OHIO'S POW/MIA RECOGNITION DAY

Mr. DEWINE. Mr. President, I rise today to call my colleagues' attention to a resolution introduced by the Governor of Ohio, George Voinivich, to commemorate National POW/MIA Day, which took place on September 19, 1997. That day last month and more important, the issue itself, are of great importance to all Americans, especially to those that served our country in military missions abroad.

As of today 2,116 Americans are classified as either prisoners of war or missing in action (POW/MIA) from the Vietnam war. Thousands more remain missing and unaccounted for from the Korean war and even the Second World War. The families and friends of these soldiers still have to endure the awful uncertainty concerning their fate. Every effort must be made to determine the fate of these soldiers. In the case of Vietnam, I am hopeful that the normalization of diplomatic relations with Vietnam and the reopening of the American Embassy will encourage the government of Vietnam to fully cooperate with American officials in their search to gain the fullest possible accounting of POW/MIA's. I strongly encourage the President and the Ambassador to Vietnam to give the POW/MIA issue top priority and insist that the Vietnamese Government disclose all pertinent information on American POW/MIA's.

Mr. President, I am hopeful that last month's POW/MIA Day, and Governor Voinivich's eloquent resolution will serve to heighten American awareness and inform foreign governments of the United States' serious commitment to bringing our soldiers home.

Mr. President, I ask unanimous consent that the State of Ohio's POW/MIA Recognition Day resolution be inserted in the CONGRESSIONAL RECORD.

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

RESOLUTION

Whereas, 2,116 Americans are still missing and unaccounted for from the Vietnam War, including 114 from the State of Ohio; and

Whereas, their families, friends and fellow veterans still endure uncertainty concerning their fate; and

Whereas, U.S. Government intelligence and other evidence confirms that the Government of Vietnam could unilaterally account for hundreds of missing Americans, including many of the 454 still missing in Laos and the 76 still unaccounted for in Cambodia, by locating and returning identifiable remains and providing archival records to answer other discrepancies; and

Whereas, the President has normalized relations with Vietnam believing that such action could generate increased unilateral accounting for Americans still missing from the Vietnam War, and such results have not yet been provided by the Government of Vietnam;

Now, therefore, I, George V. Voinovich, Governor of the State of Ohio, do hereby call on the President to reinvigorate United States efforts to press Vietnam for unilateral actions to locate and return to our nation any Americans who may still be alive, remains that would account for hundreds of America's POW/MIAs, and records to help obtain answers on many more; and do hereby designate September 19, 1997 as POW/MIA Recognition Day in honor of all American POW/MIAs, in particular the 114 from Ohio, and encourage all citizens to observe this day with appropriate ceremonies.

Mr. DEWINE. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The bill clerk proceeded to call the roll.

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

The PRESIDING OFFICER (Mr. COATS). Without objection, it is so ordered.

Mr. HARKIN. Mr. President, what is the parliamentary situation?

The PRESIDING OFFICER. The Senate is currently in morning business.

Mr. HARKIN. Mr. President, might I then inquire as to if there are any constraints on time, limits on Senators speaking in morning business?

The PRESIDING OFFICER. Senators are allowed to speak for up to 10 minutes.

Mr. HARKIN. Mr. President, I have more than 10 minutes of remarks that I want to make on Fed nominees and on the economy in general. It is going to take certainly more than 10 minutes. I will speak for my allotted time of 10 minutes and then ask unanimous consent at that point to extend it beyond that.

The PRESIDING OFFICER. That Senator from Iowa.

THE FEDERAL RESERVE

Mr. HARKIN. Mr. President, 16 months ago we had a debate on the nomination of Alan Greenspan as Chairman of the Federal Reserve System. I argued at that time that he was far too concerned about a possible increase in the rate of inflation and had far too little concern about the employment and incomes of working people.

At that time, we had a number of Senators who came to the floor and said, with unemployment at 5.5 percent, a further decline in unemployment would likely lead to higher inflation. They seemed to believe that raising interest rates was the best course of action.

In the last year, unemployment has dropped three-tenths of 1 percent. But that represents only a part of the increase in the work force. The pool of workers that can get jobs not only comes from the 4.9 percent who are unemployed now but also from those who are not considered part of the labor force, such as younger retirees, women at home, and people who have been discouraged from looking for work in the past, and, of course, persons on welfare. Our economy has brought an additional 400,000 of these persons into the work force over the year beyond those considered as unemployed.

In the past year, the economy has grown at a rate of about 3.3 percent, roughly about 1 percent over what the Federal Reserve's target was to be.

In terms of economic growth, a little means a lot. A 1 percent higher rate of economic growth in an $8 trillion economy means at extra $80 billion a year, year after year. That comes out to be $300 for every man, woman, and child in America.

Now, unfortunately, the Fed seems intent on restraining the economy and keeping from building on its success. Many at the Fed, including the two nominees, Mr. Gramlich and Mr. Ferguson that will soon be before the Senate, believe in a concept called NAIRU—the non-accelerating inflationary rate of unemployment. If it sounds arcane, that is because it is.

But it is still important nonetheless. It is important because so many people adhere to it and believe in it. NAIRU basically says, if the unemployment goes below a certain level, inflation will accelerate, not just increase, but will accelerate at such a rate that only unnecessarily high interest rates can slow it down.

Just 3 years ago, it was widely accepted among the economic elites that the economy would shift toward higher inflation if unemployment fell below 6 percent. That was the NAIRU cutoff. But it fell below 6 percent, and actually some measures showed inflation dropping after unemployment went below that.

Then the common wisdom was then if unemployment went below 5.5 percent for long, then inflation will accelerate. Greenspan and others insisted on this. Well, it fell below 5.5 percent. Then the magic point became 5 percent, below which inflation was sure to accelerate at dizzying speeds if we went below 5 percent.

Unemployment has been under 6 percent for more than 3 years now and less than 5 percent since early this year, and no one, including the Fed Chairman, can point to any signs of accelerating inflation.

Unfortunately, economic reality and the new world has yet to penetrate the thinking of those at the Fed.

I was deeply disappointed with Mr. Greenspan's statement before the House Budget Committee on October 8 when he said, ''the performance of the labor markets this year suggests that the economy has been on an unsustainable track.''

In other words, a 3.3 percent rate of growth, he says, is unsustainable. Let me respectfully disagree.

I disagree with the basic premise that Alan Greenspan and the nominees before us are promoting. Their focus seems to be on when we should raise interest rates—not ''if'' but ''when.''

I believe the debate should be broadened. Let us broaden it to consider lowering interest rates.

A number of economic experts believe that unemployment could possibly go as low as 4.5 percent, maybe even lower, and economic growth increased beyond current levels without triggering any inflationary threat.

Defenders of Fed policy constantly point to the inflation we experienced in the 1970's as the No. 1 reason why it is better to sacrifice higher unemployment for lower inflation.

Let us take a look at the causes behind the inflation of the 1970's.

