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 President, I ask unanimous consent that the order for the quorum call be rescinded.

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

Mr. KYL. I ask unanimous consent that I be able to speak for up to 20 minutes as in morning business.

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

BALANCING THE BUDGET

Mr. KYL. Mr. President, the reason I wanted to address the Senate at this time is that having spent a few days in Arizona recently visiting with constituents, I think that I have learned something that is important for us to share as we continue this debate about the budget impasse and whether we are going to be able to reach an agreement on a balanced budget.

What I have heard from my constituents is, they are as concerned about the other side of the equation, namely, the income side of the equation, as they are about the balancing of the budget by the saving money side of the equation. Specifically, in the context of the new report issued a couple of weeks ago by the so-called Kemp Commission, they are suggesting that we should turn more of our attention to how we raise our revenue as much as we do to how we save our revenue. The report, entitled ''Unleashing America's Potential,'' is the official name of the National Commission on Economic Growth and Tax Reform Report, the so-called Kemp Commission Report that was issued about 2 weeks ago of this past month.

Jack Kemp, who is the chairman of that commission, traveled to Phoenix and gave a couple presentations to constituents of mine talking about this, and combined with other meetings I have attended, as I have said, the conclusion I have come to is that while my constituents are very interested in balancing the budget—and they have encouraged me to stay the course and continue to try to press the President to reach a meaningful balanced budget over 7 years—they have also concluded, as I have, that that may not be practicable right now, the President just may not be ready to make a budget deal, that the incentives are not there for him to reach an agreement.

If that is so, what they are saying is, look at the other side of the equation, because there is another debate that is starting in this country about how to raise tax revenues, and that debate could have as much to do not only with how we balance the budget but also how we promote economic growth in this country.

Today, very briefly, I want to talk about those two subjects. When a family sits down at the table and figures up how they can do better economically to send their child to college or to buy the new car they have to buy because the old one is pretty much on its last legs, or any other way try to figure how they will do better economically, they generally look at both sides of the equation.

They say, ''Well, first of all, are we spending too much money? Can we save money? Are we going out to dinner too much? Are we going out to the movies too much? We can save some money. We can pinch some pennies.'' And they figure out how much they can save.

That is what we are trying to do with our balanced budget. We are trying to say the Government can save a lot of money. Republicans are talking about saving hundreds of billions of dollars over a 7-year period, thus being able to balance our budget. The President would like to spend about $400 to $500 billion more than we would. That is why we have not been able to reach agreement with him on a balanced budget. Clearly, we ought to be looking at the side of the equation that tells us whether we are spending too much money.

But the other side of the equation is how can we cause the economy to grow so that not only will families be better off, so that they will not have to rely upon the Government so much, but that they will actually be producing more in terms of productivity and therefore more revenue to the Federal Government with existing tax policy? We can actually talk just like a family talks about getting a raise or doing something in business so they can make more money, which is the other half of their fiscal health, I guess you can call it.

The Federal Government can be doing the same thing. There are two ways to do that. There is a wrong way and a right way. The wrong way says let us raise tax rates. That will bring in more money to the Federal Treasury. We know the last tax increase, the biggest in this country's history, promoted by the President, did not raise income nearly as much as the administration projected because, of course, people changed their behavior. The most graphic example of that was the 1990 tax increase which included a much higher tax on luxury items, such as expensive cars and yachts and furs. And what happened to the people that were building the yachts? They went out of business, because people could not afford to pay the high tax so they stopped buying the yachts, as a result of which not only did the Federal Government not get the revenue but it actually had to pay money in terms of unemployment compensation because a lot of people lost their jobs because the yachts were not being made. Of course those people did not pay income taxes.

So the bottom line was that even though the income tax rate was increased, the revenues did not increase at all. That is what we found in this last tax increase. Revenues to the Treasury have not increased nearly as much as the administration predicted. So we know that raising tax rates does not necessarily mean an increase in income.

We also know that lowering tax rates can sometimes mean an increase in revenues to the Treasury. It is a little bit like the person who puts goods on sale about Christmastime. He does not do that to lose money. The retailer knows you can more than make up in volume what you lose in terms of the price cut. The same thing in taxes. You can reduce taxes and make more revenue for the Treasury because you have promoted commercial activity.

As a matter of fact, in the preamble to this report, ''Unleashing America's Potential,'' former HUD Secretary and Representative, Jack Kemp, quotes John F. Kennedy who gave a speech before the Economic Club of New York in December 1962 and said this:

> In short, it is a paradoxical truth that tax rates are too high today and tax revenues are too low, and the soundest way to raise the revenues in the long run is to cut the rates now. . . . The purpose of cutting taxes now is not to incur a budget deficit, but to achieve the more prosperous, expanding economy which can bring a budget surplus.

