IN OPPOSITION TO THE PROPOSED $40 BILLION IN LOAN GUARANTEES TO MEXICO

Mr. CRAIG. Mr. President, President Clinton outlined the many challenges facing this Nation in his State of the Union Address. Paramount amongst those challenges was the need to bring fiscal responsibility back to the Congress and the Federal Government.

I appreciate the President's acknowledgement of the need to balance our budget. In this same speech, coupled with the challenges that we face as a nation, the President outlined his proposed action to assist our neighbors in Mexico.

The Congress will soon be faced with a vote on whether to support this proposal, which will provide Mexico with $40 billion in loan guarantees. The purpose of the loan guarantees is to reschedule overextended short-term maturities, assisting Mexico through what is now a difficult financial situation.

With our current budgetary problems, I cannot support the exposure of my fellow American taxpayers to the tune of $40 billion in loan guarantees as initially proposed by President Clinton.

Mr. President, as the administration and Congress struggle with this fiscal crisis, I am concerned that we are overlooking many important factors. Mexico's financial situation seems to be the result of past policy decisions, not external factors outside of Mexican control.

The Mexican Central Bank, in an attempt to hold interest rates down, printed a huge excess of pesos. By creating excess pesos, Mexico undermined the exchange rate and drove many investors away. The devaluation was forced by bad monetary policy.

The mistakes made by Mexico do not give me confidence that this loan package is a good idea. If we are asking taxpayers to risk their hard-earned money, we must guarantee that this loan is not throwing good money after bad. I suggest that we ask for four specific conditions:

(1) Sound money policy. This could be guaranteed by the institution of a currency board.

(2) Guarantees that tax policy will be pro-growth and wage and price controls will be eliminated.

(3) Reasonable and adequate collateral.

(4) Full disclosure of how the moneys raised under the guarantee are disbursed.

Mr. President, the problems in Mexico are not new, and they are certainly not simple. Therefore, in an effort to further review this problem, members of the Senate Steering Committee invited several speakers to provide more-in-depth information. Those speakers included Walker Todd, Lawrence Kudlow, Steve Hanke, and Riordan Roett.

My purpose in pointing this out is to emphasize that my position on this issue has not been formed hastily. My support of pursuing a currency board for Mexico is not an effort to ignore the needs or problem that Mexico now faces.

Quite the opposite. A currency board, from the information I have reviewed, seems the most viable option to provide a solution to this problem rather than a Band-Aid response that will provide only temporary relief.

Mr. President, Steve Hanke, who is a professor of applied economics at Johns Hopkins University and has researched and written extensively on monetary policy and the use of currency boards, made a number of cogent points which I would like to share my with my colleagues. The simplicity of a currency board is one of its greatest assets:

> A currency board is a monetary institution that only issues notes and coins. It maintains full convertibility of that money at a permanently fixed exchange rate with a foreign anchor currency, such as the dollar. As reserves, it holds assets in the anchor currency equal to 100 percent of all notes and coins in circulation.
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> This requirement provides credibility for the fixed rate because a board cannot expand the monetary base faster than it obtains foreign reserves. Consequently, a board cannot cause a balance of payments crisis because of a lack of foreign reserves. Indeed, no currency board system has ever succumbed to a balance of payments crisis.

In addition to their simplicity, currency boards have a proven record. Professor Hanke discussed the success of currency boards in Hong Kong, Estonia, Lithuania, and Argentina. I was especially interested in the success of the currency board in Argentina.

That country was experiencing annual inflation rates of 2,315 percent in 1990. In April of 1991, President Menem of Argentina Installed a currency board.

Since the adoption of a currency board, the rate of inflation in that country has dropped to around 3.9 percent—the lowest in Latin America—and, the budget is virtually balanced with economic growth up to about 7 percent. The successes in Argentina need to be very carefully reviewed and considered as a model for resolving the problems experienced in Mexico.

Rather than writing a blank check, I hope that this administration will consider opening discussions with the Mexicans to review this option.

Professor Hanke also pointed out that a currency board could be established easily and inexpensively. In fact, language on currency boards, included in the 1993 Foreign Operations Appropriations bill provides that:

> There is appropriated for an increase in the United States quota in the international monetary fund, the dollar equivalent of 8,608.5 million special drawing rights, to remain available until expended and, among other uses,
>
> Such funds may be used to support monetary stability in member countries through the instrumentality of currency boards. (Public Law 102–391, 106 U.S. Statutes at Large 1636).

