Roth	Smith (NH)	Thomas
Santorum	Smith (OR)	Thompson
Sessions	Snowe	Thurmond
Shelby	Stevens	Warner

NAYS—45

Akaka	Durbin	Leahy
Baucus	Feingold	Levin
Biden	Feinstein	Lieberman
Bingaman	Ford	Mikulski
Boxer	Graham	Moseley-Braun
Breaux	Harkin	Moynihan
Bryan	Inouye	Murray
Bumpers	Jeffords	Reed
Byrd	Johnson	Robb
Chafee	Kennedy	Rockefeller
Cleland	Kerrey	Sarbanes
Conrad	Kerry	Specter
Daschle	Kohl	Torricelli
Dodd	Landrieu	Wellstone
Dorgan	Lautenberg	Wyden

NOT VOTING—1

Glenn

The PRESIDING OFFICER. On this vote, the yeas are 54, the nays are 45. Three-fifths of the Senators not having voted in the affirmative, the motion is rejected.

Mr. ABRAHAM. Mr. President, I ask unanimous consent to speak for up to 5 minutes with respect to the vote which just transpired.

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

Mr. ABRAHAM. Mr. President, I rise to comment on the vote which has just occurred on the effort to bring cloture on the Child Custody Protection Act. Obviously, as the sponsor of the legislation, I am disappointed we will not be moving forward at this time.

As I think the Presiding Officer is aware, as our fellow Members are aware, we have been trying to work with the interested parties on both sides since the bill came out of committee to try to limit the number of amendments so we might have a piece of legislation that could move through here in a reasonable period of time. Unfortunately, we could not get to that point. Our hope had been to limit, through the unanimous consent offer that was made earlier today, the amendments to those that have been filed that were germane. That was not agreed to.

Unfortunately, as is certainly every Member's prerogative here, there was the desire for people to bring amendments that were wholly unconnected to the child custody protection issue.

Obviously, given the calendar of the Senate as we look forward to the next few weeks, much business remains for us to complete, so the likelihood we will be able to continue with respect to this legislation during this Senate session seems very unlikely.

I certainly remain receptive to any counteroffers from the minority with regard to the possibility of limiting amendments and time. Realistically, that does not seem like it is potentially going to occur this year.

I think this is very important legislation. Across this country, every day families who live in States that have enacted parental consent laws are finding that those laws mean nothing because minor children are being transported across State lines without parental involvement or consent for the purpose of abortions being committed. This is wrong. People in my State, where we have enacted such legislation, have the right to rely on this legislation, to believe that their children will be safe and protected, and that they will participate in the important decisions of their children's lives.

I hope if we can't resolve this issue and bring this bill back to the floor this year that our colleagues will work together with me next year so that we might be able, early in the session, to move ahead. The House passed this legislation overwhelmingly. I believe if it came to a final vote of passage in the Senate it would likewise pass overwhelmingly. I believe it would move legislatively in a direction that is good not only for the young children affected by this legislation, but for our families, as well.

I want to thank the people who voted for cloture today. I want to encourage those who wish to bring amendments that are not germane to this legislation to consider other vehicles to possibly include those amendments so that we might still have a chance this year to move ahead on this legislation and do so in an expeditious timeframe.

If not, I certainly want to send out a welcome to anybody who wants to work with me because I do not intend to end this effort this year. I intend to continue until we pass the legislation.

I yield the floor.

CONSUMER BANKRUPTCY REFORM ACT OF 1998

The Senate continued with consideration of the bill.

The PRESIDING OFFICER. The pending business is the bankruptcy bill.

The Senator from Iowa.

Mr. GRASSLEY. Mr. President, I ask unanimous consent there be 2½ hours of debate equally divided on the Harkin amendment regarding interest rates. I further ask that all debate time on the amendment be consumed this evening and the amendment then be temporarily set aside.

The PRESIDING OFFICER. Is there objection?

Mr. HARKIN. I object.

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

The PRESIDING OFFICER. The clerk will call the roll.

The legislative 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. SMITH of Oregon). Without objection, it is so ordered.

