stock markets and the bond markets, you may be surprised to learn that the stock market fell just over 100 points today. And interest rates begin to climb, the long-term bond went from just over 6 percent to about 6.2 percent. This is the first shot across the bow that the financial markets have fired, which I think are really directed at the President. The markets have had the opportunity over the weekend to analyze the President's proposal. And they have concluded that there really is no truth to the President's statement that he wants to balance the budget.

It has been 1 month or it will be 1 month tomorrow since the President signed the statute saying that ''I will commit myself to balancing the budget over 7 years using real numbers.'' I concluded last Friday that he absolutely failed to do that; that, in fact, his proposal was an insult. There was absolutely no value to what he did last week except political.

Mr. President, I would claim that the markets have in fact reacted the same way. They analyzed the President's proposal over the weekend and they also concluded that it is a phony proposal. It will not get us to a balanced budget. In fact, it really pretty much leaves us where the Congressional Budget Office said we were prior to this last proposal put forward by the President; and that is, in the seventh year there would be a deficit of $116 billion. I believe this is the fourth plan that the President has put forward, maybe the third. There have been so many different ideas the President has come up with to avoid offering a balanced budget proposal that I have forgotten which one this is. The President has just completely attempted to stay away from balancing the budget. He says he wants to do it, but when you look at the actions of the President of the United States he has failed.

So, Mr. President, again I think one thing that my colleagues in the Senate on the other side of the aisle ought to understand is that there is a new player now. And that is the financial markets of this country. And that should be no surprise.

On November 8, 1994, the day of the last election for the U.S. House of Representatives, the day the Republicans took control of both the House and the Senate, was the specific day that interest rates in this Nation peaked, at a little bit over 8 percent. Since November 8, 1994, those interest rates have been steadily coming down, down to the point of just barely above 6 percent.

We had some analysts from the Wall Street area come down to Washington several weeks ago when we got into a debate about just how strongly the Congress should position itself with respect to the debt ceiling and other means of leverage to try and get the President to move to a balanced budget. And during that discussion I remember one of the analysts commenting that if there is a failure to balance the budget, if no agreement is reached, the markets will crash.

I also recognize that my friend, the Speaker of the House, made reference to that point, and was chastised, I believe, for using harsh rhetoric. Some said the Speaker of the House should not use that kind of language.

I must say to you that when I heard the analyst make this comment with respect a crash, I think most of us have this tendency to think of what occurred in 1929 as being the definition of a market crash. So I asked them what did they mean, to them what would be a crash in the market? Their response was that interest rates would go back up, about 2 points, and we would probably see the stock market fall somewhere between 200 and 300 points, if I recall.

The interesting thing, again, is that in 1 day we have seen a decline of 100 points in the stock market. And I believe that that has occurred because of the President's failure to come forward with a balanced budget alternative and the markets are beginning to get nervous about whether we will make it or not.

Moreover, I also think the President's failure to submit a serious budget may affect the Federal Reserve Board. The Federal Reserve Board will be making the decision tomorrow about what to do about interest rates. I suspect that they were extremely disappointed in the President's proposal as well, and the markets are concluding that since the President is not serious about balancing the budget that it would be a mistake for them tomorrow to lower interest rates any further. That is a decision they will have to make, but I think that is a fair scenario to place on the table.

So, again, the reaction that we have seen in the last day with respect to the President's proposal has already had an effect on the stock market and the bond market, and I am suggesting another impact very well could be on the decision by the Federal Reserve tomorrow.

I talked to those financial experts about the benefits of balancing the budget. I talked to them about the importance of bringing down interest rates, and during those same meetings, they told us the interest rate probably could come down even further; that if we were to come to an agreement over balancing the budget, we could see long-term interest rates in this country decline to the 5¼ range.

I must say to you, Mr. President, having been a former banker, I can remember making those first loans on a single piece of paper—but that is another story of what has happened to our country as a result of the bureaucracy and the redtape which has been created. It was on a single piece of paper, and the interest rate was at 6 percent. I must say to you that over the years I had lost hope that we would see long-term interest rates return to a level of below 6 percent. But, frankly, I believe that this is within our grasp today.

If the President were serious about coming forward and giving us at least his alternative—we are not telling him he has to agree with ours, but at least put his alternative on the table telling us how he would balance the budget in 7 years with CBO numbers—then we could sit down and negotiate. If he would do that and we could reach an agreement, and I believe that we would see long-term interest rates come down to the 5½ and 5¼ range.

What does that mean? To the families of America, to those young families who are trying to get a start, let me tell you something, there is a big, big difference in obtaining a mortgage at 5¼ percent versus 8¼ percent. It not only will affect the mortgage payments that they will make, it will affect the cost of the automobile loan, it will affect and reduce the cost of a student loan. There are lots of things that the average American is going to feel as a result of what happens with interest rates.

