

I am the sponsor of the bill that would eliminate the marriage tax penalty. It is my bill. Senator FAIRCLOTH and I are cosponsoring this bill together because we believe the highest priority for tax cuts in this country should be eliminating the marriage tax penalty.

So given the choice that I am going to have before me of not wanting to tax one person in order to give it to someone else, but my choice being we are going to have the tax increase, what do we do with it? Go spend money on new Government programs or give it back to people who make under \$50,000, I am going to choose the latter. I am going to choose to try to start eliminating the marriage tax penalty by giving a higher level of exemption before you have to start paying taxes.

So I am going to make the tough choice in favor of giving money back to the people who work for it. But I do not like this bill. And I hope and I urge my colleagues not to continue to try to put this bill in shape but instead to go back and start all over. I think we can pass a responsible bill in this Congress that would severely limit the number of teenagers who start smoking. That is a worthy goal.

I also think in this Congress that we should pass the elimination of the marriage tax penalty because it hits people who make \$30,000, \$40,000, \$50,000, couples who get married, who want to make that downpayment on their first home; and when they do, they are hit with a \$1,000 or \$2,000 tax increase just because they got married.

So I want to do both of these things. I do not like the choices that we are looking at in the bill before us. And I do not like the choices being given to us by the amendment. But as the lesser of two evils, I am certainly going to support a tax cut when we already have a tax increase on the floor. But what I would suggest is that we scrap the whole thing and try to do this right.

Doing it right means two things: It means, first of all, eliminating the marriage tax penalty in the budget; and, secondly, coming back with a balanced bill that will have the purpose of stopping or severely curtailing teen smoking, but not on the back of a person who is working for a living, not making much money, and is smoking, unfortunately, but nevertheless by his or her own choice. That is a choice that a person makes. I do not think that we should be taxing someone at this level—it is a regressive tax—when we are not sure that the purpose is going to be achieved.

So I hope my colleagues will look at this issue, step back—first of all, pass Senator GRAMM's amendment because at least we can take the first step towards eliminating the marriage tax penalty—then I hope we will bring this bill down and start from scratch and try to put forward a bill that will stop teen smoking or at least put a big dent in it. I think we can do that with the balance that we had in the original bill

before it got worked over by the U.S. Senate.

I suggest the absence of a quorum. The PRESIDING OFFICER (Mr. THOMAS). The clerk will call the roll.

The bill clerk proceeded to call the roll.

Mr. GRASSLEY. 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. GRASSLEY. Mr. President, I ask unanimous consent to speak as in morning business for 6 minutes.

The PRESIDING OFFICER. Is there objection? Without objection, it is so ordered. The Senator from Iowa is recognized to speak as in morning business for 6 minutes.

UNITED STATES-MEXICAN COOPERATION ON DRUG CONTROL

Mr. GRASSLEY. Mr. President, I am puzzled. In the last week or so, we have seen U.S. Customs' agents wrap up one of the most successful undercover operations in history. This effort, Operation Casablanca, has nailed a bunch of international bankers, mostly in Mexico, who have been laundering drug money. These white collar drug thugs have violated United States law, Mexican law, and international law. They have violated their trust. They have abetted one of the nastiest businesses on the planet. And they have conspired to do all of this to make an illegal dollar. Drug traffickers are bad enough. But their financial advisers and bankers are truly despicable. Thus, the Customs' undercover operation that exposed some of these low lifes is to be celebrated. My hat is off to the agents and informants that risked their lives to help defend our institutions and bring these pinstripe bandits to justice.

But I am still puzzled. What has me scratching my head is the reaction of the Mexican Government to this event. Instead of joining hands in congratulating efforts to protect the integrity of our international banking institutions and our shared concern to stop drug trafficking, what have they done. The Foreign Minister of Mexico has called the law enforcement people the criminals. She has raised the banner of so-called national sovereignty to provide cover to criminal activities of Mexican nationals. Mexico has called for the extradition of the law enforcement people in this operation, claiming they have violated Mexican law. What is wrong with this picture? Let me count the ways.

First, money laundering is the illegal act we are talking about. It is, by its nature, an activity without borders. It is also illegal in every legitimate country on the planet.

Second, the bankers in Mexico who engaged in laundering drug money, did so with knowledge of the illegality of their acts. They did so in a manner aimed at avoiding detection. They did

so in defiance of bank regulations and Mexican law.

Third, these bankers engaged knowingly in using their expertise to violate United States law. And they provided the facilities of their banks to move money around the globe in violation of international law.

Fourth, we know they did this because it's on tape. We know they did it knowingly because the indictments spell it out.

Fifth, they used their expertise to try to improve the ease with which the money was laundered. They provided advice on how to avoid Mexican law.

They acted with criminal intent and used the interconnectivity of the modern banking system to hide their acts. They committed these acts in this country, in Mexico, and elsewhere, either in person or by using computers.