In short, Mr. President, I cannot support the extension of $40 billion in loan guarantees to Mexico.

With respect to the issues of adequate collateral and full disclosure of receipts, in my estimation these issues should be addressed fully in this debate. The need for adequate collateral for a loan guarantee is fairly straightforward.

I have grave concerns about accepting Mexican oil receipts as collateral when they are previously obligated and limited—Pemex, the National Petroleum Co.'s gross export receipts per year are about $8.5 billion.

There is an excellent discussion of this issue and the need for full disclosure in a recently published article from The Nation magazine by Walker Todd.

Let me add, I do not often agree with the positions raised in this publication, but hope that my colleagues will take a moment to review it.

Mr. President I ask unanimous consent to enter a copy of the article in the RECORD.

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

[From the Nation, Feb. 13, 1995]

MEXICAN HANDOUT—BAILING OUT THE CREDITOR CLASS

(By Walker F. Todd]

One of the most preposterous financial crimes of the century, the official management of the 1980s developing-countries debt crisis, is being repeated before our very eyes, and by many of the original perpetrators to boot. As this is written, the Clinton Administration is pushing, and Congress seems poised to approve, a loan guarantee package for Mexico of up to $40 billion. This is on top of hastily arranged international credit lines worth $18 billion, most of them guaranteed directly or indirectly by the United States and cobbled together since Christmas.

Mexico owes the world about $120 billion (more than $160 million by some estimates), and about $58 billion of that amount falls due this year. Hence the need for a total aid package of about $58 billion, although it is not yet certain that most or all of that aid will be drawn upon. One must be exacting and clear about who the principal beneficiaries of a U.S. guarantee of Mexico's foreign debts would be: Mexico owes foreign—primarily U.S.—investors in stock shares and bonds about $60 billion. Also, about $18.3 billion of the $120 billion total is owned to U.S. banks, led by Citibank with about $2.9 billion. With the peso down in value by one-third and Mexico's dollar reserves dwindling, it is clear that only a mammoth infusion of funds or forgiveness of its debts can prevent the country from defaulting.

The original crime, now being repeated, was the profligate lending of billions of dollars from the U.S. banking system between 1974 and 1982 to as gaudy a band of tinpot military dictators, kleptocratic presidents and bon vivant finance ministers as ever graced a Connecticut Avenue diplomatic reception, followed in August 1982 by the discovery that the borrowers either could not or would not repay the money. But it was not practical politics to recognize the stupidity of the situation and call the lenders into account. No, orthodoxy and good form required the ongoing pretense that the loans were still good, with a host of jerry-built solutions from the Treasury, Federal Reserve, International Monetary Fund and World Bank. So, as an African economist once told me, 'One class of people borrowed the money, and a different class of people had to pay it back.''

The I.M.F.-policed austerity regimes that were used to keep the loan money flowing (usually only enough to pay the interest; the principal was rarely reduced) became legendary in developing countries during the 1980s. What did the governing cities or international financial diplomats care if the vanishing middle class and teeming poor of the Third World paid the price of ''adjustment'' while the lifestyles of the rich changed not at all?

In 1982 Mexico owned U.S. banks about $25 billion. The dirty secret of Debt Crisis I was that foreign banks had deposits of flight capital from rich residents of the debtor nations that would have covered much (and in some cases all) of the banks' claims on the debtor countries. But despite the price paid for ''adjustment'' by the middle classes and the poor of the developing countries, not to mention the price paid in lost export sales to those countries by U.S. manufacturers and farmers in the heartland, the names of the thieves and the amounts they stole were never disclosed.

Now, by devaluing the peso, Mexico has again committed moral (if not technical) default on its dollar-denominated obligations. This is the principal legacy of the administration of former President Carlos Salinas de Gortari and his supporters in the U.S. establishment. It is doubtful that Mexico can meet its external obligations during 1995 without either debt relief (always the right answer in international lending problems involving developing countries) or new loans from First World governments and banks (the establishment's preferred solution). After the lost decade of the 1980s, relieved only briefly in the early 1990s by the North American Free Trade Agreement financial bubble, the Mexican people find themselves once more confronting official demands for renewed austerity, quiet acceptance of further reduced wages (now approximately 60 percent below 1980 levels in inflation-adjusted peso terms), reduced possibilities for immigration to the United States to escape poverty, and diminished prospects for renewed growth of the Mexican economy for the foreseeable future.