We had massive Government spending, both on the Vietnam war and the war on poverty; there was a serious energy crisis; and American companies and their workers were no longer as productive as their foreign counterparts.

Today, all that has changed. Congress and the President recently reached an agreement to balance the Government's budget by 2002. I might also point out that it was the 103d Congress—and I am very proud to say I was one of those who helped to cast the deciding vote in the Senate on the budget of 1993—that enacted President Clinton's budget package that helped put our Government's finances on the road to balance. However, we heard from the other side of the aisle saying, ''If this budget passes, disaster is going to happen. We're going to have recessions and people will be out of work.'' And on and on.

Well, we passed that budget. What happened? The size of the budget deficit began to shrink dramatically. That, coupled with the Clinton administration's goal of downsizing Government and reorganizing Government, with the Clinton program of reorganizing welfare and restructuring welfare and making welfare-to-work, with the other constraints put on the Government side of the ledger, that budget, plus that, has led us through about 4 straight years of reducing the deficit to the point now where it is at the lowest point, I think, since the early 1970's, in fact, it might even be balanced as early as next year rather than the year 2002.

So the Government's finances are getting in good order, thanks again to that budget we passed in 1993 and further actions taken by the Clinton administration.

Also, oil and gas prices have been stable for quite some time. There seems to be no danger of any acceleration there. Our workers now are the most productive in the world. I will have more to say about that. In other words, our economy is much more able to ward off inflation and control its harmful effects than it was in the 1970's.

Perhaps before I go any further, I want to explain how the Federal Reserve experts have tremendous influence on the economy. Some people say it is not the Federal Reserve; there are really a lot of other things going on. Simply put, the Fed sets the interest rates charged to banks for the banks' loans. In turn, that rate determines how much the bank charges to their consumers for auto loans, credit cards, home mortgages, and everything else—business expansion, new plants, and new equipment.

By increasing the costs of borrowing money, the Federal Reserve is able to limit the number of new loans that are used to expand or start a business, buy a new car, finance the purchase of a home. If consumers cannot afford to purchase these items, demand will decline and the economy will slow down. So the Fed must realize that the gains from encouraging economic growth far outweigh the gains from needlessly increasing interest rates in order to fight the ghost of inflation.

That is exactly what they are fighting—a ghost. They cannot point to any inflation. They cannot point to any accelerating inflation. Again, I will have more to say about that.

Unnecessarily high interest rates that ensure a stagnant economy or an economy that is growing at less than its full capacity virtually assures that hard-working Americans will not get ahead. You cannot give everyone a pay raise simply by redistributing dollars within a stagnant economy. To increase incomes for everyone, you need a strong, growing economy.

Last year, we enacted a very ambitious welfare-to-work program. If that is to succeed, we must have an economy that is creating new jobs that pay real well and provide benefits such as health insurance and retirement savings—most important, health insurance.

The unemployment rate measures the number of people who are looking for work compared to the number of people who have jobs. That is the basic formula. Many of the persons counted as unemployed are actually underemployed and would jump at the chance for a better paying job. Again, I will later read from many articles around the country where job openings have shown up and, even in areas where we have low rates of unemployment, hundreds, thousands of people have shown up for these jobs because they are better paying jobs.

Many unemployed are discouraged—the recently retired or those who are not now thinking of working but will start to do so should the opportunity arise. A growing economy and tight job market are the surest way to bring these people into the work force.

We also have a reservoir of women that I will be talking about very shortly in terms of their coming into the market and what that might mean.

In fact, referring to an article that appeared in the September 8 issue of Forbes magazine, I thought it was very good. It was written by Peter Huber. The title is ''Wage inflation? Where?'' I will read some parts of this. I do not know if I need to read the whole thing. I think it was very crucial and right on point in terms of what we are talking about here. There are reservoirs and things happening in our economy in the employment and work sector that were not there in the 1970's.

The PRESIDING OFFICER (Mr. THOMAS). The Chair informs the Senator that the time allocated to the Senator has expired.

Mr. HARKIN. Mr. President, I ask unanimous consent that I be allowed to speak in morning business for at least another 30 minutes.

The PRESIDING OFFICER. Is there objection?

Without objection, the Senator from Iowa is recognized to speak for up to 30 minutes in morning business.

The Senator from Iowa.

Mr. HARKIN. I thank the Chair.

Mr. Huber, in his article in Forbes said:

Here's why stock prices are really supposed to fall. Employment rates rise above some critical flash point. So wages rise sharply. So prices of goods rise—just as rising wages are boosting demand. Inflation soars. So interest rates go up. Stock prices crash.

This is a perfectly sound theory, but it requires some facts. Where's the critical flash point? Do the employment statistics mean what they used to mean? Do they mean anything at all?

Officially speaking, America hasn't yet discovered microwave ovens or women's lib. Bone-weary though she may be, the stay-at-home mother doesn't labor at all in the eyes of employment statisticians. But she could, easily enough. With one new mom working at a day care center, three other moms can enter the official work force when they choose. So long as many women remain ambivalent about where to work, in the home or out, the supply of labor will remain far more elastic than the statistics suggest. Memo to Alan Greenspan: Wire roses to Gloria Steinem.

Again, I am reading from the article that was in Forbes written by Mr. Peter Huber.

Labor markets have stretched into the home; they have also spilled out of the country. A U.S. multinational doesn't raise wages in Maine if it can shift production to a more elastic labor market in Mexico.* * * Labor statistics, in short, don't mean much unless they track where goods are produced and consumed. The more transnational economies become, the worse the tracking gets.

Then there's silicon. It takes a mix of capital and labor to manufacture a mousetrap, and economists have always allowed that the mix can change. In the past, however, the substitution effects were slow. You could hire and fire workers a lot faster than you could acquire or retire machines and buildings. So ready supplies of capital didn't discipline the price of labor in the short run.

Is that still true? Computers are getting easier to deploy, smarter and—because of rapid innovation and falling costs—shorter-lived. Many a manager can now expand production as easily by investing an extra dollar in chips or software as he can by hiring new workers. Technology can have a powerful wage moderating effect long before silicon becomes a complete substitute for sapiens. All it takes is enough substitution at the margin.

The substitution is happening. Productivity, it now appears, has been rising a good bit faster in recent years than government statisticians recognized. Three new working moms with computers produce as much as four old working dads without. And newly minted Pentiums to the ranks of those in search of useful work, and unemployment statistics look very different.

* * * * *

This much we do know for sure. If the officially audited supply of labor keeps falling—

Which is what I have just said has been happening—

and the price does not rise—

Which has been happening—

then we must either give up on economics completely or conclude that there's more to the supply side of labor markets then meets the official eye. Perhaps it's simply that American women, Mexican men and Intel's progeny have all become good substitutes for what the official statisticians call U.S. labor. Maybe welfare reform is effectively expanding labor pools, too. * * *

According to official statistics and economic models, a supply-side crisis in labor markets should have reignited inflation some time ago.