Now, the Foreign Secretary in Mexico would have it that in exposing these activities and in tracking the process, United States agents violated Mexican sovereignty and law. It would seem, in her view, that this means the undercover operatives committed criminal acts by engaging in money laundering. But in this country and most others, a criminal act involves intent. There is no criminal intent involved here by U.S. law enforcement. Just the reverse. Thus, law is not offended.

As to sovereignty, well, if we insist on this point, whose sovereignty is violated? Sovereignty is not meant to be a shield for criminality. It would be a fine world if that were the principle. It is not. I can think of few more useful tools for drug traffickers, money launderers, and thugs of every description than to find a safe haven in some country willing to use its sovereignty to harbor international criminality. What has happened here, is that bankers have violated the laws of this country by using the international banking system to freely commit crimes. They have done this in person in this country and they have done it electronically across borders. These are the criminals, not the law enforcement people who have corralled this gang of crooks.

But according to the Foreign Secretary of Mexico, it is the law enforcement folks who are to be labeled villains. In some of the most intemperate rhetoric I have seen from a senior government official, the Foreign Secretary not only castigates the good guys, but is calling for their extradition. I find this situation outrageous. I am equally concerned about the response from our own State Department. I have a letter here that our Secretary of State has sent to the Secretary of the Treasury. I will submit this for the RECORD. Instead of congratulating the law enforcement effort and joining hands with Secretary Rubin, Secretary Albright complains about inadequate consultation with Mexico. What is wrong with this picture?

Given the important steps Mexico and the United States have taken to

improve bilateral cooperation and to go after the real thugs in the story. I hope we can get past this case quickly. I hope the Foreign Secretary of Mexico and Secretary of State of the United States wake up and smell the coffee.

Mr. President, I ask unanimous consent that the letter from Secretary Albright to Secretary Rubin be printed in the RECORD.

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

THE SECRETARY OF STATE,
Washington, DC, May 22, 1998.

Hon. ROBERT RUBIN,
Secretary of the Treasury.

DEAR MR. BOB: I know that both you and Attorney General Reno are aware of the negative reaction in Mexico to the announcement of Operation Casablanca and have had contact with Mexican officials about this. I spoke May 21 with Foreign Secretary Rosario Green who expressed her government's deep resentment for not having been informed of the operation prior to the public announcement. Other Mexican officials have voiced concern that the activities undertaken by U.S. agents in Mexico may have been illegal under Mexican law or contrary to understandings between the United States and Mexico.

Mexico's reaction is a product of many factors, not least of which is great sensitivity within the Zedillo government to preexisting charges from the opposition that it is attempting to bail out a corrupt banking system. However, I am concerned about the negative tone this development introduces into the relationship and that Mexican cooperation on several fronts, particularly counter-narcotics, may be affected.

We might have achieved more favorable results if we had brought Attorney General Madrazo and a few others into our confidence a few days before the public announcement. In this regard, I believe State should have been consulted. We would have been able to offer some advice that could have ameliorated the negative reaction.

I would appreciate being kept personally informed of developing investigations in Mexico and other foreign countries that could have a significant foreign policy fallout. I do not wish to interfere with your law enforcement work, but I do believe we need to do a better job of coordination.

It is essential that in the coming days you find ways in your public statements and private contacts with Mexican officials to indicate that we are actively working to avoid similar difficulties in the future. I hope to discuss this with you soon.

Sincerely,

MADELEINE K. ALBRIGHT.

Mr. GRASSLEY. I yield the floor.

Mr. GRAMM addressed the Chair.

The PRESIDING OFFICER (Mr. BURNS). The Senator from Texas.

NATIONAL TOBACCO POLICY AND YOUTH SMOKING REDUCTION ACT

The Senate continued with the consideration of the bill.

AMENDMENT NO. 2686 TO AMENDMENT NO. 2437

(Purpose: To eliminate the marriage penalty reflected in the standard deduction, to ensure the earned income credit takes into account the elimination of such penalty, and to provide a full deduction for health insurance costs of self-employed individuals)

Mr. GRAMM. Mr. President, I send an amendment to the desk and ask for its immediate consideration.

The PRESIDING OFFICER. The clerk will report.

The legislative clerk read as follows:

The Senator from Texas [Mr. GRAMM], for himself, Mr. DOMENICI, Mr. ROTH, Mr. FAIRCLOTH and Mr. BOND, proposes an amendment numbered 2686 to amendment No. 2437.

Mr. GRAMM. Mr. President, I ask unanimous consent that the reading of the amendment be dispensed with.

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

The amendment is as follows:

At the end of the amendment, insert:

SEC. ____ ELIMINATION OF MARRIAGE PENALTY.

(a) IN GENERAL.—Part VII of subchapter B of chapter 1 of the Internal Revenue Code of 1986 (relating to additional itemized deductions for individuals) is amended by redesignating section 222 as section 223 and by inserting after section 221 the following new section:

"SEC. 222. DEDUCTION FOR MARRIED COUPLES TO ELIMINATE THE MARRIAGE PENALTY.

