

THE MEXICAN FINANCIAL CRISIS

Mr. BENNETT. Mr. President, today the President of the United States announced his intention to use his executive authority to intervene in the matters relating to the Mexican financial crisis.

Like other Members of the Senate, I have followed this crisis with great interest over the last few weeks. As a member of the Banking Committee, I participated in this morning's hearings on this issue, which were interrupted by the announcement of the President's action. Perhaps because of my interest in economic matters and my background in business, I have paid close attention to this and found that it has managed to consume some of my time in areas that I might have preferred to spend talking about other things. But it has become a very important part of my life for the last few weeks, and I thought it appropriate that I make a comment at this time.

Mr. President, I have likened the crisis in Mexico to an analogy that I hope will help people understand the position that I have taken. Suppose, Mr. President, that your neighbor suddenly came pounding on your door with the news that his house was on fire. You go out, look at his house and, sure enough, there are flames and smoke coming out of the attic. And your neighbor says, "My house is on fire; the fire is in the attic; my children are down in the basement. If we do not get the fire put out, my children will die. You must help me. Lend me your garden hose." And you say to the neighbor, "Well, there is no question that your house is on fire and you need help, but I do not think the garden hose will reach. I do not think it has enough water pressure to get up to the attic. I think there must be another solution." "No, you do not understand," says the neighbor. "There are combustible materials on the top floor. When the fire gets down through the attic, they will catch fire and my children will die. Let me give you more information." You say, "I do not need any more information about the fire. The information I need has to do with the ability of the garden hose to reach the problem."

That, in my view, has been part of the difficulty with the debate we have had around here about this issue. People keep coming to us and telling us "the Mexican house is on fire." My response is that I know that, I accept that. I do not argue with you, A, that it is on fire and, B, we need to help. My concern is whether or not the proposed solutions will help. And if they will not, I urge us to look someplace else to try to find something that will.

So it is in that spirit that I have been carrying on conversations with people from the Federal Reserve and the United States Treasury and met with officials from Mexico on several occasions to try to be sure that we are coming up with some kind of fire extinguisher that will do the job.

The more I worked on this, the more concerned I became that maybe we would not be able to do that. Today, the President has taken that decision out of our hands—I think very wisely and competently. The President has recognized that further delay, which would be an automatic result of leaving the thing before the Congress, would result in serious and perhaps irreparable harm. The fire had now gotten down from the attic, if you will, into the top floor, and it was necessary for the President to act and act quickly. I had suggested to members of the administration that they start thinking of a solution that did not require congressional action. They were reluctant to do that for reasons that I can fully understand, saying a matter as serious as this is something that should be brought to the Congress, and we should have an opportunity to debate and examine it before it is put into play.

But events overtook that process and the President used the authority that was available to him under the exchange stabilization fund to move ahead. As I say, I urged officials at the Treasury to look at this possibility as much as a week or 10 days ago. As I say, they were reluctant because of their desire for congressional approval. Now they are in a circumstance where, in effect, all Congress can do is disapprove after the fact. I hope we will not do that. I hope we will recognize that the President did about the only thing he could do under the circumstances. I hope the program that he has put in place will work; that we will indeed "see our neighbor's fire extinguished," because this is a matter of great concern to all Americans, with the number of jobs that could be lost, the number of exports that could be affected. All of those statistics are on the public record.

There are a number of things that I think the Mexicans need to do. We have talked about them on this floor from time to time. I believe that this deal, as put in place by the President, is a better deal for the American taxpayer than the one that was first proposed, for several reasons. The first deal called for \$40 billion, all of it charged to the American taxpayer.

This deal calls for, up front, \$20 billion charged to the American taxpayer with the balance, another \$27 billion, spread over a variety of agencies and countries. True, some of that which is spread over these other agencies might end up being American taxpayers' money, but at least, on the front end, the exposure to the American taxpayer is reduced.

Second, this deal produces burdensharing; that is, other countries are now going to be involved, whereas before it was strictly an American deal. Now we have gotten the attention of the other "householders" in the neighborhood, if you will, and they are bringing their "garden hoses" to the fire along with ours. I think that is a

good thing, and that was not present in the first proposal the President made.