Almost 3 years ago.

Investors may indeed be crazy to ignore this indubitable, though theoretical, truth. But if so, wage earners are crazier still—so crazy they don't raise the price of their labor when they can. Then again, maybe they can't.

I ask unanimous consent this article be printed in the RECORD.

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

WAGE INFLATION? WHERE? (LABOR STATISTICS LOSE PREDICTIVE VALUE)

(By Peter Huber)

Here's why stock prices are really supposed to fall. Employment rates rise above some critical flash point. So wages rise sharply. So prices of goods rise—just as rising wages are boosting demand. Inflation soars. So interest rates go up. Stock prices crash.

This is a perfectly sound theory, but it requires some facts. Where's the critical flash point? Do the employment statistics mean what they used to mean? Do they mean anything at all?

Officially speaking, America hasn't yet discovered microwave ovens or women's lib. Bone-weary though she may be, the stay-at-home mother doesn't labor at all in the eyes of employment statisticians. But she could, easily enough. With one new mom working at a day care center, three other moms can enter the official work force when they choose. So long as many women remain ambivalent about where to work, in the home or out, the supply of labor will remain far more elastic then the statistics suggest. Memo to Alan Greenspan: Wire roses to Gloria Steinem.

Labor markets have stretched into the home; they have also spilled out of the country. A U.S. multinational doesn't raise wages in Maine if it can shift production to a more elastic labor market in Mexico. Even the all-American producer in Kansas can't raise wages or prices much if it competes against imports from a wage-stable Korea. Labor statistics, in short, don't mean much unless they track where goods are produced and consumed. The more transnational economies become, the worse the tracking gets.

Then there's silicon. It takes a mix of capital and labor to manufacture a mousetrap, and economists have always allowed that the mix can change. In the past, however, the substitution effects were slow. You could hire and fire workers a lot faster than you could acquire or retire machines and buildings. So ready supplies of capital didn't discipline the price of labor in the short run.

Is that still true? Computers are getting easier to deploy, smarter and—because of rapid innovation and falling costs—shorter-lived. Many a manager can now expand production as easily by investing an extra dollar in chips or software as he can by hiring new workers. Technology can have a powerful wage moderating effect long before silicon becomes a complete substitute for sapiens. All it takes is enough substitution at the margin.

The substitution is happening. Productivity, it now appears, has been rising a good bit faster in recent years than government statisticians recognized. Three new working moms with computers produce as much as four old working dads without. Add newly minted Pentiums to the ranks of those in search of useful work, and unemployment statistics look very different.

None of this will tell you whether to go long or short on General Motors next week. It's just that the next release of official labor statistics probably won't, either. Like a drunk searching for his keys under the lamppost rather than in the shadows where he lost them, the government statistician counts where the counting is easy. But the three great economic stories of our times—women in the work force, global trade and information technology—offer no easy counting at all. The counters are good with things that sit still. Women, foreigners and chips keep moving.

This much we do know for sure. If the officially audited supply of labor keeps falling and the price doesn't rise, then we must either give up on economics completely or conclude that there's more to the supply side of labor markets than meets the official eye. Perhaps it's simply that American women, Mexican men and Intel's progeny have all become good substitutes for what the official statisticians call U.S. labor. Maybe welfare reform is effectively expanding labor pools, too. In any event, running out of old bread creates neither famine nor inflation when there's a glut of new cake.

According to official statistics and economic models, a supply-side crisis in labor markets should have reignited inflation some time ago. Investors may indeed be crazy to ignore this indubitable, though theoretical, truth. But if so, wage earners are crazier still—so crazy they don't raise the price of their labor when they can. Then again, maybe they can't.

Mr. HARKIN. Again, Mr. President, because of the new labor pool that is there and because of the international marketplace, because of increasing technology and productivity, I believe the economy can continue to expand for some period of time, at least at its current pace, without causing a significant rise in inflation.

Second, we need to do more to increase the wages and incomes of average Americans. This should be one of our Nation's very top priorities. So we have an economy growing 3.3 percent. That is good, but who is taking part in it?

The Federal Government should complete a very good year from a budgetary perspective, as I said. In February, the White House said there would be a $125 billion deficit. CBO, our budget estimator for Congress, said it would be $115 billion in March of this year. In fact, it looks like it will only be a $23 billion deficit this year.

So why do we have the good news? Because the economy grew faster than the traditional economists perceived likely. I am pleased with the growth. I am pleased with that growth and the lower deficit level and the fact that prices are not rising. But I am disappointed that a fairly small share of the gain went to average Americans.

Look at this chart which says it all. Look what has been happening in the last several years in the recent economic boom in this country. If you look at the corporate profit rates, they are really going up. Especially since 1992 and 1993 they have gone up tremendously. Look at the median weekly earnings during the same period of time. They keep going down. Corporate profits are going up and median weekly earnings are going down.

The reality is that the incomes of average Americans are not rising very much. Median household income remains lower than in 1989, before the last recession. The poverty rate is still higher than in 1989, and the number of persons considered very poor, earning less than half the poverty threshold, actually increased. The poverty rate is still higher than in 1989, and the number of persons considered very poor—that is, earning less than half of the threshold poverty rate, actually increased. At the same time, corporate profits are soaring.

If the Fed clamps down and the economy ceases to grow at a reasonable rate, there will be no real chance that wages will grow at anything more than a minimal rate. This line will continue to go down even more. If we allow the economy to move forward, then, workers may achieve some real income growth. That means a higher standard of living for all Americans. That really should be our bottom economic line, a higher standard of living for all Americans, including those at the bottom who are falling further and further behind.

If someone asked me what I would want, I would say I just want average Americans to be able to buy a home with decent mortgage rates, low monthly payments, to go on a nice vacation every year with the family, treat their kids to a ball game, go out and have a nice dinner at a restaurant with their spouse on their anniversaries or birthdays, be able to save some money for a rainy day or for their kids' education. In other words, to improve their quality of life. This should be our fundamental goal.

To not allow a chance of an improved standard of living because of an innate fear of a possible rising inflation is not only unfair to Americans, it flies in the face of economic reality and it fails to recognize basic changes that have taken place in the global economy.

A little history. Back in 1933 the Congress set the Federal Reserve policy goals as ''the maintenance of sound credit conditions, and accommodation of commerce, industry and agriculture.'' In 1946, the Congress passed the Employment Act of 1946 which set out a shared Federal Reserve responsibility, the goal being ''responsibility of the Federal Government to use all practical means * * * to promote maximum employment, production and purchasing power.'' It was only in 1978 that the law was modified to add the goal of containing inflation, interestingly. Not until 1978—we had some pretty good years before 1978, but it was in 1978 that the law was modified to add the goal to the Federal Reserve's policy of containing inflation. That goal did not replace maximizing employment and production. It didn't say in lieu of maximizing employment and production, but in addition to maximizing employment and production.