But here is where the truly intolerable part begins again: The governing elites in both countries who caused, exacerbated or covered up this mess expect to be held harmless, just as happened in 1982.

Secret credit lines for Mexico from the United States, Japan and European governments amounting to as much as $12 billion were negotiated twice in the past fifteen months or so, ostensibly to defend the peso, but it is now clear that the only possible use of those lines would have been to finance the flight from the peso of Mexico's governing elites and their compatriots in the international financial system. Amusingly, through a tripartite credit line involving Canada as well as Mexico, which was announced publicly in April 1994, the United States essentially has agreed to lend Canada dollars that Canada can then lend to Mexico, which further weakens the U.S. dollar: Our own creditor now understand that we have underwritten the foreign debts of our two neighbors. Federal Reserve Chairman Alan Greenspan was an active promoter of those credit lines, as well as the current bailout effort.

The principal purpose to be served by the new Mexican bailout package is to prevent a loss of confidence of foreign investors in a host of other developing nations, like Argentina. But this is a silly exercise, a true confidence game, because now no rational investor could have faith in Mexico's governing Institutional Revolutionary Party (PRI), which has enjoyed so much official U.S. support in recent decades. The Banco de Mexico, the country's central bank, was still intervening in the Mexico City stock exchange and rigging tesobono (treasury bill) auctions in the same week that the bailout package was presented to Congress, a clear indication that stability has not returned to the country's shaky financial markets. Also, if other countries have mismanaged their financial affairs and are courting disaster for their currencies, there is not much that a bailout of Mexico can do to restore investor confidence. Besides, the prospects for repayment from future Mexican oil receipts, for example, are somewhat limited: At current oil production and price levels, the gross export receipts for Pemex, the national petroleum company, are only about $8.5 billion per year, and most of that has already been pledged to other purposes. The time is long since past in Washington for a repetition of the Paul Volcker-directed ''lend new money to meet the interest payments and pretend that it is all still good debt'' strategy of the 1980s.

Dissent has broken out in both the Republican and Democratic parties over various aspects of the bailout. A variety of extraneous conditions are being proposed to sweeten the deal: demands that Mexico loosen its ties to Cuba and crack down on illegal immigrants to the United States (red meat for the right), and calls for stronger enforcement of labor and environmental protection (for the liberal left). But what a bottom is needed is a prompt and full disclosure of what the $40 billion bill will be used for. The names and amounts paid for each disbursement under the credit line should be published. If there are Charles Keatings, Ferdinand Marcoses and M. Danny Walls lurking in this Mexican credit mess, then the public is entitled to know who they are and what they intend to do with the money they receive at our expense. And if the names disclosed prove to be those of prominent Mexicans and U.S. banks, securities firms, mutual funds and pension fund managers, then we should know that, too. Who knows, with enough disclosure, maybe no one would step forward to claim the money. But don't count on it.

Unfortunately the loan guarantees as currently proposed cannot foster real stability in Mexico. And support for the side agreements to NAFTA misses the point entirely. Dissenters in Congress should insist on complete institutional and financial reform of the Mexican government, which might then do more to address labor and environmental concerns. The PRI has forfeited all moral authority to govern. President Ernesto Zedillo Ponce de Leon should invite the two main opposition parties to join his Cabinet on a full power-sharing basis, with all the important Cabinet ministries going to the opposition. The PRI itself should be dissolved.

To combat the PRI's almost unnatural hold on the affections of many of Mexico's uneducated poor, truth commissions independent of the PRI, like those used in Chile after Pinochet, should be established to investigate matters like the use of the foreign credit lines by the Banco de Mexico, the assassinations of the student demonstrators in Mexico City in 1968, the manipulation of the 1988 election results, the responsibility for the assassinations of Luis Donaldo Colosio (first presidential candidate of the PRI) and José Francisco, Ruiz Massies (second-ranking official of the PRI) in 1994, and the assassinations of journalists and opposition activists during the Salinas regime. Also, a separate inquiry should be mounted into the influence of drug runners and money launderers in Mexican public life, as well as their connections to foreign intelligence services.

