Mr. DOLE. Mr. President, as I understand it, the Senator from Illinois wanted to speak in morning business.

Mr. SIMON. That is correct.

MORNING BUSINESS

Mr. DOLE. Mr. President, I ask unanimous consent there now be a period for the transaction of routine morning business not to extend beyond the hour of 6:30 p.m., with each Senator to be allowed to speak for 5 minutes—or whatever.

Mr. SIMON. I would like to take about 20 minutes?

Mr. DOLE. OK, you can give him the whole 20 then.

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

The Senator from Illinois.

THE DOLLAR, THE YEN, AND THE DEFICIT

Mr. SIMON. Mr. President, this is the third in a series of commentaries I am making on our Nation's condition, a series suggested to me by President Clinton after I announced my future retirement from the Senate.

One of the major economic events of this year is the recent decline of the dollar against the Japanese yen and the German mark. Though this slippage was arrested temporarily a few days ago, the long-term trend is clear. We know that the drop in the value of the dollar will affect our future, but we are not sure how. We know that we should do something about it, but we are not sure what.

At a White House press conference on Tuesday evening, April 18, a reporter asked President Clinton about the sinking dollar, and the President responded: ''In the present climate, the ability of governments to affect the strength of their currency . . . in the short run may be limited.'' If that is an excuse for inaction, it is wrong. But the President was right in saying:

> So what you have to do is work over the long run. The United States does want a strong dollar. We believe in the importance of fundamentals in our economy. We believe in getting the deficit down, getting jobs up and pursuing a responsible course.

The Washington Post had an editorial that observed:

> Anger and frustration in their voices, Japanese and German officials have been calling on the United States publicly to do something about the [falling] dollar * * * The United States is likely to offer sympathy but little more. There's nothing useful that the United States can do.

The Post is wrong.

A few blamed our $20 billion loan guarantee to Mexico, and while it could have altered behavior slightly in an uneasy market, a $20 billion multiyear loan guarantee is not something major for a nation that has a $6 trillion national income, if it has its economic house in order.

There are two basic questions: What does the fall of the dollar mean? What can we or should we do about it? I shall address both.

What does the fall of the dollar mean?

It is significant, both for our Nation and the world. Since two-thirds of the world's trade is carried on in dollars, the erosion of the dollar can destabilize economies far from us. But the British publication, the Economist, is correct:

> In the long run, the biggest loser from the neglect of the dollar will be America itself.—April 15, 1995.

A Journal of Commerce columnist accurately noted on April 17: ''The weak dollar will decrease U.S. political influence abroad.'' Peter Passell wrote in the New York Times, on May 7: ''No indicator of the American economic decline stands out like the fallen dollar.'' Paul Volcker, former chairman of the Federal Reserve Board, is quoted in the New York Times on May 2: ''If you think American leadership is important, then erosion [of the dollar] is a negative.'' Time magazine, in its March 20 issue, quoted financial analyst Felix Rohatyn: ''We are gradually losing control of our own destiny. The dollar's decline undercuts American economic leadership and prestige. It is perhaps the single most dangerous economic threat we will face in the long term because it puts us at the mercy of other countries.'' Van Ooms, economist for the Committee for Economic Development and former chief of staff of the House Budget Committee, said on the pages of the Chicago Tribune on April 13 that Europeans will take this country less seriously on foreign policy ''when it can't run a credible economic policy.'' As if to underscore all of this, the April 12th Wall Street Journal had a heading about the fastest growing economic part of the world: ''Asia's Central Banks Unloading Dollars in Shift Toward Yen as Trade Currency.''

Short-term, Americans will see little change. Yes, if we are traveling in other nations, we will be hurt a little by the foreign exchange rates. Our balance of trade with other nations may be helped a little, because U.S. products can be secured for less money, though foreign businesses—like their American counterparts—rarely immediately drop their prices, both because they want to make some additional profit and because there is a reluctance to adjust prices until the currency market stabilizes. Our balance of trade is helped because U.S. businesses that buy component parts from overseas producers will suddenly find them more expensive and will shift to a U.S. manufacturer of the same product, if one is available. But that is not always the case. The VCR, for example—invented, developed and, at one time, entirely manufactured here—now has no U.S. manufacturing source.

Little-noticed economic consequences will gradually affect us. For example, securing a patent in Japan will now be more expensive for a United States firm or individual. Factors like that have a limited, short-term impact but a much greater long-range impact.

Long-term, the dollar decline has more serious consequences.

First, the increased cost of foreign goods will have a gradual inflationary impact on our economy. That will not only cause the consumer dollar to shrink and discourage savings, it eventually will put pressure on the Federal Reserve Board to raise interest rates to discourage inflationary pressures—and that will hurt our economy.

The financial markets will also push interest rates up. We know that approximately 16 percent of our deficit—or about $700 billion—is publicly known to be held outside the United States. But many nations outlaw holding bonds from another nation—the United States once did—and there is additional ownership that is not publicly disclosed, hidden usually through a third party holding the bonds. If the dollar continues its decline, U.S. bonds denominated in dollars will become less and less attractive. We will have to raise interest rates to sell this huge chunk of our deficit.

Less widely known is that 14 percent of our corporate bonds are held by people who live beyond our borders. That money has financed a huge chunk of our industrial expansion and modernization. If the dollar continues to decline, we will either lose this source of capital, or interest rate payments will have to be raised to make these bonds attractive enough to sell.

In addition, there are sizable foreign deposits in savings and checking accounts in our banks, and foreign-held certificates of deposit. Indirectly, these help to finance both our government sector—because the banks buy Treasury bonds—and the private sector, because the banks are able to make loans to U.S. businesses with these resources. If all of this shrinks because of a fall in the dollar, the only way to salvage the situation is with higher interest rates.

In the long term, higher interest rates discourage industrial investment and reduce productivity. Our economy is hurt, and the phenomenon of a lower dollar is not healthy for our Nation. From time to time, minor adjustments will occur and frequently are healthy. But the fairly consistent pattern of the drop in our dollar against the yen and the mark has major long-term consequences for our citizens that are not good.

I read an exchange that took place between two economists some years ago when the dollar brought 262 yen. In 1968, incidentally, 1 dollar equaled 360 yen. Here we can see in this graph what has happened to the dollar versus the yen. The one discussant predicted that if our policies were not altered, the dollar would eventually slide to 180 yen. The other economist predicted, confidently, that this would never happen. A few days ago, the dollar fell to 82 yen and today the dollar is worth 84 yen. Recently the Washington Post published a column noting the opinion of