In the last Congress, Senator MACK, my good friend from Florida, introduced a bill to make fighting inflation the sole principal goal of Federal Reserve policy, to undo everything it has been doing since 1933, to take what was done and added in 1978 as another goal, and make that the only goal of Fed policy.

Alan Greenspan supports this proposal and said in open testimony that he supported taking out of the Federal Reserve's consideration ''promoting maximum employment, production and purchasing power, the maintenance of sound credit conditions to accommodate commerce, industrial and agriculture,'' all of which has been in there at least since 1933 and 1946—do away with all that and have only one goal for the Federal Reserve—to fight inflation. Mr. Greenspan supports formally shifting the focus of the Fed to controlling inflation and achieving price stability.

Well, I do not think this policy is a wise course of action. Alan Greenspan may want to change the Fed's mandate, but that does not relieve the Federal Reserve of its responsibility to carry out the law and its mandate which is not just inflation but ''to promote maximum employment, production and purchasing power.''

Unfortunately, under the leadership of Mr. Greenspan, the focus has become only oriented toward a fear of fighting the ghost of inflation. I say ''a fear of fighting the ghost of inflation'' because there is no inflation. But out there sometime around Halloween the ghost of inflation that might actually appear, and we need to be worried about that, according to Mr. Greenspan.

I recently met with the two nominees for the Federal Reserve board that will shortly be before the Senate, Mr. Gramlich and Mr. Ferguson. We had two very productive and informative meetings. I found them both very learned individuals and fine individuals. They also have good career backgrounds. But what American families need at the Federal Reserve are Board members who will not simply follow the prevailing wind at the Fed but follow what is set out in law, and that is balancing the goals of sustaining rates of growth from employment, production and purchasing power as well as minimizing inflation.

Unfortunately, our two nominees before us still adhere to that outdated consent of NAIRU, nonaccelerating rate of unemployment, and I am afraid that they will fail to aggressively challenge many of the current assumptions at the Fed.

We need a good healthy debate at the Fed and we need a good healthy debate outside of the Fed about economic policies. I also believe that the nominees are just not likely to push for this kind of debate prior to risking the upward movement of the economy with an interest rate increase. That, in my view, is unfortunate.

The Federal Reserve seems to look at the economy solely through the eyes of lenders. They need to look at the needs of manufacturers and builders, entrepreneurs and hard-working families, as the law requires. These are the people that move the economy, the people that make things, that take the risks, that sell things for whom the Federal Reserve policy should aim to benefit. The nominees before us, unfortunately, I believe share that view of just simply looking at the economy through the eyes of the lenders and the bankers.

Lastly, and while this is not being talked about very much, I believe we are facing an increasing risk of deflation—deflation. While the Fed focuses on getting inflation down to zero, I think and fear they may overshoot it and send the economy into a deflationary spiral.

Inflation as measured by the CPI for the past year has been 2.2 percent. Unemployment is below 5 percent, and the economy is moving at a GDP rate of around 3.3 percent. Most of the members of the Federal Reserve seem to feel the CPI overestimates inflation by a percentage point or more. If that is the case, then inflation is somewhere down around 1 percent, maybe less. Maybe inflation is really somewhere between zero and 1 percent.

These people at the Fed fear inflation might rise because the unemployment rate is so low, 4.9 percent. If it does, we can react, but there is nothing in our history that points to our inability to slow down and reverse inflation due to an overheated economy. But the preemptive strikes launched by the Fed do not restrain inflation. Instead, this reaction to the remote possibility of accelerating inflation has tremendous costs to our nation.

A preemptive strike blocks the chance of people to be more employed; it blocks the chance of people, on average, to see their incomes truly rise; and it increases the risk of recession. A recession in the current economic environment creates a real possibility of deflation. I believe that right now we are very close to zero inflation, but if we go into recession, that could slip down below zero, and indeed we would have inflation. That would deepen the recession and make it even harder to come out.

Because of this excessive fear of inflation at the Fed, we now live in a world where good economic news for working families is bad news on Wall Street and at the Fed. I don't know how many times I have seen that if there is some good news out there for working families, they say stocks will fall, the Fed is going to have to raise interest rates.

I will read from an article written by Mr. Robert Reno earlier this year, entitled ''Economic Prosperity Not Fully Shared,'' to underscore this point. Mr. Reno said in his article of March 14, 1997, talking about the unemployment rate falling to 5.3 percent and below.

> Wall Street held its breath recently, fearful that one of the greatest bull markets in history was about to be handed the excuse it was looking for to crash.

He said that was because early in March the U.S. Bureau of Labor Statistics was ready to release the report on unemployment.

> It could have been another Black Friday. But closer inspection of the employment report showed things weren't all that dreadful. Average earnings rose just 3 cents an hour.
>
> No sign there that wage inflation was any threat except in the minds of those who use a Hubble telescope to see inflationary signs invisible to everyone else. Moreover, there were ''healthy'' signs that American workers are still scared witless.
>
> The percentage of workers holding down two jobs, seen as a barometer of job insecurity, was 6.2 percent, about the same as it was a year ago. And the percentage of job quitters—those who felt confident enough to strike out in search of new employment—fell significantly. . . .
>
> It says something weird about the economic culture of the 1990s that the docility of the American labor force has come to be regarded as the chief barometer of the Nation's economic health, the indicator that causes the largest holders of wealth to prosper even as wage-earner incomes stagnate.

Again we see it here, wage earners going down, corporate profits going up.

> Still, the alarmists continue to talk about a ''tight'' labor market. This is not the same labor market viewed by most American wage earners.
>
> They see an economic landscape littered with the victims of downsizing, a corporate strategy that has institutionalized the process of maximizing short-term share values by minimizing worker security. They also see a system in which health-care coverage, especially the fear of losing it, is increasingly a factor in workers' decisions to change jobs or to hang on for dear life to the one that they have.
>
> These and other factors, including the weakening of the labor movement, combine to make workers less likely to demand higher wages even as they see their CEO's taking home grossly swollen compensation packages that are an embarrassment to capitalism.

I think that paragraph needs repeating.

> These and other factors, including the weakening of the labor movement, combine to make workers less likely to demand higher wages, even as they see their CEO's taking home grossly swollen compensation packages that are an embarrassment to capitalism.

I ask unanimous consent that the full text of Mr. Reno's article be printed in the RECORD.

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

[From the Salt Lake Tribune, Mar. 14, 1997]

ECONOMIC PROSPERITY NOT FULLY SHARED

(By Robert Reno)

NEW YORK.—Wall Street held its breath recently, fearful that one of the greatest bull markets in history was about to be handed the excuse it was looking for to crash.

This was because early March 7, the U.S. Bureau of Labor Statistics was scheduled to release its monthly report on employment, an event that could provide the Federal Reserve with a reason to raise interest rates, to punish the economy for growing too fast and the stock market for its ''irrational exuberance.''