As for Washington's pending actions: It once was a federal felony under the Johnson Act for any person subject to U.S. jurisdiction to lend money to a foreign government in default on its loans from the United States. After 1945, however, the act was amended to accommodate the formation of the Bretton Woods institutions. Only international financial ''outlaws'' like the former Soviet Union China were excluded. There in 1992, during the euphoria over market openings in Russia, the Johnson Act was quietly amended further to exempt from its prohibitions the former Soviet-bloc countries that were not yet of the I.M.F. and World Bank, establishing the principle that even ''outlaws'' may now borrow money in international financial markets. This is too bad, for as the crimes of 1982 are repeated, this time we lack a good felony statute with which to punish the miscreants.

Mr. GRAIG. Before closing, I would like to discuss the effect of the proposed $40 billion loan-guarantee package in my own home State of Idaho. Mr. President, in a report released by the Department of the Treasury titled, ''America's Stake in the Mexican Loan Guarantee Program: A State-by-State Analysis of American Jobs Dependent on Exports to Mexico,'' Idaho was listed with approximately 700 jobs relating to products intended for export to Mexico.

While this number may seem negligible to some, it is not insignificant in relation to the overall workforce of Idaho.

Therefore, one of the points that I want to emphasize is that I have taken into consideration the impact the Mexican financial crisis and proposed resolution of loan guarantees may have on the workers in my State. However, jobs are not the only thing that this situation could affect.

Mr. President, we are discussing a substantial amount of money, $40 billion from the pockets of American Taxpayers—from the pockets of Idahoans.

The phones in my State offices and in my D.C. office have been busy with frustrated constituents calling to tell me that they are opposed to the blank -check approach to alleviating this problem.

Mr. President, those 700 jobs in Idaho will not be secured if Mexico's fiscal and monetary policies do not change.

And, I am concerned that we could find ourselves 6 to 12 months down the road with those 700 jobs in Idaho still at risk, and taxpayers being asked to dig even deeper into their pockets. That is not a situation that I will help to create.

In closing, let me add that our elections in November carried a clear message from American voters that they want to see less Government.

If the United States provides Mexico with the $40 billion in loan guarantees and allows the current policies there to continue, we will be financing bigger

Government and Government-controlled responses to the monetary problems there.

Raising taxes and implementing wage and price controls were not part of our electorate's message last year, and I am not supportive of financing those problems in other countries.

There are options to resolving the monetary crisis in Mexico and they need to be fully considered. I hope that we will have a full review of this issue, and take a path that will lead toward a solution, not a Band-Aid for Mexico.

DYNAMIC REVENUE ANALYSIS

Mr. ABRAHAM. Mr. President, a few weeks ago I sat through a hearing of the House and Senate Budget Committees on the issue of dynamic and static revenue estimating. At this hearing, the staff of the Joint Committee on Taxation presented a statement that seemed particularly concerned about an article that Bruce Bartlett of the Alexis de Tocqueville Institution had published in the Wall Street Journal a few weeks ago. Since I know Mr. Bartlett personally, I was especially interested in what he had to say.

Apparently what the Joint Committee staff is most concerned about was Mr. Bartlett's discussion of an exchange Senator PACKWOOD, the chairman of the Finance Committee, had had with the Joint Tax Committee regarding the revenue effect of raising the top tax rate to 100 percent on those earning more than $200,000. According to Senator PACKWOOD, the Joint Committee had predicted some $200 billion per year in additional revenues from this tax change. Senator PACKWOOD rightly characterized this estimate as questionable.

Now, according to the Joint Committee staff, there was nothing wrong with this estimate because it included a caveat that it did not take into account any behavioral response. They then included in an appendix to the statement a complete set of correspondence between Senator PACKWOOD and the Joint Tax Committee on this matter. Apparently, the Senator from Oregon has had a long time interest in this issue and has periodically asked the Joint Committee to update its estimates.

I do not believe that simply appending a caveat is at all adequate. The fact is that a 100-percent tax rate would raise zero revenue and everyone knows it.