The shot today which the markets have fired is basically one that said, if you don't come to an agreement, the reduction of interest rates you have seen in this last year are going to disappear and the rates are going to go back up and America's future will not be as bright.

The other day on the floor of the Senate, I said, and I am going to repeat it again today, that the President ought to come forward with his alternative. He made the commitment to do that almost 30 days ago. It was in legislation that he signed. It was negotiated by representatives from his White House. I am going to say it once again, but I am going to read it to make sure I am very clear: This President has proven once again that his commitment to principle is nonexistent. He gave his word. He broke his word. It is a habit he does not seem able to break.

Mr. President, I yield the floor.

Mr. GRASSLEY addressed the Chair.

The PRESIDING OFFICER. The Senator from Iowa.

THE PRESIDENT SIGNED AN AGREEMENT WITH CONGRESS

Mr. GRASSLEY. Mr. President, first of all, I thank the Senator from Florida for a very clear-cut statement about why we are where we are and how we can get out of it. Basically, it is the President of the United States doing what he said he would do.

We are where we are today, Mr. President, because on November 20, the President signed an agreement with Congress. This is the wording of that agreement:

> The President and the Congress shall enact legislation in the first session of the 104th Congress to achieve a balanced budget not later than fiscal year 2002 as estimated by the Congressional Budget Office * * *

We have said several times that the President himself on November 20 signed legislation that said he agreed to three things: One, that he would send a budget to the Hill that was balanced. That budget he was going to send to the Hill would be the third one, because remember, he sent one in February, he sent one again in June and this would be the third one. It would be balanced by the year 2002, the same as when Congress said that we would balance the budget.

What is magic about 2002? It could be 2001, it could be 2003, but really what is magic about 2002 is that in February of this year, we had 66 Senators—that is Republicans and Democrats, because there are not 66 Republican Senators—a bipartisan vote that the budget should be balanced by the year 2002. The House of Representatives had a vote about a week or two earlier with 301 votes. That is Republicans and Democrats. That is a bipartisan vote that said we should do it by 2002.

There is nothing revolutionary about 2002. That is an evolution to a balanced budget. That is a Republican evolution to a balanced budget.

For a lot of people, it is too, too slow. We probably got more people in this country mad at us because we are taking until the year 2002 to balance the budget than by 2002. The President says that is extreme. Well, it cannot be extreme if he signed the agreement that he was going to be in favor of balancing the budget by 2002, because if that is extreme, the President is extreme. I do not think anybody in this town is extreme.

The most difficult process in this town is just making the tough decisions. For our constituents, taking 7 years to balance the budget is not a tough decision. That is too evolutionary of a process for balancing a budget. They would like us to be more extreme than that. They would like us to do it sooner.

Do you know why they think we should do it sooner? Because each month they have to balance their checkbook, live within their income or, if they are a small business or small farmer, they have to live within their income. They cannot be like Government, borrowing money all the time.

But the President signed that he would submit by December 15 a balanced budget and that it would be scored by the Congressional Budget Office. Those three things are pretty key to the President keeping his word when he signed this.

The first budget that they sent up here about 2 weeks ago was not in balance, $400 billion out of balance, as scored by the Congressional Budget Office; $115 billion deficit even the last year.

We are here today because we are still waiting for the President to deliver on what he signed into law on November 20. Where I come from, that means you sit down to make a deal, you put some numbers on the table, and those numbers should be within the guidelines of the debate. The debate is to have it balanced and scored by CBO, the Congressional Budget Office. By the way, the nonpartisan Congressional Budget Office, not scored by the Office of Management and Budget which is part of the White House which is headed by a Presidential appointee. The Congressional Budget Office, nonpartisan, people who do things based upon their study of forecasting the future and what programs are going to cost in the outyears, not what some Republican or Democrat says it is. Their reputation of being a true judge of what things are going to cost when they score it is at stake.

Last Friday, they made another attempt to come up here. I suppose that would be the fourth budget this year. It was still off. But what did they do about the Congressional Budget Office scoring? They said, ''Well, we don't agree with it.'' This does not say anything about agreeing with it. You just simply present your numbers and let the nonpartisan budget office score it. Let the chips fall where they may.

''Mr. President, if you come up short someplace, we understand. Just go back to the table and submit a new number, but get something that the Congressional Budget Office can say is in balance.''

The only thing we Republicans—maybe I should not speak so definitively—the only thing we Republicans care about is that the budget is balanced by 2002, because I suppose each one of us has an opinion on that. But I have heard enough of the people who do the negotiating for the Republicans—and for a few days I was one of the eight doing the negotiating—that when the President puts a budget that is balanced, as scored by the CBO, on the table, then within the parameters, anything is on the table, including what to do about Washington spending, which we call discretionary spending, where we let the Washington bureaucrats spend it, those programs. Entitlements like Medicare and Medicaid, and even defense and taxes, are all on the table.