That is John F. Kennedy in 1962, who also said ''A rising tide lifts all boats,'' meaning if we can get the economy growing again everyone will benefit, the entrepreneur who has had his tax rates cut as well as the person looking for a job who finds that there are jobs available because there is increased economic activity. It all has to do with injecting more capital into the private sector. John F. Kennedy made the point.

Ronald Reagan made the point 20 years later. When tax rates were reduced in the Reagan administration, tax revenues for the Treasury were increased. That is what we are talking about here in the Kemp economic report, a fairer, simpler, single-rate tax that would promote economic growth and opportunity and job creation because it would provide the incentive for investment and savings rather than the incentive which we have today which is get as many deductions as you can by borrowing, because that is how you can, in effect, work the Tax Code.

Some of our friends on the other side of the aisle say, ''A tax cut for the rich is what you are talking about. Capital gains are enjoyed by rich people, so if you cut the capital gains tax that helps them.''

You know, nothing can be further from the truth. As Jack Kemp has pointed out, a capital gains tax cut benefits the poor more than the rich. The rich people do not have to sell their assets. What they can do is use their assets as collateral to borrow money and take an income tax deduction on the interest costs of borrowing and they still have their capital assets. So the rich people do not have to have a capital gains tax cut. They can use the capital as the equity to borrow money and then write off the interest on their income taxes.

It is the poorer people in our society, who are looking for a job, or a better job, who can benefit by a capital gains tax cut. Not only do many families have small assets tied up that they would like to sell so they could utilize that money to send a child to school or invest or for whatever purpose—on rates now they are paying 28 percent if they sell that asset—but it is also the entrepreneurs who can free those assets up, take the money and invest it in something more productive, thus creating jobs, thus providing more opportunities for people at all levels of the economic spectrum in our society. So a tax cut can be beneficial, and it can benefit everybody in society, not simply those who are more well off.

We are going to be introducing a constitutional amendment in the next day or two, a resolution which would provide that a two-thirds vote in each House of the Congress would be required to approve a tax rate increase. Representatives BARTON and SHADEGG are introducing a similar initiative on the House side. This is similar to constitutional amendments that have been proposed and sometimes passed in States around the country. As a matter of fact, my own State of Arizona has had such a proposition.

The idea here is that tax increases have almost always been antithetical to growth, both in the private sector and to revenues of the Government. At least they have not been helpful. What the Kemp Commission suggested is that if we are going to have a single-rate, simple-income Tax Code—scrapping all of the existing code and going to a new, simpler, fairer single-rate code—we also need to have a mechanism in there to prevent the Congress from raising the rates after we get it into effect. I do not know whether the rate will be 17 or 19 percent or if it has to be 20 percent. But wherever that rate is set, it ought to stay there and it should not be going up over time. Of course that is the experience with Congress, because there are some, and some Presidents, who thought they could raise revenues by raising tax rates.

I think I have demonstrated that is not true, but it has not stopped them from trying. So we would like to build in a two-thirds requirement to approve any tax rate increase. I think that resolution should be debated and considered, along with the recommendations of the Kemp Commission, as they are introduced as legislation in force over the next several months. So we are going to be introducing that legislation and I will be looking for support to get that moving.

Mr. President, in the time I have remaining let me just note a couple of statistical things of interest, I think. I made the point that the tax cuts of the early 1980's demonstrated that we can increase revenues by cutting rates. The figures are as follows. Revenues increased from $599 billion in fiscal year 1981 to over $990 billion in fiscal year 1989, an increase of about 65 percent. High tax rates, on the other hand, of course we know discourage work, discourage production, savings and investment, so there is ultimately less economic activity to tax. Revenues amounted to about 19 percent of the gross national product when the top marginal income tax rate was in the 90 percent range in the 1950's. They amounted to just about the same 19 percent of GNP when the top marginal rate was in the 28 percent range in the 1980's, and again we are at about 19 percent of GNP in the 1970's, one of the longest postwar economic contractions in our history, and also at about 19 percent during the longest peacetime expansion, the 1980's.

The point is, as a percentage of GNP, the tax revenues have been almost constant at 19 percent. You cannot increase revenues as a percent of GNP by increasing tax rates.

But what you can do is decrease tax rates, increase the size of the GNP, and still be at 19 percent of GNP in terms of Federal revenues. But the total dollar amount, of course, is much higher because you have increased the size of the GNP.

So the question is not just the percentage but a percentage of what? And a percentage of a much more vibrant and larger GNP at 19 percent obviously represents more tax dollars than 19 percent of a contracting and lower gross national product.

So that is why we need to focus not just on the question of how much taxes are raised, or cut, but how they are raised. Of course, that is why we think it is important to have a very firm consensus in the Congress. In this case, we would like to have a two-thirds vote to approve any kind of tax increase. But more importantly, as the Kemp Commission recommends, we would like to have a reduction in tax rates, which we think will then produce a higher GNP and at least the same percent of revenues to the Federal Treasury.