At first, the news looked terrible. Not only did the unemployment rate fall during February to 5.3 percent, we below the 6 percent level that some inflation hawks view as dangerously inflationary, but non-farm payrolls expanded by a brisk 339,000 jobs, a much higher figure than most economists had expected. Yes, things looked bleak.

It could have been another Black Friday. But closer inspection of the employment report showed things weren't all that dreadful. Average earnings rose just 3 cents an hour.

No sign there that wage inflation was any threat except in the minds of those who use a Hubble telescope to see inflationary signs invisible to everybody else. Moreover, there were ''healthy'' signs that American workers are still scared witless.

The percentage of workers holding down two jobs, seen as a barometer of job insecurity, was 6.2 percent, about the same as it was a year ago. And the percentage of job quitters—those who felt confident enough to strike out in search of new employment—fell significantly.

So the market heaved with relief, shook itself, and the Dow Jones industrial average proceeded to rise 50.19 points. Monday, it hit a new all-time high in a day of exuberant trading, then peaked again Tuesday.

It says something weird about the economic culture of the 1990's that the docility of the American labor force has come to be regarded as the chief barometer of the nation's economic health, the indicator that causes the largest holders of wealth to prosper even as wage-earner income stagnates.

Still, the alarmists continue to talk about a ''tight'' labor market. This is not the same labor market viewed by most American wage earners.

They see an economic landscape littered with the victims of downsizing, a corporate strategy that has institutionalized the process of maximizing short-term share values by minimizing worker security. They also see a system in which health-care coverage, especially, the fear of losing it, is increasingly a factor in worker's decisions to change jobs or to hang on for dear life to the one they have.

These and other factors, including the weakening of the labor movement, combine to make workers less likely to demand higher wages even as they see their CEOs taking home grossly swollen compensation packages that are an embarrassment to capitalism.

The current economic expansion, in its length, durability and non-inflationary nature, is an achievement not to be despised. February's figures are further evidence that it will continue. But until the policy-makers and the economists discover a way to more fairly distribute its good fortune, it is an unfinished job.

Mr. HARKIN. Mr. President, I want to point out that just 2 weeks after this article appeared, the Fed launched one of its preemptive strikes, despite admitting the fact that there was no accelerated inflation, and raised interest rates again.

The issues that are before us are much more important than just two nominees to the Federal Reserve system. It is about strengthening our Nation's economy and ensuring that all Americans have a better standard of living than their parents and their grandparents. It is about everyday Americans making everyday decisions, families trying to make a payment on their House, pay for their kids' college education, Main Street merchants paying for a loan for inventory to run their small business, and farmers making decisions on borrowing to put in next year's crop.

The Federal Reserve policies affect families budgets and national budgets. The Federal Reserve policies shape the course of America's future. If we hope to reach and maintain a balanced budget and move people from welfare to work and ensure the solvency of Medicare and Social Security, we must have a vigorous, growing economy.

Unfortunately, the Federal Reserve is standing in the way. As I have said many times, the Fed has kept its key interest rates, such as the Federal Funds rate, unnecessarily high and, as a result, sacrificed job growth and the living standard of hard-working Americans in the blind pursuit of fighting the ghost of inflation.

The reason the Fed is willing to pay any price and bear any burden to fight the ghost of inflation is that the Fed's prime constituency is the Nation's largest banks. Bill Wolman, an economist for Business Week magazine and CNBC News, wrote in the Judas Economy:

The Federal Reserve's anti-inflation hysteria is, pure and simple, special interest politics, practiced by an institution almost totally free of effective oversight.

I will continue the quote by Mr. Wolman:

As a class, Bankers are creditors who have a strong interest in making sure that the money they lend out—ranging from revolving credit, such as Visa or MasterCard, to thirty-year mortgages—is paid back in money that does not lose value through time. The central bank is most concerned to limit inflation because inflation depreciates the value of the assets held by commercial banks. When prices are rising (inflation), debtors can repay their loans to creditors in cheaper currency; for this reason creditors hate inflation. But when prices are falling, debtors are forced to repay their debts with expensive (harder to earn) currency. Thus, creditors benefit at the expense of workers. . . .

As I previously noted, this mindset that we are confronting is largely based on this outdated and faulty concept called NAIRU, the Nonaccelerating Inflation Rate of Unemployment.

As Robert Eisner wrote in his book, ''The Misunderstood Economy,'' which I recommend to all, the NAIRU concept is the purest example of the old saying, ''Statistics are the straightest line from an unreasonable assumption to a foregone conclusion.''

Again, NAIRU basically says that if unemployment goes below a certain level—once and for many years thought to be 6 percent—inflation will accelerate at such a pace that it will take excessively high interest rates and subsequent levels of unemployment in order to bring inflation under control. Describing NAIRU, Robert Eisner wrote:

It tells us that if we persist in trying to get and keep unemployment (below its natural level) [whatever that is], we will have, not merely inflation, but accelerating inflation. Literally that might mean a very slowly accelerating inflation like one-tenth of one percent per year. But somehow the term is used to imply that inflation will accelerate rapidly, conjuring up visions of the Germans in the 1920's carrying marks in wheelbarrows and using money as wallpaper.

The strongest and most unabashed supporter of NAIRU at the Federal Reserve is Fed Governor Meyer, an appointee of the Clinton administration. He said:

I am a strong and unapologetic proponent of the Phillips Curve and the NAIRU concept. Fundamentally, the NAIRU framework involves two principles. First, the proximate source of an increase in inflation is excess demand in labor and/or product markets. In the labor market, this excess demand gap is often expressed in this model as the difference between the prevailing unemployment rate and NAIRU, the nonaccelerating inflation rate of unemployment.

Mr. Mire goes on to say:

Second, once excess demand gap opens up, inflation increases indefinitely and progressively until the excess demand gap is closed, and then stabilizes at the higher level until cumulative excess supply gaps reverse the process.

Visions of Germany in the 1920's. Why, my goodness, if the unemployment rate goes a little lower, you will be taking your dollars to the banks in wheelbarrows. They will be worthless. We will have this huge inflation. That is the kind of fear-mongering done by those who adhere to this concept of NAIRU.

Now, Mr. Greenspan has recently made some public statements kind of distancing the Fed from NAIRU. I guess, after 3 years, it has finally kind of come home to him that maybe a 5-percent rate of unemployment is not going to accelerate unemployment, maybe not 4.9 percent, and maybe not even 4.5 percent. In his July 22 Humphrey-Hawkins testimony, Mr. Greenspan said:

The rise in the average workweek since early 1996 suggests employers are having a greater difficulty fitting the millions who want a job into available job slots. If the pace of job creation continues, the pressures on wages and other costs of hiring increasing numbers of such individuals could escalate more rapidly.

Furthermore, the prospect of adding more employees to the workforce is equally unappealing to Mr. Greenspan who believes this will ignite inflation. He said this in July:

Presumably, some of these early retiree, students, or homemakers might be attracted to the job market if it became sufficiently rewarding. However, making it attractive enough could also involve upward pressures in real wages that would trigger renewed price pressures, undermining expansion.