Third, this proposal involves the Federal Reserve System. The people at the Federal Reserve will be involved in enforcing the conditions that the Mexicans agree to. I think that is a good thing. It was not present in the previous deal. In the previous deal, any enforcement that took place would be under the direction of the Treasury and whatever allies they could gather from the IMF. I am not one who has a great deal of confidence in the ability of the IMF to solve this kind of a problem. I think it builds the confidence of the financial community to know that the people at the Federal Reserve System, whose principal activity in life is to defend the American economy and the American dollar, will be involved in overseeing the activities of the Mexicans. So inserting the Federal Reserve into the package improves the package for me considerably.

For these reasons then, Mr. President, I offer my congratulations to the President, and to the two leaders, Senator DOLE and Senator DASCHLE, for their willingness to give expressions of approval to the President for this action. He did not need those expressions of approval. Under the law, he could have proceeded without them. But it demonstrates the fact that the Congress is not unmindful of the "fire next door," that the two leaders, in a bipartisan fashion, have stepped forward to indicate their approval. The same thing is true in the House. Speaker GINGRICH and Leader GEPHARDT have both indicated their approval, as well.

So now all we can do is watch and wait. We have no assurance that this package will solve the Mexican problem. But at least there is now someone on the ground with a "fire hose" that presumably will be able to put out the fire. It is a hose that is more suited to the task than the garden hose that was originally asked for, and I add my voice to those that are being raised, saying to the President: You have my best wishes that this will work, and I will do whatever I can to cooperate with you and the administration to see that it does work.

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

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

BALANCED BUDGET AMENDMENT
TO THE CONSTITUTION

The Senate continued with the consideration of the joint resolution.

Mr. BENNETT. Mr. President, we are in the midst of a debate on the balanced budget amendment. At some point in this debate, I will have a

lengthier and perhaps more comprehensive statement to make but, taking advantage of what the sportscasters call a break in the action, I thought I would make a few observations now about this particular matter.

I am a reluctant convert to the balanced budget amendment. As I have said from time to time around here, my educational background is as a political scientist. My whole career has been spent in business. But when I was in college, I studied the works of Jefferson, Madison, Hamilton, and Jay, and, yes, Karl Marx, Friedrich Hegel, and some of the other political philosophers. That has always been my avocation, even in the years that I was in business. I guess it was inevitable, given that particular bent on my part, that I would end up, when I could afford it, back in politics.

From a pure political science point of view, I can make a brilliant case against the balanced budget amendment. I can give you all of the reasons why a balanced budget amendment is not sound politics. Unfortunately, the real world sometimes intrudes upon the world of the political scientist and causes us to do things that are perhaps not as philosophically pure as we might like.

Let me give you an example. As I understand the Constitution and the theory and philosophy behind the Constitution, election of Senators by State legislatures is the ideal way this body should function. The Senate was created to represent States. What better way to make sure that the Senate represents States than to give the States full and complete control over the choice of their Senators. And the States did that in time-honored fashion through their own State legislatures.

That is the political science pure way that the Senate should operate. There is one problem with it. In the practical world, State legislatures that were divided by party—that is one party controlling one House and the other the other—would go for an entire Congress without being able to elect a Senator.

The Framers of the Constitution did not foresee the rise of the two-party system and there is nothing in the Constitution to accommodate it. There is nothing in the Constitution to deal with the challenges that come from it.

Also, people who were unscrupulous, who just decided they wanted to become Senators, many times could buy an entire State legislature, a bargain, if you will. And the corruption that surrounded the election of some Senators in the days when State legislatures chose Senators became so rampant that finally we had to go to another solution to the choice of Senators, which, while not pure to the philosophical doctrine of the Constitution, made eminent good sense. And so we passed the 17th amendment that called for direct election of the Senators.

I am not sure the caliber of the Senate got any better when we moved from

the time when State legislatures chose Senators to the time when the voters did, but the various problems that I have described went away. And we have lived with the result of this very well since the time the 17th amendment was passed.