All we want the President to do is to play in the same boundary. If you want to keep the cows within the pasture, that means you build a fence around the pasture. Then you operate within that. And what you do within that fence is all in the ball game. Everybody negotiating with the White House and the Congress can reach an agreement. But what is so important about the fence, what is so important that is scored by the nonpartisan Congressional Budget Office, is simply that it is an end to business as usual here in Washington, that the big black hole of Government borrowing can go on and you can spend any amount of money. For the first time in 27 years, we are saying, once again, there is some limit on what you can spend—just some limit.

Now, I came to the floor to speak about another point because we always talk about the budget deficit. But there are two deficits that we can defeat in the process of balancing the budget deficit. The Senator from Florida spoke very well about what good is going to come to the economy. There was an economist quoted in a USA Today article, ''What Life Would Be in the Year 2002 With a Balanced Budget.'' Some of the things they spoke to have been referred to by my colleagues on the floor. A larger economy by $150 billion—this is by the year 2002—a $150 billion bigger economy, more in goods and services, and lower interest rates. We would see 30-year fixed-rate mortgages below 5 percent. The last time I remember mortgages for under 5 percent was when I purchased a house in 1960. I think it was 4¾ percent. Half a percent was for FHA insurance for the 4¼ percent. You have to go back a long way to see the good that can come to the pocketbooks of the American people, such as $2,300 per person—that is a figure for my State of Iowa—$2,300 less per mortgage that families will be paying. If they have student loans, they will be paying $608 less in interest on that student loan. Our economy will grow dramatically. So we are going to have lower inflation besides lower interest, we are going to have higher incomes, and we are going to have a stronger dollar.

Then the second deficit that will be eliminated besides the budget deficit is the trade deficit. Now, since, I think, 1982, 1983, or 1984 at the latest, we have been worried and scared to death about the trade deficit—that we import more than we sell and that we need to do something about it. This article quotes an economist at Meyers & Associates, who said that when we do away with the budget deficit by the year 2002, we will also be doing away with the trade deficit, as well.

So here we have a chance to accomplish this and kill two birds with one stone—get rid of the budget deficit, if we make the tough decisions that must be made on the budget deficit, and get lower interest rates, a stronger dollar, and reduce the trade deficit as well. As chairman of the International Trade Subcommittee of the U.S. Senate, there is nothing I would rather have happen than to get rid of the trade deficit at the same time we get rid of the budget deficit.

Another reason we are here is that we have been hearing for a long time, Mr. President, about how the President wants to protect Medicare. Well, my friend who is still here, the Senator from Utah, Senator BENNETT, spoke a half hour ago about how we are very dramatically increasing Medicare spending. But do not forget why we are dealing with the Medicare issue at all. It is because the President's trustees—three members of the President's Cabinet, the Commissioner of Social Security and two private citizens, appointed by the President of the United States last year—studied the problems with Medicare funding and the fact that there was a potential bankruptcy of Medicare. A potential bankruptcy of

Medicare means that at some time Medicare is going to run out of money. With the insolvency of Medicare, it will run out of money. There is no authority in the law to borrow money for Medicare, so no bills would be paid after a date stated by the trustees.

These trustees are Robert Rubin, Secretary of the Treasury; Robert Reich, Secretary of Labor; Donna Shalala, Secretary of HHS; Shirley Chater, Commissioner of Social Security, and two trustees are private citizens who are expert in this area of economic forecasting, Sanford G. Ross and David M. Walker. They unanimously, on April 2, asked the Congress of the United States to take very drastic action to end the pending insolvency of Medicare by the year 2002.

As shown on this chart, you can go back to 1985, and this is what you see—money coming in, money being paid out. Next year is the first year that there is more money being paid out of Medicare than is being paid in in taxes to the Medicare trust fund. And then it spends down very dramatically to the year 2002 when it goes into deficit. You do not pay anything on the deficit because there is no authority there to borrow.

So we responded to the appointees of the President of the United States, the trustees of the Medicare system, in their report to us. We made the commitment earlier this year to respond to that need, to save Medicare, but not only to save Medicare, but to strengthen Medicare, and not only strengthen it, but go beyond strengthening it to give people, for the first time in 30 years, some choice in the type of medicine that they want applied to them by giving them the opportunity of keeping what they have had for 30 years if they want to do so, or taking the $4,900 this year that we paid for each beneficiary per year and let that be used by that individual, by their own free choice, to buy a managed care plan if they want to do that; let them roll their own dollars by giving them the $4,900 to put in a medical savings account; or, lastly, that they could keep a plan that they had where they last worked, like a union or association plan. That would be a choice that the individual Medicare enrollee could choose to do. You could choose to do that once a year. You could choose to leave the traditional Medicare plan and go into a managed care plan for a year. If you did not like that, come back to Medicare, or go over to a medical savings account, or go over to an association plan that you might want to have.