To that, I say: Not true. Turn again to this chart. Median weekly earnings are going down and corporate profits are going up. All I am saying, and others are saying, is that more of the growth in our economy needs to go to those who are working and making weekly wages. More should be going to the bottom part of our economy who are falling further and further behind and who rely more than anyone else on interest rates.

Well, again, Mr. Greenspan linked wage pressures, no matter how little to the specter of accelerating inflation in his October 8 testimony earlier this month before the House Budget Committee. He admitted, ''There is still little evidence of wage acceleration.'' But he said, ''If labor demand continues to outpace sustainable increases in supply, the question is surely when, not whether, labor costs will escalate more rapidly.''

I know Mr. Greenspan is a skilled economist, but I would like to point out a few things to him. First, you have increasing technology with the silicon chip; second, you have a lot of women who are in the pool that can come into the work force because they are homemakers, and as we develop more and more safe, affordable daycare in America, more of those women can come into the work force. Third, we have a global economy, Mr. Greenspan.

Now, some may say it's odd for me, for this Senator, to be talking about this global economy as part of an element that contributes to economic growth in our country and the keeping down of wage demands. But it is true and it's a fact. All I am saying is that as long as it is a fact, then don't further penalize the workers in our economy by keeping unnecessarily high interest rates, which penalizes them in buying a home, or buying a car, or taking a vacation, or saving some money for a rainy day, or for their kids' college education. We can use the global economy as it is with increasing technology, with a vast pool of women, early retirees, and the underemployed, to move into that work pool and hope at least to get some increase in the wages of those that are on the bottom, and at least give them a better ability to be able to increase their standard of living by not paying so much in interest rates.

Mr. Greenspan, as recently as October 8, is warning us that if the labor demand—once again, that old NAIRU concept—out there continues a little bit further, then inflation is going to accelerate and take off.

Another simple component of the NAIRU concept is, of course, the preemptive strike. It's when the Federal Reserve raises interest rates to fight inflation, despite seeing no signs of accelerating inflation. The justification behind a preemptive strike is the possibility of inflation increasing at some point in the future. Again, Mr. Greenspan said, in his Humphrey-Hawkins testimony this year:

> Given the lags in which monetary policy affects the economy, however, we cannot rule out a situation in which a preemptive policy tightening may become appropriate before any sign of actual inflation becomes evidence.

That leads me to another change in Fed policy that I think we ought to enact and enact rapidly.

There is no reason why the minutes of the Federal Reserve Board meetings need to be kept secret for 5 years. That's right. When the Federal Reserve meets and sets their policy, it's sealed for 5 years. We don't do that in Congress. We don't do that in the Supreme Court. There is no reason why the Fed has to have that capability to withhold important information. I grant that there may be some economic reasons—in terms of market stability—why their minutes may be kept sealed for a short period of time, but certainly no longer than a year.

We ought to know from year to year why the Fed is making the decisions it is making. People ought to go back and read the minutes of the Fed meetings back in 1990 and 1991 when it was making some of its decisions. Then you will begin to see that their crystal ball is pretty cloudy indeed.

Mr. Greenspan, as I have pointed out on many occasions, raised interest rates seven consecutive times in 1994 and 1995. Think about that—seven consecutive times. I say he doubled interest rates. The Fed fund rates went from 3 percent to 6 percent in less than 2 years—about 18 months. He did this despite seeing no signs of accelerating inflation. There never were any signs of accelerating inflation.

For example, in his February 22, 1994, testimony given shortly after the first of the rate hikes, Mr. Greenspan said the current economic statistics ''do not suggest that the financial tender needed to support the ongoing inflation process is in place.''

Yet, they kept raising interest rates. So during a period of time when we had great economic growth in this country, the raising of those interest rates pushed a lot of our people on the bottom further down on the bottom and let the people at the top get more of the growth that we have had.

Since the last of the seven rate hikes, Mr. Greenspan lowered the rate slightly and then put them back up again a quarter of a point—at about 5.5 percent right now.

In July, Business Week published a cover story entitled ''Alan Greenspan's Brave New World.'' He said Greenspan has moved the Fed into ''uncharted territory * * * by allowing faster growth and lower unemployment than the Fed would have permitted in the past.''

I think we should continue on that track. But I am concerned about the recent testimony given by Mr. Greenspan just earlier this month. The pervasive fear of inflation still holds true to that. This is best shown as the preemptive strike launched by the Fed in March of this year, despite minimal signs of inflation and Greenspan's February Humphrey-Hawkins testimony, in which he said, ''This year overall inflation is anticipated to stay restrained.'' Mind you, in February, Mr. Greenspan said: ''This year overall inflation is anticipated to stay restrained.'' One month later the Fed increased its Fed funds rates by a quarter of a point. On April 24, Governor Meyer—again, the biggest proponent of NAIRU—gave a speech in which he said, ''The recent Federal Reserve policy action was clearly a preemptive one. This means that it was undertaken not in response to where the economy and inflation were at the time of the policy change, but in response to where the economy and inflation were projected to be in the future absent a policy change.''

Again, I would like to know exactly what the Fed is looking at when it makes these decisions. What is that future? What is the long run? One economist once said, ''In the long run we are all dead.'' What are we talking about in the future? One month the head of the Fed says inflation is going to stay restrained, and the next month they raise the Federal funds rate. The next month Mr. Meyer says it was preemptive because we projected that in the future sometime we would have inflation. Obviously, not this year, because just a month before, they said it was going to be restrained. And, yet, over the last several months, our consumers, our small businesses, our farmers, our homeowners, our manufacturers have had to pay a quarter point more interest rate. That hits everyone. It is just like a hidden tax; just like a nice little hidden tax on everyone.

A lot of people believe that preemptive rate hike in March was totally unnecessary. In the April 14, 1997, edition of Barron's, David Ranson wrote an article entitled ''The Federal Reserve's Pointless Quarter Point: A Preemptive Strike Against a Non-Threat.''

Mr. Ranson said first:

> There isn't any inflation around to curb. Everyone, including Alan Greenspan, concedes that inflation is absent. Thus, the traditional pretext for Fed action is nowhere to be found. I am reminded of the two buzzards sitting on a tree limb. One turns to the other and announces: ''Patience, my foot. I'm going to kill someone.''

We have all seen that cartoon before. So it is like the old Fed sitting there. ''Well, patience my foot. We are going to raise interest rates. Inflation isn't there. By gosh, we are going to raise it anyway.''

According to the official story by Mr. Ranson, the Fed's action was a necessary preemptive strike against inflation before it becomes evident.

If it is not evident, how do they know it? If it is not evident to a lot of preeminent economists in this country, how is it evident to the Fed? What is their basis for it? Again, we will not know for 5 years. We ought to know a lot sooner than that.