I think there is a parallel argument here with the balanced budget. I can give you, as I said at the outset, all kinds of reasons why the balanced budget amendment is not a good constitutional doctrine; all kinds of reasons why the Founders were wise to leave it out of the Constitution.

Unfortunately, we have practical pressures that have now overwhelmed us that say to us it is time for us to recognize that we need to adopt a balanced budget amendment. What are those practical pressures?

If I can go back to my political science background, I share with you the one thing that philosophers say is wrong with democracy as a form of government. Simply put, it is this: Once the people discover that they can vote themselves largess, the democracy will become financially unstable and it will fall. That was an article of faith among political scientists for centuries.

What is the oldest democracy in the history of humankind that has defied this principle? It is this one. We have lasted longer as a democracy than any other in the history of the planets.

And what is threatening our financial survival? It is the discovery of the people that they can, through their elected representatives, vote themselves largess—that is, get the Government to give them back more money than they give it—that is threatening our survival.

Now, we did not do that for over a century, maybe a century and a half, and then we began to discover that. And, having discovered that principle and gotten comfortable with it, we have started down the dangerous path that has historically undermined democratic governments all along.

So, in recognition of the fact that we have finally discovered that ancient truth and are acting on it, I say the time has come for us to adopt a balanced budget amendment.

I see the Senator from Arizona has arrived. As I say, I have a longer and more comprehensive statement on this issue that I will offer at some point. But I felt at this time that I should lay the groundwork with this little philosophical note before I get into the meat and potatoes of this real debate. I hope those who spend their time looking at history and philosophy will grant me a point or two on this one and recognize that I am addressing it in something other than the practical political hustings of the last campaign.

With that, Mr. President, I yield the floor.

Mr. KYL addressed the Chair.

The PRESIDING OFFICER. The Senator from Arizona.

Mr. KYL. Thank you, Mr. President.

First, I want to compliment the Senator from Utah. His reference to the famous historian Alexander Tytler, I think, is an apt way to characterize the dilemma that faces our Nation today, because it is true that certain segments of our society have determined that they can vote themselves largess from the public treasury. And it was at that point that this famous British historian and many others have concluded a democracy would not thereafter long last.

So the point that the Senator from Utah makes, I think, is critical to understanding the reasons for our support for a balanced budget amendment. I compliment him for that reference.

Mr. President, by the end of this fiscal year, Congress will have added another \$309 billion to the national debt. It will amount to a total of over \$4.9 trillion, nearly \$19,000 for every man, woman, and child in this country.

Mr. President, \$19,000 is more than the average Arizonan makes in a year. The \$296.8 billion spent to service the debt last year amounted to over \$1,100 per capita. That \$1,100 is enough to pay the tuition of a young man or woman at Arizona State University for a year; enough for a healthy young person in a group plan to buy health insurance for an entire year.

Mr. President, Congress and the President are debt addicts. The addiction is destroying the Nation. Almost 50 cents of every \$1 paid in individual income taxes is required just to pay the interest on the national debt. That is 50 cents of lost opportunity for every income tax dollar paid by hard-working Americans. The overspending makes us feel good today, but Congress is ruining the economic future of generations to come.

Congress has denied its addiction for too long. Many in this Chamber will continue to deny it, claiming that we can balance the budget without the discipline of a balanced budget amendment to the Constitution. That is just not going to happen. Just as it is difficult for drug and alcohol abusers to overcome their habit, it will not be easy for Congress to overcome its addiction. But we can either wait until the addiction destroys the country or we can take action now, suffer some pain, and get on the road to long-term recovery.

The first step to recovery is to admit the problem and seek treatment for it, treatment in the form of a balanced budget amendment to the Constitution. House Joint Resolution 1 will establish the framework and impose the discipline that is so urgently needed to force Congress to put its fiscal house in order. It is the best and the only chance to send a balanced budget amendment to the States for ratification in the immediate future.

Still, it is not the amendment I would have written, not the comprehensive treatment for the problem that I would have prescribed. House Joint Resolution 1 will force Congress

to be more responsible in its budgeting practices. But there is more to responsible budgeting than just balancing the Nation's books. It also matters at what level Congress balances the books relative to the size of the Nation's economy.