Let me just read one quotation. Then I will conclude this point from the Kemp Commission report.

> The roller coaster ride of tax policy in the past few decades has spent citizens' cynicism about the possibility of real long-term reform while fueling frustration with Washington. The initial optimism inspired by the low tax rate of the 1986 Tax Reform Act soured into disillusionment and anger when taxes subsequently were hiked two times in less than 7 years. The commission concludes that a two-thirds supermajority vote of Congress will earn American's confidence in the longevity, predictability, and stability of any new tax system.

That is why, Mr. President, we think it is important to introduce this constitutional amendment to require two-thirds of Congress to support a tax increase for stability and for predictability so the American people have confidence that, if we go to a single rate, a simpler and fairer tax system, as the Kemp Commission recommends and we set a rate to produce the revenues that we are gathering today to the Federal Treasury, that Congress is not going to come along later and begin increasing that rate, because clearly, once most of the deductions and exemptions are eliminated, then taxpayers will no longer have those areas in which to retreat when rates are raised, which has been historically what has happened. Americans adjust their behavior in order not to pay taxes. They will buy municipal bonds so they do not have to pay taxes, for example.

What we are saying, if we eliminate most of, or many of, those reductions, or exemptions, or credits, we do not want Congress and the President then to come along and raise the rates of income tax. That is why we think it is important to have a two-thirds majority. The Kemp Commission made the recommendations to eliminate the estate tax, to provide full deductibility of payroll taxes so that working Americans are not taxed on a tax. I think that would be a good idea. They encourage us to consider deductibility of charitable contributions and mortgage interest deductions. I think that debate needs to occur because that will affect the rate at which we end up having to set income tax, if we are going to have a single rate. The higher the deduction for mortgage interest, for example, the higher the single rate will have to be. We will have to consider what that tradeoff tells us in terms of actual tax policy.

I am hopeful during this Presidential campaign that, armed with the Kemp Commission report, the candidates will get out there and debate this concept thoroughly, and that the American people will evaluate the different proposals. I am not an advocate of any specific proposal, but I think each of them has some merit. What we ought to be focusing on is the end result here of a simpler, fairer, predictable tax structure. If we can do that, then I am sure the specific decisions we make will fall into line. But the American people need to focus on that during the campaign, need to question the candidates, and need to come to some kind of conclusion as to what they want us to do.

I am hoping that the next election will result in a mandate of sorts that in 1997 will cause us to come together and conclude that the American people have spoken in the election, they have supported candidates who generally believe in a certain approach to income tax reform, and then in 1997 we will begin the legislative process of fundamentally reforming our Tax Code.

What I would like to do beginning this week is to begin the debate on the two-thirds supermajority because it would be the only constitutional amendment that would accompany the Kemp Commission recommendations. It is going to take longer to put into effect. We know by historical reference that constitutional amendments do not pass very quickly around here, and they should not. That is why we want to begin the debate now so that by the time we debate legislative changes in the Tax Code we will have been able to thoroughly air this constitutional proposal as well as perhaps pass the bill at the same time because clearly we would want to be able to restrict future Congresses' ability to raise taxes.

Mr. President, the bottom line here is, yes, we need to focus on balancing the budget, on pinching pennies, and on saving in every way we can so we are not spending taxpayer dollars unwisely. That has been our focus all this year. We came close to getting a balanced budget agreement, but we did not quite do it. It would still be nice, if we could. Since we have not been able to, I think we have to focus equally on the other side. How do we get the economy growing again, moving forward, providing opportunity for growth, for job creation, for entrepreneurship, and for capital infusion for the economy. And the best way to do that is to follow the recommendations of the Kemp Commission—to give everybody a better opportunity by having a simpler, fairer, single-rate Tax Code.

I look forward to this debate in the ensuing weeks and months. I hope many of my colleagues will join me in sponsorship of the constitutional amendment to require a two-thirds vote to approve any income tax rate increases.

Mr. INHOFE addressed the Chair.

The PRESIDING OFFICER. The Senator from Oklahoma.

Mr. INHOFE. I ask unanimous consent to be recognized to speak as if in morning business.

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

THE TAX CODE

Mr. INHOFE. Mr. President, first of all, let me stand up and be the first one to officially accept the challenge made by the distinguished Senator from Arizona. He is absolutely correct in his analysis as to what is happening in the country right now. It is refreshing to listen to someone who can look at historical data and come to a decision that is really incontrovertible.