"(a) IN GENERAL.—In the case of a joint return under section 6013 for the taxable year, there shall be allowed as a deduction an amount equal to the applicable percentage of the excess (if any) of—

"(1) the sum of the amounts determined under subparagraphs (B) and (C) of section 63(c)(2) for such taxable year (relating to the basic standard deduction for a head of a household and a single individual, respectively), over

"(2) the amount determined under section 63(c)(2)(A) for such taxable year (relating to the basic standard deduction for a joint return).

"(b) LIMITATION BASED ON MODIFIED ADJUSTED GROSS INCOME.—

"(1) IN GENERAL.—No deduction shall be allowed under subsection (a) if the modified adjusted gross income of the taxpayer for the taxable year exceeds \$50,000.

"(2) MODIFIED ADJUSTED GROSS INCOME.—For purposes of this subsection, the term 'modified adjusted gross income' means adjusted gross income determined—

"(A) after application of sections 86, 219, and 469, and

"(B) without regard to sections 135, 137, and 911 or the deduction allowable under this section.

"(3) COST-OF-LIVING ADJUSTMENT.—In the case of any taxable year beginning in a calendar year after 2007, the \$50,000 amount under paragraph (1) shall be increased by an amount equal to such dollar amount multiplied by the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, except that subparagraph (B) thereof shall be applied by substituting 'calendar year 2008' for 'calendar year 1992'. If any amount as adjusted under this paragraph is not a multiple of \$5,000, such amount shall be rounded to the next lowest multiple of \$5,000.

"(c) APPLICABLE PERCENTAGE.—For purposes of this section, the applicable percentage shall be—

"(1) 25 percent in the case of taxable years beginning in 1999,

"(2) 30 percent in the case of taxable years beginning in 2000, 2001, and 2002,

"(3) 40 percent in the case of taxable years beginning in 2003, 2004, and 2005,

"(4) 50 percent in the case of taxable years beginning in 2006,

"(5) 60 percent in the case of taxable years beginning in 2007, and

"(6) 100 percent in the case of taxable years beginning in 2008 and thereafter."

(b) DEDUCTION TO BE ABOVE-THE-LINE.—Section 62(a) of the Internal Revenue Code of 1986 (defining adjusted gross income) is amended by adding after paragraph (17) the following new paragraph:

"(18) DEDUCTION FOR MARRIED COUPLES.—The deduction allowed by section 222."

(c) EARNED INCOME CREDIT PHASEOUT TO REFLECT DEDUCTION.—Section 32(c)(2) of the Internal Revenue Code of 1986 (defining earned income) is amended by adding at the end the following new subparagraph:

"(C) MARRIAGE PENALTY REDUCTION.—Solely for purposes of applying subsection (a)(2)(B), earned income for any taxable year shall be reduced by an amount equal to the amount of the deduction allowed to the taxpayer for such taxable year under section 222."

(d) FULL DEDUCTION FOR HEALTH INSURANCE FOR SELF-EMPLOYEDS.—The table contained in section 162(l)(1)(B) is amended—

(1) by striking "and 1999",

(2) by striking the items relating to years 1998 through 2006, and

(3) by striking "2007 and thereafter" and inserting "1999 and thereafter".

(e) CLERICAL AMENDMENT.—The table of sections for part VII of subchapter B of chapter 1 of such Code is amended by striking the item relating to section 222 and inserting the following new items:

"Sec. 222. Deduction for married couples to eliminate the marriage penalty.

"Sec. 223. Cross reference."

(f) REDUCTION IN TRANSFERS TO NATIONAL TOBACCO TRUST FUND.—

(1) IN GENERAL.—Except as provided in paragraph (2) and notwithstanding any other provision of this Act, the amount credited to the National Tobacco Trust Fund under section 401(b) of this Act for any fiscal year shall be reduced by the amount of the decrease in Federal revenues for such fiscal year which the Secretary of the Treasury estimates will result from the amendments made by this title. The Secretary shall increase or decrease the amount of any reduction under this section to reflect any incorrect estimate for any preceding fiscal year.

(2) LIMITATION ON REDUCTION AFTER FISCAL YEAR 2007.—

(A) IN GENERAL.—Except as provided in subparagraph (B), with respect to any fiscal year after fiscal year 2007, the reduction determined under paragraph (1) shall not exceed 33 percent of the total amount credited to the National Tobacco Trust Fund for such fiscal year.

(B) SPECIAL RULE.—If in any fiscal year the youth smoking reduction goals under section 203 are attained, subparagraph (A) shall be applied by substituting "50 percent" for "33 percent".

(g) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1998.

Mr. GRAMM. Mr. President, I apologize to my colleagues that it took so long to get this amendment together. We were trying to do several things, to bring together several provisions of different Members into one amendment. We also were trying to deal with a concern that the authors of the bill have