For example, gross national product now exceeds \$6 trillion. But no one would be happy if Federal outlays were \$6 trillion, and Federal tax revenues were \$6 trillion, even though the budget would be balanced at \$6 trillion. It matters how much the Government spends in taxes as much as it matters whether we balance the budget. In that regard, House Joint Resolution 1 represents the intensive care treatment, the step needed to stop the hemorrhaging, to ensure recovery over the long term. However, it is a Federal spending limit that is needed.

The balanced budget spending limitation amendment, Senate Joint Resolution 3, which I introduced January 4, including a spending limit, requires a balanced budget and limits spending to 19 percent of the gross national product, which is roughly the level of revenue the Federal Government has collected over the last 40 years.

Mr. President, I will refer to this chart to my right a couple of times during my presentation. But the first thing that you can see by examining the chart is that revenues which are characterized in blue on the chart at this level here, almost uniformly from 1955, denoted on this chart to 1995 here, are at the 19 percent level of gross national product or relative to gross domestic product, 19.5 percent. We can see if we drew a line at 19.5 percent, that blue line is a very close approximation.

That is how much Americans are historically willing to pay into the Treasury. Through bad times and good economically, through Democrat Presidents and Republican Presidents, through times of tax increases and times of tax cuts, it does not matter. It stabilizes very quickly at about 19 percent of the gross national product. That is how much Americans are willing to pay in revenues.

When we say "willing to pay," what do we mean? Just quickly, by way of example, when the Federal Government increases tax rates, what do people do? Do they say, OK, we will simply pay more in taxes, or do they begin to adjust their behavior? Of course, we know the answer. They seek tax shelters. They do other things with their incomes so they do not have to pay as much in Federal income taxes. That is why, even though we increase income tax rates, revenue stabilizes at about that level of 19 percent.

What happens when we cut tax rates? Do revenues go down? No. We know that that stimulates the economy. It produces more gross national product. It produces more income, and even at a lower rate of income tax, more revenue is generated by virtue of that growing economy. It is a lot like the grocery

store putting things on sale. They do not do it to lose money. They know the volume will make up for the reduction of prices; in fact, more than make up for it. That is why you see so many sales.

The bottom line is Americans are willing to pay 19 percent of the gross national product in income taxes. The way to balance the Federal budget is to limit spending to that level of revenues.

As we see the other line, the line that is represented in red, represents the spending as a percent of the gross domestic product on this chart. We can see that 20 or 30 years ago, it was roughly the equivalent of the revenues in the country, whereas in more recent years, the lines, two lines have begun to separate. Today, we have spending in the neighborhood of 22 percent or 23 percent of the gross domestic product, with revenues at 19 percent. That is the gap that needs to be closed with a balanced budget amendment.

Limit spending and there is no need to consider tax increases, obviously. Congress would not be allowed to spend the additional revenue it raised, and knowing politicians as I do, they will not raise taxes just for the heck of it. Link Federal spending to economic growth as measured by the gross national product and an incentive is created for Congress to promote pro-growth economic policies. The more the economy grows, the more Congress is allowed to spend, but always proportionate to the size of the economy.

A spending limitation has a further advantage. It reflects the fact that the economy has already imposed an effective limit on revenues relative to GNP. As I said before, despite tax increases and tax cuts, recessions and expansions, and fiscal policies pursued by Presidents of both political parties, revenues as a share of GNP have fluctuated only around a relatively narrow band, between 18 and 20 percent for the last generation. As I said, the primary reason for that is because the Tax Code changes people's behavior. That is why the debate about raising taxes is less important than the debate about limiting spending.

Lower tax rates stimulate the economy, resulting in more taxable income and transactions and more revenue to the Treasury. Higher tax rates discourage work production, savings, and investment, so there is ultimately less economic activity to tax.