Mr. HARKIN. Mr. President, tomorrow I will be laying down a Sense of the Congress amendment calling on the Federal Reserve to lower interest rates as a preemptive strike against a recession in 1999. This is a very crucial issue coming at this point in time. I am going to take some time to speak about it and lay out why it is necessary for us, I believe, to take this kind of action and to express ourselves.

The amendment I will be offering on behalf of myself and Senators DORGAN, CONRAD, WELLSTONE, KERREY, and BRYAN will urge the Federal Open Market Committee to promptly reduce short-term interest rates as a preemptive strike against a recession in 1999. One week from today, the Federal Open Market Committee will meet to vote on interest rate policy. That is why it is crucial that the Senate send a clear message to the Fed: ''Lower interest rates now.''

Mr. President, if we want to significantly decrease the number of bankruptcies in this country, one of the best ways to accomplish this important goal is to reduce the risk of people losing their jobs.

With the chance of deflation and a recession rising, we need to lower interest rates.

Over 2 years ago, against the conventional wisdom of the time, I took to the floor of the Senate to speak and to openly put a hold on Chairman Alan Greenspan's renomination to the Federal Reserve Board until we had a debate on U.S. monetary policy.

One of the reasons I did this was to ensure that we had a significant debate on the Fed's focus only on inflation to the exclusion of other factors. I believed then, and I believe now, that it is wrong for the Fed to maintain high real interest rates without any significant signs of inflation threatening our country.

I believed at the time, and I continue to believe, that we should lower interest rates, allow the economy to grow, and to provide a maximum level of employment. Specifically, I said at the time that I thought our economy could grow at least at a rate of 3.5 percent a year for a number of consecutive years, with an expansion of the labor force and improved productivity. I also argued that we could at the same time have an unemployment rate of 4.5 percent a year without triggering a significant level of inflation.

That is what I said 2 years ago. At the time, many economists and economic writers took me to task on this, openly questioning my views. Many of these economists believed in a theory—an economic theory—which called NAIRU, which stands for the ''non-accelerating inflationary rate of unemployment.'' I will get to that and what it means in just a moment.

But a couple of years ago, advocates of NAIRU, believed that if the unemployment rate fell below a certain rate—at that time it was somewhere between 5.5 and 6 percent—if the unemployment rate went below that level, employers would have to significantly raise wages and salaries igniting a 1970s style of inflation. And these economic theorists believed that the Fed should raise interest rates as a preemptive strike against inflation.

In other words, if unemployment ever fell to that level, regardless of anything else, these economic theorists under this theory believed that the Fed should raise interest rates right away to preempt any inflation from occurring.

That is what the Fed has done in the past. They have raised interest rates to a very high level.

But look where we are today. The unemployment rate currently is at 4.5 percent. It has been below 5 percent for nearly a year and a half, and it has been under 6 percent for 4 years. And there is no inflation. Our gross domestic product was 3.8 percent last year and 5.5 percent during the first quarter of this year. During this time, inflation hasn't gone up. In fact, it has gone down.

The rate has decreased to its lowest level since the 1960s during the past 2 years.

To Chairman Greenspan's credit, he has recently distanced himself from the view that there should be a preemptive increase in interest rates, simply because of NAIRU. He has, through his actions at the Fed, allowed our economy to grow and unemployment to fall without raising interest rates.

So unemployment has fallen from 6, to 5.5, to 5, to 4.5 percent. Under NAIRU, this would have triggered automatic increases in interest rates, but under Mr. Greenspan they have not. And I applaud him for that.

Unfortunately, many on the Federal Open Market Committee have continued to push for higher interest rates even as the signs of an economic slowdown in the United States continue. While they have not succeeded in raising interest rates, they represent a major obstacle against lowering interest rates, an action which is becoming increasingly needed.

Real interest rates are at a historical high. Although the Federal Open Market Committee has not directly raised interest rates since March of 1997, real interest rates are rising. In fact, real interest rates are at historically high levels, the highest in 9 years, because inflation has continued to fall while the Federal Reserve has failed to lower the Federal funds rate. The chart that I have here points that out.

