. We might even encourage a few more companies to share stock option benefits with average workers.

Still others argue that there is no way to estimate what the cost of stock options plans are and that we're basing a tax deduction on estimates. But there are a number of places in the tax code that use estimates to determine the amount of a deduction.

The bottom line is that the bill that Senate MCCAIN and I introduced is not intended to stop the use of stock options. It is not aimed at capping stock options or limiting them in any way. It would not limit the level of executive pay. That is an issue between the executives and shareholders of the company. Our bill is aimed only at those companies that are trying to have it both ways—claiming stock option pay as an expense at tax time, but not when reporting company earnings to shareholders and the public. It is aimed at ending a stealth tax benefit that is fueling the wage gap, favoring one group of companies over another, and feeding public cynicism about the fairness of the federal tax code.

According to the Joint Committee on Taxation, closing this tax loophole generates $181 million over 5 years and $1.57 billion over 10 years all of which will be dedicated to reducing the deficit.

Mr. President, I ask unanimous consent that a letter from Warren Buffett, Chairman of Berkshire Hathaway, to Senator DODD dated October 18, 1993, be printed in the RECORD.

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

BERKSHIRE HATHAWAY INC.,
Omaha, NE, October 18, 1993.

Hon. CHRISTOPHER DODD,
Chairman, Securities Subcommittee, Committee on Banking,Housing, and Urban Affairs, Dirksen Senate Office Building, Washington, DC.

DEAR MR. CHAIRMAN: I regret that I will not be able to attend your subcommittee meeting on October 21.

Could I have appeared there, I would have wished to make certain points, which I will distill here. First among these is the fact that I do not object to the intelligent use of stock options. I have often voted for their issuance, both as a director and as a substantial owner of the issuing corporations making use of them.

I do, however, object to the improper stock-option accounting now practiced. I summarized my views on that subject in the 1992 Annual Report of Berkshire Hathaway and I would like to repeat those comments here:

''Managers thinking about accounting issues should never forget one of Abraham Lincoln's favorite riddles: How many legs does a dog have if you call his tail a leg? the answer: Four, because calling a tail a leg does not make it a leg. It behooves manager to remember that Abe's right even if an auditor is willing to certify that the tail is a leg.

''The most egregious case of let's-not-face-up-to-reality behavior by executives and accountants has occurred in the world of stock options. The lack of logic is not accidental: For decades much of the business world has waged war against accounting rulemakers, trying to keep the costs of stock options from being reflected in the profits of the corporations that issue them.

''Typically, executives have argued that options are hard to value and therefore their costs should be ignored. At other times managers have said that assigning a cost to options would injure small start-up businesses. Sometimes they have even solemnly declared that 'out-of-the-money' options (those with an exercise price equal to or above the current market price) have no value when they are issued.

''Oddly, the Council of Institutional Investors has chimed in with a variation on that theme, opining that options should not be viewed as a cost because they 'aren't dollars out of a company's coffers.' I see this line of reasoning as offering exciting possibilities to American corporations for instantly improving their reported profits. For example, they could eliminate the cost of insurance by paying for it with options. So if you're a CEO and subscribe to this 'no cash-no cost' theory of accounting, I'll make you an offer you can't refuse: Give us a call at Berkshire and we will happily sell you insurance in exchange for a bundle of long-term options on your company's stock.

''Shareholders should understand that companies incur costs when they deliver something of value to another party and not just when cash changes hands. Moreover, it is both silly and cynical to say that an important item of cost should not be recognized simply because it can't be quantified with pinpoint precision. Right now, accounting abounds with imprecision. After all, no manager or auditor knows how long a 747 is going to last, which means he also does not know what the yearly depreciation charge for the plane should be. No one knows with any certainty what a bank's annual loan loss charge ought to be. And the estimates of losses that property-casualty companies make are notoriously inaccurate.

''Does this mean that these important items of cost should be ignored simply because they can't be quantified with absolute accuracy? Of course not. Rather, these costs should be estimated by honest and experienced people and then recorded. When you get right down to it, what other item of major but hard-to-precisely-calculate cost—other, that is, than stock options—does the accounting profession say should be ignored in the calculation of earnings?