Mr. Ranson said,

The real enemy for now is not inflation itself but unwarranted angst about inflation brought on by stubborn adherence to basic misconceptions. Inflation is certainly detrimental to growth, but it is not true that growth must lead to inflation. This principle is observable worldwide. Low-inflation countries have tended to be economically successful while high-inflation countries have tended to stagnate.

Fourth, increased interest rates do little to curb inflation; mostly they just ratify it. There is powerful evidence that an increase in interest rates slows the economy, but we find surprisingly little evidence that it curbs inflation. Inflation does not decline perceptively following a rate rise. Nor does inflation increase noticeably following a rate cut.

Mr. Ranson concludes the article by saying:

The notion that inflation is generated by economic success belies history and perpetuates the ''good news is bad news'' syndrome that bedevils government policy and the financial markets.

The assumption that we need the Fed to tinker endlessly with interest rates needs to be challenged. Policymakers are prone to assume that the Nation needs them to take vigorous action . . . even when the pretext for action is elusive.

It is unclear whether those clamoring for higher interest rates will be mollified by the Fed's token action. It is only more likely they will be encouraged to demand more. One policy mistaken facilitates another.

Mr. President, I ask unanimous consent that Mr. Ranson's article be printed in the RECORD.

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

[From Barron's, Apr. 14, 1997]

THE FEDERAL RESERVE'S POINTLESS QUARTER-POINT: A PREEMPTIVE STRIKE AGAINST A NON-THREAT

(By David Ranson)

The recent quarter-point increase in the federal-funds rate was unwarranted and potentially harmful. Government policymakers, impatient with the absence of a pretext for action, have once again chosen to act anyway. There are a number of reasons why the Federal Reserve's recent action was pointless at best.

First, there isn't any inflation around to curb. Everyone, including Alan Greenspan, concedes that inflation is absent. Thus the traditional pretext for Fed action is nowhere to be found! I am reminded of the two buzzards sitting on a tree limb. One turns to the other and announces: ''Patience, my foot. I'm going to kill something.''

Second, there is no valid indication of inflation around the corner for the Fed to preempt. The current acceleration in the economy is cited as the primary indication that inflation might lie ahead. According to the official story, the Fed's action was a necessary ''pre-emptive strike'' against inflation before it becomes evident.

The good news is that low unemployment and healthy economic growth have been achieved in an environment of very low inflation. Tragically, the most prevalent response to this positive scenario is to worry even more loudly and to suggest that this excellent state of affairs can't last. Supply-siders correctly point out that such conventional wisdom is contradicted by historical fact. While many observers express surprise at the economy's success, it is exactly as real-life experience suggests: Low inflation goes hand-in-hand with low unemployment—and high inflation with high unemployment.

The real enemy for now is not inflation itself, but unwarranted angst about inflation brought on by stubborn adherence to basic misconceptions. Inflation is certainly detrimental to growth, but it is not true that growth must lead to inflation. This principle is observable worldwide. Low-inflation countries have tended to be economically successful while high-inflation countries have tended to stagnate.

H.C. Wainwright Economics tracks in detail interrelationships among U.S. interest rates, economic growth and inflation. Statistical analysis confirms that inflation precedes periods of weak economic growth rather than follows periods of strong growth.

Fourth, increased interest rates do little to curb inflation; mostly, they just ratify it. There is powerful evidence that an increase in interest rates slows the economy, but we find surprisingly little evidence that it curbs inflation. Inflation does not decline perceptively following a rate rise. Nor does inflation increase noticeably following a rate cut.

Consider, for example, the half-dozen occasions when there has been a year-to-year increase of more than two percentage points in the federal-fund rate. These Fed moves were followed after a year by an average decline of nearly 5 points in the rate of industrial production growth, a dramatic impact.

But whatever the counter-inflationary result, it was highly unimpressive. In terms of producer prices (which are a more sensitive indicator than consumer prices), the reduction in inflation one year following these large rate hikes averaged an insignificant one-tenth of a percentage point. Inflation as measured by the consumer price index actually continued to accelerate.

A skillful newspaper editor, faced with a peaceful day of no news, makes a bigger fuss over what little he has to work with. He knows how easy it is to fuel public anxiety. Wall Street strategists have been playing this game for at least the past year. Faced with a benign economy and virtually no inflation, they have pursued a vociferous debate about the mere possibility of increased inflation and the Fed's potential reactions.

The Fed has succumbed to this pessimism. Far from pre-emptively curbing inflation, its latest action tends to endorse inflation that does not exist. Surely this is an absurdity. It makes no sense for the government to respond to fears of inflation by heightening them. Why would anyone want to hamper a strengthening economy just to obviate the harm than a purely speculative bout of inflation might cause? While a quarter of a percentage point will not cause material damage to the economy, additional moves in the same direction will.

The notion that inflation is generated by economic success belies history and perpetuates the ''good news is bad news'' syndrome that bedevils government policy and the financial markets. Granted, inflation has harmful effects, but the damage done by unsubstantiated fears of inflation is worse precisely because it is so unnecessary. The recent sag in the bond market is just one of the symptoms of the less-visible damage we are inflicting upon ourselves.

The assumption that we need the Fed to tinker endlessly with interest rates needs to be challenged. Policymakers are prone to assume that the nation needs them to take vigorous action—even when the pretext for action is elusive.

It is unclear whether those clamoring for higher interest rates will be mollified by the Fed's token action. It is more likely that they will be encouraged only to demand more, especially as the economy continues to accelerate. One policy mistake facilitates another.

But it is also possible that Alan Greenspan understands what his critics do not: that the Fed's true role is to keep both interest rates and the dollar's purchasing power as stable as possible. Perhaps in a histrionic Washington where inaction is death he dare not say this too loudly.

In a recent commentary on National Public Radio, economist Robert Kuttner suggests that Greenspan succumbed to pressure from inflation hawks out of fear of being on the losing side of the Open Market Committee vote. Whether that's true or not, the Fed's decision to raise interest rates was more a political act than an economic one.

But I remain optimistic that the longer inflation remains absent, the less influence the inflation hawks will wield. In such a environment the Fed will be able to justify smaller and less frequent changes in interest rates.

Mr. HARKIN. Mr. President, again, I am also concerned that the nominees that will be shortly before us to the Board of Governors seem equally frightened by this ghost of inflation. For example, nominee Roger Ferguson said in his testimony before the Senate Banking Committee, ''Therefore, I agree with the Fed's historic approach''—I would challenge that word ''historic approach''—''to reduce monetary stimulus before the emergence of obvious and strong inflationary pressure. Unfortunately, the timing and appropriate amount of change in monetary policy involves some guesswork and some risk taking.''

He agrees with the Fed's historic approach. It seems to me the historic approach of the Fed back in 1933 was to facilitate commerce and keep employment high. Only in 1978 was it added to keep inflation in check.

Mr. Ferguson's view is not a comforting thought given that we have a chairman of the Federal Reserve System who has echoed that comment when he said, ''economic understanding is imperfect and measurement is imprecise.''