This chart shows, for example, the real Federal funds rate. That is the market rate less the CPI percentage. As we can see, it has been, for a short period—from 1996 to 1997—going up, and last year and this year has gone up. Actually, this tick, it would be going up here again over the last few weeks. So we have about 4 percent real Federal funds rate right now. In fact, even Chairman Greenspan noted during his Humphrey-Hawkins testimony on February 24 of this year:

> Statistically it is a fact that real interest rates are higher now than they have been on the average of the post-World War II period.

That is a quote from Mr. Greenspan. It is a fact that real interest rates are higher now than they have been on the average of the post-World War II period. I ask why—why are real interest rates so high? There is no inflation; no signs of inflation. In fact, the economy is slowing down a little bit. We see some recessionary signs. Yet we still have these high interest rates. The high interest rate policy that is being imposed by the Federal Reserve, I have always said, is really a stealth tax on hard-working American families, and I believe it is a contributing factor to the near collapse of several economies worldwide.

It is time for the FOMC, the Federal Open Market Committee, to provide a significant and immediate cut in interest rates as a preemptive strike against a recession in 1999. Interest rates have a significant impact on virtually every family in America, on every producer, business and family farmer in this country. I believe lower interest rates have been needed for a long time, but now quick action is truly crucial for our country's well-being.

The economic signs, not only in the U.S. economy but in economies worldwide, demand swift and appropriate action to counteract the problems that lie ahead. I can only say that I believe we have waited too long. Just as inflation can spiral, and spiral out of control, so can deflation spiral out of control. I hope that because the Federal Reserve would not act a little sooner, that we have not reached a point where we are now in a deflationary spiral, and that even more drastic action may have to be taken. But I do believe that significant action has to be taken right now to lower these interest rates.

Don't just take my word for it. Here is a quote from Mr. Jerry Jasinowski, the President of the National Association of Manufacturers, and Earnest Deavenport, the CEO of Eastman Chemical Company. On September 8th they said:

> The current volatility in world financial markets and its threat to global growth . . . could lead to recessions throughout the developing world and Eastern Europe, as well as a slowdown in the United States.

Here is what they said on this chart, on September 8:

> We recommend a significant loosening of monetary policy. Specifically, the Federal funds and the discount rates should be reduced by 50 basis points as soon as possible.''

That is what they said on September 8.

Or we can listen to Mr. John Smith, President of General Motors. On September 15th he said, here it is on this chart here:

> The question is whether the Fed will wait until the recession is imported and then act, or act now. GM believes it should act now.

That is the President of General Motors on September 15, just last week.

Or, James Glassman at the American Enterprise Institute, he has written several op-eds in the Washington Post calling on the Fed to lower interest rates. Again he said recently:

> The most important step right now is for the Federal Reserve to cut interest rates. That would pump more money into the system, encouraging businesses to borrow and consumers to spend. It would also temporarily weaken the dollar, thus helping the currencies of countries in dire economic straits.

I could go on all day quoting business leaders, economists, editorial writers and others calling on the Federal Reserve to lower interest rates. From the Business Roundtable to the U.S. Chamber of Commerce, to the Economic Policy Institute and progressive economist Jamie Galbraith at the University of Texas, from the chairman of the Joint Economic Committee, to Robert Samuelson at the Washington Post, and Stephen Roach at the New York Times, the message to the Fed is clear: Lower interest rates now.

The Fed's policy needs to be reversed and interest rates significantly lowered or our growing economy is likely to quickly sink, perhaps into a very serious recession. So, what we need is to lower interest rates as a preemptive strike against these ominous economic signs.

If we do not do this soon, we will see our hopes for higher wages, more jobs, and the end of Federal deficits dashed on the rocks of recession and rising unemployment. We could be driven by deflation rather than fearing inflation. With deflation, people delay major purposes because they know it is going to be cheaper later on. The last time, of course, that we saw significant deflation was in the Great Depression of the 1930s, but it used to happen regularly in the last century.

How bad can it get? From 1929 to 1933, wages fell by 25 percent; wholesale prices fell by 30 percent; farm commodities fell by 51 percent. And with the shrinking economy, unemployment increased from 5.3 percent to 36.3 percent. Prices were cheaper, but with no money coming in, most people could not benefit at all.

Today, the signs of increasing global deflation are widespread. The problems in the U.S. economy are greatly exacerbated by the enormous difficulties in many Asian Pacific nations, Russia, Latin America and Mexico.