''Moreover, options are just not that difficult to value. Admittedly, the difficulty is increased by the fact that the options given to executives are restricted in various ways. These restrictions affect value. They do not, however, eliminate it. In fact, since I'm in the mood for offers, I'll make one to any executive who is granted a restricted option, even though it may be out of the money: On the day of issue, Berkshire will pay him or her a substantial sum for the right to any future gains he or she realizes on the option. So if you find a CEO who says his newly-issued options have little or no value, tell him to try us out. In truth, we have far more confidence in our ability to determine an appropriate price to pay for an option than we have in our ability to determine the proper depreciation rate for our corporate jet.

''It seems to me that the realities of stock options can be summarized quite simply: If options aren't a form of compensation, what are they? If compensation isn't an expense, what is it? And, if expenses shouldn't go into the calculation of earnings, where in the world should they go?''

With over six months having passed since those questions were posed, I have had no one heap answers upon me.

Instead, as the debate about option accounting has gone forward, ''sweep-the-costs-under-the-rug'' proponents have argued fervently for disclosure—for the presentation of all relevant information about options in the footnotes to the financial statements, rather than in the statements themselves. In that manner, they say, investors can be informed about the costs of options without these costs actually hurting net income and earnings per share.

This approach, so the argument proceeds, is especially needed for young companies: They will find new capital too expensive if they must charge against earnings the full compensation costs implicit in the value of the options they issue. In effect, the people making this argument want managers at those companies to tell their employees that the options given them are immensely valuable while they simultaneously tell the owners of the corporation that the options are cost-free. This financial schizophrenia, so it is argued, fosters the national interest, in that it aids entrepreneurs and the start-up companies we need to reinvigorate the economy.

Let me point out the absurdities to which that line of thought leads. For example, it is also in the national interest that American industry spend significant sums on research and development. To encourage business to increase such spending, we might allow these costs, too, to be recorded only in the footnotes so that they do not reduce reported earnings. In other words, once you adopt the idea of pursuing social goals by mandating bizarre accounting, the possibilities are endless.

Indeed, I would argue that the ''national-interest'' theory is not only misguided, but wrong. True international competitiveness is achieved by reducing costs, not ignoring them. Over time, capital markets will also function more rationally when logical and even-handed accounting standards, rather than the ''feel-good'' variety, are followed.

Back in 1937, Benjamin Graham, the father of Security Analysis and, in my opinion, the best thinker the investment profession has ever had, wrote a satire on accounting. In it, he described the gimmicks that companies could employ to inflate reported earnings, even though economic reality changed not at all. Among Graham's most hilarious suggestions—because the thought seemed so far fetched—was a proposition that all employees of a company be paid in options. He pointed out that this arrangement would eliminate all labor costs (or, more precisely, eliminate the need to record them) and do wonders for the bottom line.

Today, in the world of stock options, we have life imitating satire. So far, of course, companies have largely substituted option compensation for cash compensation only when paying managers. But there is no reason that this substitution can't spread, as corporate executives catch on to the possibility of inflating earnings without actually improving the economics of their businesses.

One close-to-home example, involving Berkshire Hathaway and its 20,000 employees: I would have no problem inducing each of them to accept an annual grant of out-of-the-money options worth $3,000 at issuance in exchange for a $2,000 reduction in annual cash compensation. Were we to effect such an exchange, our pre-tax earnings would improve by $40 million—but our shareholders would be $20 million poorer. Would someone care to argue that would be in the national interest?

Many years ago, I heard a story—undoubtedly apocryphal—about a state legislator who introduced a bill to change the value of pi from 3.14159 to an even 3.0 so that mathematics could be made less difficult for the children of his constituents. If a well-intentioned Congress tries to pursue social goals by mandating unsound accounting principles, it will be following in the footsteps of that well-intentioned legislator.

Sincerely,

WARREN E. BUFFETT,
Chairman.

Mr. LEVIN. Finally, Mr. President, I just want to make sure that the clerk has the amendment in the same form that I do. I will simply read this amendment, and if there is any problem, the clerk can correct me. It has already been adopted, but I want to double check to make sure, and make a parliamentary inquiry, that the amendment reads as follows:

That it is the sense of the Senate the Committee on Finance of the Senate should hold hearings on the tax treatment of stock options.

The PRESIDING OFFICER. That is subsection (b) of the amendment?

Mr. LEVIN. That is correct.

The Senator is correct?

The PRESIDING OFFICER. The Senator is correct.

Mr. LEVIN. I thank the Chair.

Again, I thank my good friend from Rhode Island for his patience.