Revenues amounted to about 19 percent of GNP when the top marginal income tax rate was in the 90 percent range in the 1950's. They amounted to just under 19 percent of GNP when the top marginal rate was in the 28 percent range in the 1980's. Revenues amounted to about 19 percent of GNP in the 1970's, during one of the longest post-war contractions and during the peacetime expansion of the 1980's. Since revenues remained relatively constant, 19 percent of GNP, the significance of our Nation's tax policy is how Congress

taxes, not how much it can tax. The key is whether tax policy fosters economic growth and opportunity, measured in terms of GNP, or results in a smaller and weaker economy. In other words, 19 percent of a larger GNP represents more revenue to the Treasury than 19 percent of a smaller GNP.

The benefit of writing a spending limitation into the balanced budget amendment is that it would preclude futile attempts by Congress to balance the budget by raising taxes. Raising taxes will merely impede economic growth and harm the Nation's standard of living. A spending limitation provides Congress with the guidance at the outset that there is really only one way to balance the budget, and that is by cutting Government spending. While my preference is that a spending limit be included in the constitutional balanced budget amendment, I believe the issue can only be addressed, if need be, in subsequent implementing or enforcement legislation.

The quest for the perfect in this case should not be an excuse to defeat the very good. The stakes are too high in terms of the mountain of additional debt Congress is passing on to future generations to miss yet another opportunity to send a balanced budget amendment to the States for ratification. Of course, what the Senate has concluded to do is to take up the resolution which was adopted by the House of Representatives by 300 votes, rather than to bring forth our own version of a balanced budget amendment. The reason: To ensure that we can secure passage by both Houses of the same provision and, thus, pass it on to the States at the earliest possible stage.

So if there is insufficient support for inclusion of a spending limit in the amendment itself, I believe Congress should approve House Journal Resolution 1, which we took from the House of Representatives last week and then turn to consideration of the Federal spending limit as a means of implementing the balanced budget requirement.

Mr. President, the Senate has an historic opportunity to ensure that we begin to invest in the future of the country, not just continue to borrow from it. That will take courage, the courage to say no to special interests who benefit from the status quo. We should pass the balanced budget amendment. We should pass it in the form that it passed the House of Representatives. We should then send it on to the States for their ratification, and then we should make a couple of very important points to the States.

Point No. 1, we will not pass on the costs of a high-spending Congress to the States as our way of balancing the budget. We have a plan for achieving a balanced budget, and that plan, I hope, will be adherence to a legislatively adopted implementation guideline of spending limits. Those spending limits could be tied to the gross national product, as I proposed.

We can agree to come down half a percent per year and that will get us to the 19 percent we need to be at within the 6 or 7 years that it will take to adopt a balanced budget amendment. That is a rational, disciplined, proper way to achieve the balanced budget amendment.

Those who say that we should propose our plan before we adopt the discipline of a constitutional balanced budget amendment overlook the fact that we can impose an implementation plan without all of the specifics of every single budget. There is not a one of us here who knows how we are going to balance our own household budget 3 years from now, but we sure enough know we are committing ourselves to the fiscal discipline of doing it.

We also understand the way we have to do it is to conform our spending to our income, and that is what the Congress would be doing by immediately adopting an implementation plan to achieve a balanced budget through spending limitation.

So when our colleague from Utah, the chairman of the Judiciary Committee, Senator HATCH, proudly proclaims that the balanced budget amendment has passed the U.S. Senate, I think the very next thing we should do is to say, "And here is how we are going to do it so that you States who are considering whether to adopt it or not, to ratify it, will know we mean business back here in Congress, we don't mean to pass the costs on to you." That is the second part of the two-part commitment we made to the States. The first part we already adopted as legislation prohibiting unfunded mandates.

So with those kinds of commitments from the U.S. Congress, we can be assured that the States will adopt or ratify a balanced budget amendment to the Constitution and finally put this country on the road to fiscal discipline.

Mr. President, I thank you and certainly thank the chairman of the Judiciary Committee for the many years of hard work he has put into this very important endeavor.

Mr. HATCH addressed the Chair.

The PRESIDING OFFICER. The Senator from Utah.

Mr. HATCH. Mr. President, I want to compliment the distinguished Senator from Arizona. I cannot tell you what it means to me to have him on the Judiciary Committee and with his broad background in the House of Representatives as well as here on this amendment.