As former Assistant Secretary of the Treasury C. Fred Bergsten wrote in the Washington Post on September 20th:

> The Asian economic crisis is much deeper, much more pervasive and likely to last much longer than anyone imagined. Economies that had grown 6 to 8 percent annually for two decades are declining by like or greater amounts, a swing of Depression-era magnitude with incalculable political and social consequences. The contagion has already spread far beyond Asia, engulfing Russia and much of Latin America, and could do so even more violently in the days ahead. We now face a truly global crisis, which has already hit the United States hard and will do so with increasing force.

The fall in the Canadian and Australian dollars, two countries largely dependent on agriculture and mining is a demonstration of the worldwide impact of the deflationary trend in commodities.

A far more severe threat is the long-term economic paralysis of the Japanese economy which has turned into a significant recession. Some predict that a bailout of the Japanese banks could cost as much as 20 percent of Japan's entire GDP.

That is much larger than our savings and loan crises back in the 1980s. Some estimate that the bad loans of Japanese banks may be about $1 trillion. It is unfortunately clear that the Japanese government is not moving quickly enough to resolve the difficulties in their financial sector. The Japanese have already seen their wholesale prices decline in 5 of the last 6 years. To further illustrate this point, I would like to quote an article in September 14 Wall Street Journal which I found very troubling.

It says:

News that Japan has fallen into its longest economic contraction in 5 decades has led some economists and government officials to suggest that the country has nudged closer to a viscous spiral of falling prices, falling employment and falling output that would damage its economy even further.

Mr. President, I ask for unanimous consent that this entire article be printed in the RECORD.

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

[From the Wall Street Journal, Sept. 14, 1998]

JAPAN'S WEAK GDP SUGGESTS LITTLE HOPE SOON

(By Bill Spindle)

TOKYO.—News that Japan has fallen into its longest economic contraction in five decades has led some economists and government officials to suggest that the country has nudged closer to a vicious spiral of falling prices, falling employment and falling output that would damage its economy even further.

Economic activity fell 0.8% during the April-to-June quarter from the previous quarter, the government said Friday, an annualized decline of 3.3%. And with spending by companies and consumers plummeting, there was almost no sign the situation will improve soon.

"The Japanese economy is walking along the edge of a deflationary spiral," said Taichi Sakaiya, head of the government Economic Planning Agency.

Even before the gross domestic product numbers were released Friday, the benchmark Nikkei stock index plunged more than 5% amid concern over the economy and the gyrating U.S. stock market. At the end of the morning session on Monday, the Nikkei was up 30.12 points to 13947.10. The dollar weakened almost five yen during the Asian trading day as spooked investors brought dollar investments home and cashed them in for yen. The Japanese bond market touched another record high as yields, which move in the opposite direction of prices, plunged to 0.79% on the benchmark long bond.

Japan's report on gross domestic product—the total value of goods and services produced in the economy—was a litany of problems that exceeded even the downbeat expectations of most private economists.

Consumer spending, the largest chunk of Japan's economy, fell an annualized 3.3%. Housing investment, which provided one of the few bright spots in the preceding quarter, plunged by an annualized rate of 4%. And corporate capital investment posted a second straight decline, falling 20% at an annualized rate. That is a particularly bad omen, since business investment has historically been a key engine that drives employment and thus consumer spending. That "suggests the economy is going to be contracting going forward," said Brian Rose, an economist at Warburg Dillon Read.

While Japan's trade surplus made the biggest contribution to economic growth, even that silver lining was more a sign of economic weakness than strength. The surplus expanded because Japan's imports—which fell 6.8% from the previous quarter—are declining faster in the weak economy than exports, which slipped 0.4%. The only clear plus for the economy was an annualized 1% rise in government expenditures, indicating some of the spending from a fiscal stimulus package may be trickling into the economy.

These most recent data—showing that Japan's economy deteriorated for a third straight quarter, the longest contraction since the government began compiling figures in 1955—comes as the government gropes for effective tools to turn the tide. On Wednesday, the central bank loosened monetary policy by cutting the interbank lending rate to 0.25% from 0.5%. However, private economists and even some government officials said the move would provide little help for an economy where the usual tools of monetary policy have broken down.