We responded to that. It was in the Balanced Budget Act of 1995 that we sent to the President a month ago, the same one that the President vetoed.

Mr. President, the Senate majority leader would like to have me yield. I yield as long as I do not lose my right to the floor.

A STEP IN THE RIGHT DIRECTION

Mr. DOLE. Let me indicate that the President did call both myself and Speaker GINGRICH this afternoon about 3 o'clock. Without getting into the details of what the conversation was, I am pleased that the President indicates a willingness now to accept our invitation to get serious about the budget and balance the budget in 7 years.

I will be meeting with Speaker GINGRICH a little later this evening. I think the President's call does demonstrate that he has at least heard our pleas over the weekend and indicates a willingness to talk about a balanced budget in 7 years, using CBO figures. Of course, he has certain concerns that he feels are a priority, and we have concerns we feel are a priority. I will not get into what we discussed about those but to say I think it is a step in the right direction.

I want to thank the President for agreeing to sit down with the principals because I think it is time the principals become involved. It is time for adult leadership. It is time for us to start making decisions.

The American people want a balanced budget. They know the benefits of a balanced budget, what it means in interest rates, what it means when you buy a car, borrow money for a student loan, buy farm machinery, a home, whatever. That is the purpose for this struggle for a balanced budget and why we feel so determined it should be done.

Hopefully, there will be discussions yet today, but if not tonight, at least tomorrow.

Mr. GRASSLEY. Mr. President, I believe I will yield the floor. Based upon what the Senate majority leader has said, if the President is going to start to sit down and negotiate the way he signed into law November 20 from the point of view of submitting a balanced budget, scored by the nonpartisan Congressional Budget Office—at least that is the first good news we have had of reaching an agreement—there is no point of my taking any more time to point out the shortcomings of the White House in not living up to the November 20 agreement that they said, albeit today, the 18th of December, November 20 until now, would be 28 days. This was all supposed to be done by September 15. I am happy to know the President would take that initiative and that we will avoid the rhetoric and get down to real negotiating within that boundary of a balanced budget, scored by the nonpartisan Congressional Budget Office.

I do want to complete one point. I started the point on Medicare because I wanted to point out where the President had been condemning us, as cutting Medicare. This chart, again, is just illustrative of what the Senator from Utah has already said about 45 minutes ago. We are right now spending $178 billion on Medicare; we are going to gradually increase that expenditure up to $290 billion or thereabouts, maybe a little over $300 billion by the end of this period that it takes to balance a budget.

There is no way that in the Midwest where I come from any taxpayers that I am ever going to talk to are ever going to consider that to be a cut. Just in case, for people who are cynical about those of us in Congress—and there is plenty of reason to be cynical, I know—I want to quote what President Clinton had to say about cuts versus increases like this. He was referring to increases like this, but he was evidently having somebody say you are cutting Medicare. This is what the President said on October 5, 1993, when he was commenting about the opposition of his saying he was cutting Medicare.

> Medicare is going up at three times the rate of inflation. We propose to let it go up two times the rate of inflation. This is not a Medicare cut. So when you hear all this business about cuts, lets me caution you this is not what is going on. We are going to have increases in Medicare and Medicaid, and a reduction in the rate of growth will be more than overtaken by new investments that we are going to make.

That is the President as reported on ''MacNeil-Lehrer News Hour,'' October 5, 1993.

Nobody who is intellectually honest, if you are increasing things twice the rate of inflation—Republicans are doing that, the President proposed to do that—if it was not a cut in 1993, it is not a cut in 1995. If we are going to be sitting across the table from each other negotiating, we ought to be able to do it in an intellectually honest way.

This is what the facts are, Mr. President. The facts are that we are very dramatically increasing Medicare. It is not being cut. It is often being increased at the rate of inflation. If anyone wants to know how billions of dollars affect them, they are getting $4,000 a year now, per beneficiary, per year, of Medicare recipients. This year, it will be $7,100.

I hesitate to say that because there are a lot of constituents out there like the one that the Senator from Utah read to us about who are going to be mad because we are not even freezing this. There are very dramatic increases.

I thank the President for coming forth. I hope this time we see real negotiations.

The PRESIDING OFFICER. The Senator from Utah.

Mr. BENNETT. Mr. President, I ask unanimous consent I may proceed as in morning business for up to 10 minutes.

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

BUDGET PROJECTIONS

Mr. BENNETT. Mr. President, at one point in my business career I was called upon to act as a consultant to a firm that was having difficulties. In Washington language, it had a deficit. In the language of the business world, it was losing money.

I sat down with the CEO of this company and we looked at the coming year