His suggestions are very valid, and the point that he has made, I think, overwhelms some of the arguments that have been made for tax increases in this body. No matter what we do, that line stays relatively the same, which means tax increases do not always produce more revenues. Sometimes they produce less revenues. We found, as in the case with capital gains, since 1960, every time capital gains rates went up, revenues to the Government went down; every time capital

gains rates went down, revenues to the Government went up. There are \$8 trillion in capital assets locked up out there because people do not want to pay 28-percent capital gains.

But his chart is a very important chart. The distinguished Senator makes a very interesting and good case. I wish that we were able to take some of his ideas and incorporate them in an amendment that could get the broad support that this amendment does have. But to his credit, even though he knows that if we used the 19 percent as a line in order to balance the budget, we would probably be better off if we did that. But he also knows that this amendment is the only one that we have that we can get a widespread consensus on. It is bipartisan. It is an amendment that involves Democrats and Republicans and one that he is willing to help support.

So I personally just want to express to him how much I appreciate him, how much I appreciate his knowledge and his explanations to us of how his approach would work if we could put it through.

I have to say that I could easily support his approach. I think it is a very, very good one, and I want to thank the Senator for being such a stalwart on this issue.

Mr. KYL. Mr. President, may I say, I thank the Senator from Utah for his very kind remarks and look forward to continuing cooperating with him in passing this very important amendment.

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

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

FEDERAL EDUCATION SPENDING

Mr. PELL. Mr. President, I am deeply concerned with the rumors and talk about town regarding cuts in Federal education spending. While the Federal contribution constitutes only about 6 cents of every \$1 spent in education in our country, it is a very concentrated and highly important amount of money. At the postsecondary level, it makes up 75 percent of all the grants, loans, and campus-based aid that enable deserving students to pursue a college education. In elementary and secondary education, it comprises over 60 percent of all the funds that go to help disadvantaged students learn on a level with their peers. To my mind, we should not be looking at cuts in education but, instead, should be examining how we might increase and strengthen the Federal contribution.

One of the education cutbacks receiving greatest attention is the potential elimination of the in-school interest

exemption for students who obtain Federal loans to help finance their college education. Elimination of this exemption would increase student indebtedness by 20 to 50 percent. It would only worsen an already unfortunate trend in which students and their families are having to borrow more and more money. It would be the wrong step in the wrong direction at the wrong time.

Mr. President, as I have stated on many occasions, few things in life are more important than the education of our children. They are the living legacy that we leave behind and their education determines the future of the American Nation.

As part of the possible proposed spending cuts, it has been suggested that the in-school interest subsidy feature of the Federal student loan program be eliminated. This term subsidy is somewhat of a misnomer. What the phrase actually refers to is the in-school interest exemption feature of the loan program. This is a critically important feature of the loan program that shows the Federal commitment of providing help to hard-pressed middle income families. Its elimination, however, is one of the possible funding cuts in education that could be made to help pay for the Contract With America supported by the majority party in the U.S. House of Representatives. Because of this, I thought it very important not only to let my colleagues know of my strong opposition to such a proposal but also to let them know the terrible impact it would have on students who must borrow in order to pay for their college education.

In a recent letter I received, a director of financial aid at an institution in California expressed great concern over this proposed cut. He noted that eliminating the interest exemption feature will compound the already high debt levels of students.

Under the proposed cut, student loan indebtedness will increase from around 17 to 30 percent for the average undergraduate and graduate student. Elimination of the interest exemption feature will also hinder the students' ability to compete and participate in the economic marketplace if they are forced to begin their careers with such increased debt. The end result could well be an economy where college graduates cannot purchase homes or other necessities that are the economic stimulus of our society.

These harsh consequences would especially affect students from middle-class families, those same students for whom the loan program was originally designed. The ability to obtain and repay a loan is a major issue confronting college students. Increasing the amount they will owe when they finish school will most certainly affect students' decisions whether or not to attend college in the first place or go on to graduate school after undergraduate study is completed. Without the in-