The government is also pouring some $100 billion worth of tax cuts and spending into the economy, part of an economic rescue package passed in April. Still, private economists say the stimulus package—the centerpiece of the dominant Liberal Democratic Party's economic strategy—could be swamped by the deterioration in the rest of the economy. Nonetheless, many economists still think the spending and tax-cut package will be enough to at least break the momentum of the contraction temporarily over the next two quarters.

The fallout from the continued economic deterioration could also eventually hit the banking system. Already a swelling number of bankruptcies is creating concern that banks' huge portfolios of bad loans will grow further as more borrowers fail.

Mr. HARKIN. Mr. President, as the second largest economy, Japan's poor economic situation is going to have a very significant effect on our economy and the economies of most other countries.

Again I quote Fred Bergsten, a very respected expert in international economics. He urges that "the United States and European Union should globalize the strategy of cutting their own interest rates. This would encourage capital reflows to the crisis countries, reduce their debt burdens and improve their competitive position by promoting a stronger yen. It would also ensure continued world growth and help prevent further stock market declines."

Mr. Bergsten went on to note the fact that the 30-year bond interest rate is below the Fed funds rate and urged a cut in this rate by a full percentage point.

Chairman Greenspan recently said that the U.S. can't "remain an oasis of prosperity" in "a world that is experiencing greatly increased stress."

Again, this statement does appear to be a significant and positive shift in the views of the Chairman of the Fed.

However, I am concerned that there are members of the Federal Open Market Committee who both refuse to consider the global economy when determining monetary policy and are still worried that low unemployment will automatically trigger inflation.

The financial crisis in Asia, Latin America, Russia and many other areas of the world poses a serious threat to our economy and, to date, the United States has not established the appropriate monetary policy to minimize it. The FOMC, through its control of the federal funds rate, has the ability to take decisive action against the economic problems that face us.

Many economists note that devalued currencies in several countries will not only reduce the rate of inflation but also sharply increase our trade deficit, eliminating many jobs and slowing growth in the process. Worldwide commodity prices are at their lowest level in decades.

With regard to our record trade deficit, on September 18, the Christian Science Monitor reports that "So far this year, the trade deficit in goods and services is running at a record annual rate of $185 billion, 68 percent higher than last year's record deficit of $110 billion. America's deficit with Pacific Rim countries hit $87.8 billion in the first seven months—42 percent above the imbalance for the period in 1997."

The September 7 issue of Insight Magazine, says that "Santa Claus is coming to America, only his goods are making the early trip by sea rather than sleigh—in huge freighters filled to capacity."

What will this mean for the U.S. economy? Most importantly, it means a significant loss of jobs, perhaps as much as 1.1 million. In fact, Wilbur Ross, the senior managing editor of the Rothschild Investment Group, believes that "the loss of American jobs due to decreased domestic production for export will outweigh any short term benefits of lower prices."

Experts on balance-of-trade issues say nearly every major industry will be affected: automotive, steel, electronics, appliances, machinery, textiles and apparel.

Mr. President, lower interest rates would allow people in other countries to buy out goods, and, in turn, reduce the risk of Americans losing their jobs.

Lower interest rates are also needed to help our farmers. Worldwide commodity prices are at their lowest level in decades.

The price of farm commodities are connected to this problem, and we know what is happening to farm commodities in our country. I was just recently in the Midwest, and I can tell you that corn, beans, wheat and all the attendant crops are at their lowest prices in years. They are falling dramatically. Livestock prices are also going down. We are seeing average hog prices this year at their lowest level since 1974 and, again, no indication that they are going to go up.

This is an idea of what is happening to corn prices. We can see how they are dropping in the Midwest. I have shown these charts before in discussing the need for some legislation on agriculture.

Basically, what this chart shows, and all the other charts indicate, is corn, soybeans, wheat, cattle hogs—all the commodities we have in the farm sector—are drastically dropping, and dropping very rapidly.

Wayne Angell, a former Federal Reserve Governor appointed by President Reagan, and one of the last experts in farm economy to sit on the Federal Reserve Board, I might add, said on September 9, ''The Federal Reserve should cut interest rates to stem declines in the prices of key commodities.''