That is interesting. Mr. President, if measurements are not perfect, can we assume the Fed knows what it is doing when it launches one of its preemptive strikes? Maybe all it is doing again is simply raising the corporate profit rate and cutting down median weekly earnings.

This is what is happening. Change in the share of income received by each quintile from—look what is happening. The lowest quintile, the lowest 20 percent of our population, their share of income received is going down. All of it is going down. But in the top 20 percent it is going up—their share of the income.

So I suggest that what the Federal Reserve is doing is not stopping inflation at all. What they are doing is shifting who gets the money; who gets the biggest share of this great growth that our country is now engaged in.

Furthermore, I submit that their policy inhibits that rate of growth and keeps it from being even greater than it is.

So we have a Fed that has used a method to fight inflation when we may not even be sure if inflation actually exists in the economy.

Well, Mr. President, I believe I have used up my 30 minutes. I see others who are on the floor who want to speak. But I will have more to say about this as the week progresses if the nominations are put before the Senate for consideration. I have a number of other charts that I am going to use to illustrate how the Federal Reserve policies, I believe, are hurting the working families in America, how their policies are mistaken in bending this country toward higher interest rates when those higher interest rates are not needed, when they are not legitimate, and when those higher interest rates benefit the top 20 percent of the people of this country and hurt everyone else.

The Fed's policies, in short, are keeping growth restrained more than should be.

Second, the Fed's policies, I believe, are keeping wages from keeping up with productivity in this country.

Third, the Fed's policies are skewing who gets whatever the growth is in our economic pie. In other words, we know and all of the figures show—and I will release those later on this week—that in our country the richer are getting richer and the poor are getting poorer. We know that. All we have to do is look at this chart.

So the Fed's policies are destroying the broad middle class in America, that middle class that has always been the ladder of opportunity for those who ascend. I fear that if we do not stop the policies of the Fed, that rather than accelerating inflation, what we will have is an accelerating spread between the rich and the poor in our country, an acceleration of depressing wages, an acceleration of pushing people in the middle class down further on the economic scale, and that I submit will be harder to turn around and more dangerous for our country, more fraught with the possibilities of deflation and severe recession than any fear of a small increase in inflation that might come about if the Fed were to actually reduce interest rates.

Mr. President, I yield the floor.

The PRESIDING OFFICER. The Senator from Minnesota.

Mr. GRAMS. Mr. President, are we in morning business?

The PRESIDING OFFICER. We are in morning business.

Mr. GRAMS. I thank the Chair. I ask unanimous consent to speak for up to 10 minutes.

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

Mr. GRAMS. I thank the Chair.

EFFECTS OF HEALTH CARE MANDATES

Mr. GRAMS. Mr. President, I wanted to be here today just to make some brief comments in support of the Medicare Freedom To Contract Act, S. 1194.

During my first term in the 103d Congress, I witnessed President Clinton attempt a Federal takeover of fully one-seventh of our Nation's economy through a nationalized health care system. I was opposed to it then and I remain adamantly opposed to it today.

Over the past 2 years we have seen a step-by-step encroachment by the Federal Government into the health care system.

Despite overwhelming public opposition to his attempt to take over the health care system, President Clinton still seems to be intent on imposing his vision of socialized medicine on the American people.

In fact, on September 15 of this year, the President admitted that he has not abandoned his goal of forcing a nationalized health care system. He stated, ''Now what I tried to do before won't work. Maybe we can do it in another way. That's what we've tried to do, a step at a time, until we finish this.''

I am sorry to say that the Republican-led Congress has been a great service to the President by incrementally adopting and implementing more and more of his 1994 health care scheme. While I supported the heralded Kassebaum-Kennedy Health Insurance Reform Act, which did accomplish some needed reforms, I have concerns about how this law has since been implemented.

In addition to its original mandate, we have a host of so-called ''body part'' protections and coverage mandates which will create a precedent for total Federal control over health insurance packages and thereby ultimately a Federal health system. I have always believed that the American people should have the fundamental right to choose where, when and how they receive their health care services. If individuals choose to enroll in health maintenance organizations, let them. If they want to join a preferred provider organization, let them. If they would like to opt out of health insurance altogether or to pay for the services as they are received, then let them. Clearly, I am not in a position to determine what their needs are or what plan would best suit their family and their budget, nor is any bureaucrat in Washington able to determine the coverage best suited for each individual in the United States.

Now, that brings us to the recently enacted Children's Health Initiative. I opposed the Balanced Budget Act in large part because of this grossly overfunded, new Federal entitlement. Again, another ''step at a time'' that the President says we need to take until we have a total Government-run health care system.

Let me be very clear. I am very fully in support of ensuring access to health insurance for children. However, I have never believed that this was a Federal issue. As a Minnesotan, I witnessed the creation of a State program in 1992 which has provided access to health insurance to thousands of children in my State of Minnesota. It is called MinnesotaCare.

Now, this State program gives access to State subsidized private health insurance to families up to 285 percent of the Federal poverty level. The Federal Children's Health Initiative provided no consideration to the States which have made a commitment to providing access to health insurance to children or their families. In effect, the Federal Government has now spent $24 billion on a program which clearly will not work in every State. In fact, it will penalize States like mine which have already made significant progress in covering children, and this illustrates my point very well. Washington cannot make the health care insurance decisions for everyone.

One of the most important corrections needed in the Balanced Budget Act is the Medicare Freedom to Contract Act. This was introduced by Senator KYL which I have cosponsored. This act tries to correct what is probably the most egregious example of what President Clinton's vision of Federal Government as provider and protector has in store for us.

While the Balanced Budget Act included a provision which allows a Medicare beneficiary to contract for health care services privately with a physician, it effectively prohibits this from happening by forcing that physician to opt out of treating any other Medicare patients for 2 years. What the President has done is to blackmail doctors and to deny senior citizens the basic right of spending their money as they see fit.

Even in the United Kingdom, which has had socialized national health service since 1948, it allows its citizens to pay for services outside the national system. Clearly, Americans can do better than that and at least Americans deserve the same option. This is unfair to seniors. It is unfair to physicians. And it must be corrected quickly.

Opponents of the Medicare Freedom to Contract Act claim that it will force seniors to pay 100 percent of a physician's charge for their services, and it would mean an immediate and dramatic increase in out-of-pocket costs for physician services.

This is simply untrue. No Medicare beneficiary is required, nor implicitly encouraged, to contract privately with a physician. This act merely makes it possible for seniors to do so if they choose to do so. But the opponents are ready to come to the floor to filibuster any opportunity to discuss this issue or to get a vote on it. And President Clinton has also threatened to veto the bill should it pass.

Now, he put the provision in the BBA in the middle of the night without debate, another step again toward the President's desire for a nationally run health care program. And he says he will veto any efforts to stop it. Is this what Americans want? The American people strongly rejected it in 1994, and they don't want it now.

Mr. President, I find it completely amazing that there are individuals who believe it is wrong to allow seniors more options and more choices in how