Mr. CHAFEE addressed the Chair.

The PRESIDING OFFICER. The Senator from Rhode Island.

REVENUE RECONCILIATION ACT OF 1997

AMENDMENT NO. 551, AS MODIFIED

Mr. CHAFEE. On behalf of Senator NICKLES, I send a modification of his amendment No. 551 to the desk and ask unanimous consent that it be so modified.

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

The modification is as follows:

On page 212, between lines 11 and 12, insert:

SEC. . INCREASE IN DEDUCTION FOR HEALTH INSURANCE COSTS OF SELF-EMPLOYED INDIVIDUALS.

(a) IN GENERAL.—The table contained in section 162(l)(1)(B) is amended to read as folllows:

''For taxable years beginning in calendar year—	The applicable percentage is—
1997	50
1998	50
1999 through 2001	60
2002	60
2003	70
2004	80
2005	85
2006	90
2007	100

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 1996.

On page 159, line 15, strike ''December 31, 1999'' and insert ''May 31, 1999''.

On page 159, line 18, strike ''42-month'' and insert ''35-month''.

On page 159, line 19, strike ''42 months'' and insert ''35 months''.

On page 160, lines 10 and 11, strike ''December 31, 1999'' and insert ''May 31, 1999''.

On page 160, lines 19 and 20, strike ''December 31, 1999'' and insert ''May 31, 1999''.

HEART AND HYPERTENSION BENEFITS

Mr. DODD. Mr. President, I wish to speak briefly about an amendment that I have submitted with my colleague from New York, Senator D'AMATO, to benefit firefighters and law enforcement officers in our respective states of Connecticut and New York.

For the firefighters and police officers of Connecticut, this amendment seeks simply to correct a wrong that, while unintentional, has cost these committed public servants a great deal of money and anguish. It has always been the intention of the state of Connecticut to provide its police officers and firefighters heart and hypertension benefits tax-free by considering them workmen's compensation for tax purposes. Based on that intention, these individuals accepted benefits with the understanding that they were not taxable.

However, the original version of Connecticut's Heart and Hypertension law contained language which made the benefits from the statute taxable under a ruling by the IRS in 1991. As a result of the problem with the state law, and through no fault of their own, these citizens have been charged with millions of dollars in back taxes, interest, and penalties by the IRS.

Connecticut has since amended its law, but that change does not help those police officers and firefighters who received benefits prior to the amendment. This legislation would remove their tax liability for heart and hypertension benefits for the years prior to the IRS ruling (1989, 1990, and 1991). The bill is narrowly drafted to accomplish that limited purpose, and would not affect the tax treatment of benefits awarded after January 1, 1992.

Mr. President, the police officers and firefighters of Connecticut serve our state's citizens with courage and compassion. The least we can do is provide them with this small measure in recognition of their bravery and commitment. I urge my colleagues to support this amendment.

The measure has been scored to cost $11 million for FY98 only.

LOUISIANA CONTESTED ELECTION

Mr. WARNER. Mr. President, on April 17 the Committee on Rules and Administration voted, along party lines, to conduct an investigation into allegations that fraud, irregularities, and other errors affected the outcome of the 1996 election for United States Senator from Louisiana. The vote was taken after a very thorough discussion. Periodically I have reported to the Senate with floor statements; today is my third.

On May 8, I reported that the committee was about to embark on a bipartisan investigation, as a result of efforts by both the majority and minority to agree to a ''Investigative Protocol'' regarding the joint conduct of the investigation. From the inception, I have believed a joint investigation could better serve the Senate.

On May 23, I provided a second status report to the Senate on the following: on efforts to secure the detail of FBI agents to the Committee, on assurances of cooperation by Louisiana officials, and on my agreement with Senator FORD, the ranking member on the Committee, on the issuance of over 130 subpoenas.

Last evening, Senator FORD announced that the ''Rules Committee Democrats will withdraw from the investigation of illegal election activities in the contested Louisiana Senate election''. Further, he asserted that the ''investigation was over budget, it's exceed the time frame agreed to, and none of Mr. Jenkin's (sic) claims have been substantiated by any credible witness.''

Since last Friday, Senator FORD and I had been working to resolve differences and develop a written outline of the work we jointly could agree on to complete our investigation. I had good reason to believe we had made progress, but I learned at approximately 6 p.m. yesterday that the minority had decided to terminate their participation.