Angell goes on to say that, ''If commodity prices continue to fall unchecked, the U.S. economy risks a fall in the prices of hard assets, such as real estate, with potentially severe risks to the economy.''

He said that on September 10.

He is right, we are already seeing this. We are seeing this happen in the Midwest. Already we are seeing a softening of land prices, and perhaps it could lead to a downward spiral. I and many others in this body are working on solutions to fix the problems in the ag sector, like increasing loan rates, providing storage payments to farmers, helping those who have suffered disasters, helping to do something about the Federal Crop Insurance Program. One of the best things the Federal Reserve can do for farmers is lower interest rates.

There are direct effects. For example, a 1-percent reduction in interest rates means the average farmer in Iowa will save $1,400 in interest payments on their land each year. In addition to reductions in land payments, lower interest rates means farmers will be able to receive a much-needed break in the prices they pay for new machinery, fertilizer and seeds. It means that farmers' incomes will increase and the negative effect on the rural economy will be somewhat reduced.

Again, for example, a 1-percent reduction in interest rates means a typical 950-acre grain farm in Iowa will see an increase of about $2,500 in income a year.

But the indirect effects of lower interest rates, as I mentioned, are even more important. We need the engine of the U.S. economy working at full speed to help the world economy to recover. Lowering interest rates will help restore worldwide markets for our agricultural goods. As I have said many times in the past, lower interest rates amount to a badly needed tax break for hard-working families.

Mr. President, the U.S. economy is the only large, healthy economic engine in the world, and if our economy does slow (and our growth increased just 1.6 percent in the last quarter compared to 5.5 percent in the first quarter), it will be exceedingly difficult for the worldwide economy to recover. The chance of a long, deep, worldwide economic recession is, unfortunately, very possible.

There are already increasing signs of a possible recession in the U.S. economy. For example, 30-year Treasury bond rates have sunk to record lows and are now below the short-term Federal funds rate. This is indeed a yellow warning light that the U.S. economy could be headed for a significant decline. Again, this chart shows that. The 30-year Treasury bond rates are now lower than the short-term Federal funds rate. That sends a very powerful signal that we could be headed for a very, very steep decline.

Wholesale prices slid a steep 0.4 percent just in August alone. For the first 8 months of the year, producer prices have fallen at a 1.4 percent annual rate, compared with a 1.2 percent rise for all of 1997.

Nobel laureate Milt Friedman, with whom I do not very often agree on economics, called this a ''significant decline.'' And former Fed Vice Chairman Alan Blinder, says:

> If you ask about the prospect of deflation and you restrict your attention to goods, the answer is yes, and in fact we've had some.

So, Mr. President, we are already seeing troubling deflationary signs in our own economy. Action must be taken now.

The fall in the U.S. stock market, another flashing warning signal, will clearly have its own impact on what is referred to as the ''wealth effect.'' To describe the troubling nature of this situation, I would like to quote an article from the September 14 issue of Time magazine. The article pointed out that:

> A slumping stock market can certainly add to the drag on a slowing economy, through the so-called wealth effect. In a rising market, economists estimate that for every dollar of increased wealth, consumers spend an additional 4 cents. And, they often stop spending that money when their stock gains erode. If $2 trillion has been lost from investors' pockets over the past couple of months, then at 4 cents on the dollar we could expect an $80 billion drop in annual consumer spending, or about 1% of the total U.S. economy. While that alone is not enough to stop the economy from growing . . . it could combine with the global currency crisis to tip the U.S. into recession later this year or in early 1999.

The article in Time goes on to say that:

> . . . a persistent stock market decline can also hurt the economy by making companies more cautious about expansion and hiring. That usually means layoffs or plant closings, which ripple through our economy as laid-off people cut spending.

Mr. President, I ask unanimous consent that this article from Time be printed in the RECORD.