If this were merely an academic discussion, it would not concern me. But under the budget laws and established practice, we are required to treat these estimates from the Joint Committee as if they are scientific truth. And we all know that these estimates carry enormous weight when it comes to legislating changes in the Tax Code. If the Joint Committee says a tax cut will lose $101 million and there is only room in the budget for a $100 million tax cut, then you are out of luck. A point of order will prevail and your tax proposal is out the window.

Now, I had always assumed that the whole point of having revenue estimates on tax bills was so that we could project the actual effect of tax changes on the Government's aggregate revenues as accurately as possible. Yet here we have clear evidence that the Joint Committee has produced estimates for the chairman of the Finance Committee that do not fully account for behavioral changes.

I am very concerned about this because the Joint Committee on Taxation probably produces hundreds of estimates during the course of a year that effectively have the force of law. Even the Treasury Department's estimates do not have the same weight as those produced by the Joint Committee, because the Congress will always defer to its own staff in a dispute with the administration. It makes me wonder what other caveats are buried in these estimates that have not gotten any attention in the past.

In any case, the sensible thing would seem to be for the Joint Committee to produce estimates that it actually believes are as correct as possible, in terms of the actual effect on the Government's revenues of any changes in tax policy.

Apparently, this matter of improving the quality of revenue estimates has become a political issue, with those opposed to certain tax proposals standing firm against any dynamic scoring. This is apparent from the article I read in the Wall Street Journal, in which the chairman of the President's Council of Economic Advisers, Laura D'Andrea Tyson, also attacks my friend Bruce Bartlett for noting several instances in which the Joint Committee's estimates for tax increases were far too high.

Ms. Tyson states that Mr. Bartlett ignored the many times their estimates were too low, as though this constitutes a defense of the Joint Committee's methodology. However, it seems to me that being too low is just as bad as being too high.

Ms. Tyson further notes that the Joint Committee's estimates were somethings wrong because of unforeseen events. She implies that the collapse of oil prices in the early 1980's was such an unforeseen event that made the Joint Committee's estimate of the windfall profits tax be far too high. In fact, as I recall, there were a number of economists at that time who were arguing that decontrol of the price of oil was very likely to reduce the price of oil by encouraging additional drilling and exploration. In fact, I believe that this is exactly what did happen.

Lastly, Ms. Tyson indicates that the reason why corporate tax revenues fell after the Tax Reform Act of 1986, rather than rise in accordance with Joint Committee estimates, is because corporations ceased doing business as corporations and began operating as partnerships or subchapter S corporations. Thus the revenue that was lost on the corporate side was made back on the individual side.

The point here is that the 1986 act lowered the top individual income tax rate below the top corporate rate. I think most tax lawyers could have easily predicted that this would lead people to take advantage of this differential by reorganizing their businesses so as to be taxed at the individual rate rather than the corporate rate.

While it may be true, as Ms. Tyson says, that the Treasury did not actually suffer that much of a net revenue loss, it still does not explain the Joint Committee's apparent estimating errors.

Personally, as a legislator, I want the best possible information before I make a decision. I think the Joint Committee and the Congressional Budget Office should at least explore the possibility of preparing dynamic revenue estimates. Their revenue estimating models should be improved and updated to account more fully for changes in behavior and economic growth. Perhaps a commission comprised of public and private sector experts could be established to recommend reforms in the revenue estimating process.

I would suggest we keep the current static revenue scoring, but require the Joint Committee to provide a range of possible dynamic revenue estimates for major tax bills for illustrative purposes only. After a period of time, we could compare the static and dynamic estimates to see which ones came closer to reality.

As a member of the Senate Budget Committee this is a matter I intend to follow closely as time goes by. My only interest, as I said, is to get the best, most accurate, information possible. I yield the floor.

KENNEWICK SCHOOL DISTRICT

Mrs. MURRAY. Mr. President, I rise today to congratulate the Kennewick schools and their community for being recognized by the Center for Workplace Preparation as 1 of 21 most effective national programs working to involve parents in education. We all recognize the vital role parents have in the social, physical, and psychological growth of our children. Unfortunately, whether by choice, due to other commitments or a lack of communication between parents, children, and the school, parents are all too often excluded from school activities. Our schools recognize that if we are going to effectively deal with the problems in our classrooms, we need a higher level of parental involvement. Fortunately, many of our parents realize they have to become more involved in the education of their children and have collaborated with their schools to develop programs which meet the needs of the families, the schools and the community.