The Senator from Arizona quoted the Kemp report as to what can happen in order to stimulate the economy and actually result in increasing revenues by reducing marginal tax rates. If we think back and look at what happened in 1980, the total revenues derived from our marginal tax rates was $244 billion. In 1990, it was $466 billion. And during that 10-year period, we had a greater reduction in marginal rates, including capital gains. Obviously, what happened is exactly what the Senator is suggesting would happen in the future if we would we do this now.

I have heard so many times on this floor people say look what happened in the 1980's when we had a President who was reducing tax rates and the deficit went up. The deficit went up not because revenues were not coming in. Clearly they were coming in at a much more rapid rate as a result of giving the free enterprise system a chance to breathe by reducing marginal rates.

THE MISSILE THREAT

Mr. INHOFE. I wanted to take just a moment, Mr. President, to mention something else that will be very dear to the heart of our previous speaker, Senator JOHN KYL, from Arizona. I am sure, since he was quoted in the article that I am about to quote, that he shares my concern over an article that appeared in the Washington Times yesterday entitled ''Missile Threat Report Politicized, GOP Says.''

I will just read the first paragraph of this article. It says:

> A new intelligence estimate by the Clinton administration which foresees no ballistic missile threat to the United States for at least 15 years enraged GOP lawmakers who want to deploy a defense against a limited missile attack.

This is factual. I am one of those who was enraged because there is a lot of redundancy here. We have stood on this floor. We have tried through talk radio, through every other means possible, to convince the American people that we really do have a very serious threat out there. This estimate was made by the national intelligence estimate which only a year ago stated, as was pointed out by Senator KYL, that there is a risk out there. And it specifically talked about North Korea and the Taepo Dong II missile that would have the capability—this was a year ago—of reaching Hawaii and Alaska by the year 2000 and the Continental United States by the year 2002.

We just had a defense authorization bill that was vetoed by President Clinton. In his veto message he said we did not want to spend that money on a missile defense system to defend Americans against a missile attack. This is something that came not too long after the statement made by James Woolsey, who was the CIA Director appointed by President Clinton, that between 20 and 25 nations either have, or are developing, weapons of mass destruction, either chemical, biological or nuclear, and the missile means to deliver them. We also know that there are countries, as he pointed out, that now have this technology, and what they have they will sell.

This article goes on to report that the new national intelligence estimate indicates that it is very unlikely that any of the countries with this missile technology would sell it. I find that very difficult to believe when you look at such countries as China and North Korea. Then you look at countries in the Middle East that have an abundance of wealth due to their oil holdings—Iraq, Iran, Libya, Syria, any number of countries—and you begin to realize that they could be willing buyers, not to mention in potential nations which could be inclined to fire a missile at the United States.

I have to say this. I hesitate to stand on the floor of the Senate and make this statement, but I tend to think that this national intelligence estimate was dramatically influenced by the White House.

It was just a week ago that we heard the State of the Union Message when the President of the United States made a statement that seemingly went unnoticed when he said that we are changing the role of our military from defense to peacemaking. Earlier, in vetoing the defense authorization bill, he talked about the fact that there is a linkage between the START II arms limitation agreement that was supported and ratified by this body a couple of days ago and the 1972 ABM Treaty.

Well, I have questioned that linkage, but since the President believes it is there, I have to go back and talk about it and see how that relates to this article that came out just yesterday. The ABM Treaty was put together, it was a philosophy that was articulated for national defense to defend our strategic interests by the Nixon administration, by Dr. Henry Kissinger.

Back at that time, they formulated a plan that was called MAD, mutually assured destruction, and what we were talking about at that time was we only had two superpowers in the world. We had the U.S.S.R. and the United States of America. They said, ''Well, I tell you what. You don't defend yourselves; we won't defend ourselves. If somebody shoots at us, we'll shoot back and we all die.'' That was fine. That was the policy. I did not agree with it at that time, but at least it was predicated on the assumption there were two superpowers in the world, and at that time it was true, the U.S.S.R. and the United States of America.

Now, in light of the statement of James Woolsey and of what our intelligence has reported to us, there are probably 25 countries now that have this power. So we are not talking about just two.

In a way, I think things were more secure back during the cold war; at least then we could identify a singular enemy. Now we do not know where it is coming from. So if the President has his way and we are to accept his idea of continuing a policy that was articulated and established back in 1972 of mutually assured destruction—assuming, of course, that Russia, which is the other party of this policy, this being the START II Treaty, if they do what they say they will do—and their performance is not very good in the past in their arms reduction commitment—but assuming that they do, then you have Russia and the United States reducing our nuclear capability at the same time there are 24 other nations out there that are not reducing theirs; they are raising theirs.

That is the situation, the environment that we find ourselves in today. I felt we could win this argument on the debate because the American people are intelligent people. There are a lot of ways of getting to the American people and getting the truth that is not filtered through the Washington, DC, media, and that is going straight on talk radio and other means.