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

[From Time Magazine, Sept. 14, 1998]

WHAT A DRAG! ASIA, RUSSIA, LATIN AMERICA—TROUBLE ABROAD THREATENS THE U.S. ECONOMY

(S.C. Gwynne Reported by Bernard Baumohl, William Dowell and Aixa M. Pascual/New York, Julie Grace/Milwaukee, Alison Jones/Durham and Adam Zagorin/Washington)

Smack in the American heartland, far from both Wall Street and Asia, the 15,500 workers of Harnischfeger Industries, based in St. Francis, Wis., got slammed from both directions. A proud world beater that builds mining equipment and huge machines that produce 70% of the world's printing paper, Harnischfeger has just seen its sales to Singapore and other troubled Pacific Rim countries drop from $600 million a year to nearly zero. Its stock, riding high at $44 a year ago, was beaten down to $16 in last week's market rout, gutting the 401(k) retirement plans of many of its employees. ''What I have in Harnischfeger stock is down by two-thirds,'' says a glum Dave Trench, 57, a machinery stock attendant at a Harnischfeger subsidiary in Nashua, N.H. ''When I look at retirement, I might start to sweat.'' At least he still has his job—for now. Harnischfeger announced in late August that it soon will begin dismissing 3,100 employees, or a fifth of its work force.

Look at Harnischfeger, and you can see the origins of the stock market's grinding 1,698-point decline, a loss of 8% from the July 17 peak of the Dow Jones industrial average at 9337.97. The company also offers a glimpse of what might come next, as American workers and investors like Dave Trench wonder whether the long boom is over. Should they pull their money out of stocks? Does the market slide foretell a recession? How is any of this bad news possible when the U.S. economy seems so strong, with the lowest unemployment, inflation and interest rates seen in a generation?

Like American business generally, Harnischfeger entered this turmoil strong and lean. Well-managed with a skilled and productive work force, it had prospered from the past decade's explosive growth in global freedom and commerce. But then came the currency crisis that began in Thailand in July 1997 and spread like a contagion through the rest of Asia—and last month to Russia and last week to Latin America, hammering down local currencies and slashing demand for U.S. exports. Cheaper Asian exports began grabbing more and more domestic business away from U.S. companies and sliced into their earnings. That trend finally drove down an overheated stock market, taking back, in the past seven weeks, almost a quarter of the $9 trillion that stocks have pumped into U.S. portfolios during the roaring '90s.

When the Dow plunged 512 points last Monday, investors at first regarded it as an irrational response to the financial and political turmoil in Russia—a vast country that still bristles with 7,000 strategic nuclear warheads but whose economy scarcely rivals that of the Netherlands and accounts for less than 1% of U.S. exports. Investors treated Monday's market action as another of those ''dips'' in which they had been taught to buy stocks on the cheap. Heck, it wasn't even as big as the one-day dip last Oct. 27, and the market had shrugged that one off six weeks before powering to new highs and greater glory.

With that in mind, bargain hunters on Tuesday sent the Dow rebounding 288 points, in the second-largest single-day point gain in history, President Clinton, for whom rising stocks have covered a multitude of sins these past six years, tracked the Dow anxiously as he traveled to beleaguered Moscow. During a dinner with Russian President Boris Yeltsin, Clinton stopped economic adviser Gene Sperling in the receiving line to tell him, quietly but with palpable relief, that ‘‘the market's up’’ and flashed a thumbs-up sign.

But this time things were different. The Dow fell Wednesday. And the next day. And the next day, losing ground for the seventh trading day out of the previous eight and posting a 411-point, or 5%, setback for the week. Despite the release last week of fresh reports chronicling persistent low unemployment and rising orders for factory goods, anxiety spread from the stock market to the ‘‘real’’ economy of jobs and paychecks. The market drop served as a reminder—one about as subtle as a poke in the eye—that in today's global economy, not even a healthy U.S. can quarantine its factories and offices and markets from the illnesses of countries halfway around the world. It vividly showed Americans how the turmoil in Asia and Latin America is slashing the profits of U.S. corporations, which might be forced to respond with layoffs and cutbacks in spending.

Federal Reserve Chairman Alan Greenspan, speaking after the markets closed last Friday, revealed that Fed policymakers are worried that the threat to the U.S. economy from global financial turmoil rivals the danger of wage and price inflation. The Fed is now as likely to cut interest rates, he hinted, as to raise them. ‘‘It is just not credible that the U.S. can remain an oasis of prosperity unaffected by a world that is experiencing greatly increased stress,’’ Greenspan said in a speech at the University of California, Berkeley. Then he headed off to join Treasury Secretary Robert Rubin in a meeting where they urged Japan's new Finance Minister to deal with his country's insolvent banks and other financial troubles, which are dragging down not only the huge economy and financial market of Japan but also those of other Asian countries—and now the U.S.

Only 21 months ago, with the Dow at 6500, Greenspan was warning against ‘‘irrational exuberance’’ in the stock market. Several other wise elders expressed hope that last week's correction will have the cleansing effect of strengthening the historic relationship between stock valuations and the earnings of the underlying companies—a notion that had fallen out of favor after years of ‘‘momentum investing,’’ in which all that mattered was that someone would buy the hot stock that some greater fool would soon bid up to an even higher price. The price-earnings ratio for the S&P 500 has approached a record 30 this summer, twice its historical norm. Securities analysts, reassessing the impact of the turmoil in Asia and other foreign markets, last week began chopping down their estimates for growth of U.S. corporate profits, to as little as 3% for all of 1998, and zero growth for 1999, a sharp drop from last year's robust 12%.

In a bit of lucky timing, Fidelity Investments, the mutual-fund giant, last week rolled out a promotional and educational campaign starring Peter Lynch, its legendary fund manager. Lynch was troubled, he told TIME, that ‘‘in the first half of this year, the S&P 500 was up 15%, but [corporate] profits were down.’’ He also expressed relief that the correction came now, rather than having the market drop to 7500 ‘‘after it's gone up to 14000.’’

There was remarkably little evidence of panic among individual investors last week. One measure of that is the amount of money that flows in and out of equity mutual funds. In August, a month that included several gut-wrenching weeks, there was a net outflow of $5.4 billion, or well under 1% of the total invested in equity funds. Though this was the first such exodus since the recession and stock slump of 1990, the number is still quite modest when compared with the 4% that fled equity funds after the October 1987 correction. Last week investors pulled a net $6.2 billion out of stock funds Monday and Tuesday, but on Wednesday a net $6.5 billion flowed right back as the market bounced, according to Trim Tabs Financial Services. ‘‘There has not been any retail panic as far as we can see,’’ says Scott Chaisson, a branch manager for Fidelity in midtown Manhattan. ‘‘There seems to be an awareness that there are going to be ups and downs like this.’’

The real test, though, won't come until later, when new investors face the results of their first sustained market decline. An unprecedented 43% of adult Americans are now invested in stocks, up from only 21% in 1990. (That helps explain why we are hearing less Schadenfreude over the discomfort of Wall Street yuppies than in past corrections.) A striking 57% of all household assets today are allocated to equities. Small wonder: the market has doubled just since 1994. But these investors are about to get account statements showing declines of 20% to 30%. Even if they have been in the black over the past 12 months, not to mention the past few years, it will be a shock to be reminded, for the first time in years, that stocks can go down as well as up.

Investors large and small who had put money overseas in search of diversification, or simply higher returns, were sorely disappointed last week. Day after day, one giant U.S. bank after another came forward, like sheepish A.A. members fallen off the wagon, to confess they had succumbed to the lure of big returns from Russian investments on which—surprise!—the Yeltsin government has defaulted. Citicorp announced that its earnings for the third quarter will be cut by about $200 million in Russian losses. The price tag at Bankers Trust, about $260 million; at brokerage firm Salomon Smith Barney, $360 million in the past two months.

All told, U.S. financial institutions had losses mounting to $8 billion by week's end, and one of the fears that drugged the stock market was that U.S. companies might face even larger losses in Latin America, where they have much more exposure (about a third of U.S. exports) and where currencies came under fresh assault late last week. Brazil saw $11 billion in capital fleeing the country in the past five weeks—not because its economy is weak but because of each investor's fear that other investors might flee any economy slurred with the label ‘‘emerging.’’ Money also fled the stocks of financial institutions with lots of business and investment in the merging markets. Citicorp's stock dropped to about half of its recent high, losing $40 billion of market value.

Other companies that took major hits were transportation stocks whose business involves trade and travel: the parent companies of such airlines as American, United and Delta. Companies like Coca-Cola, Procter & Gamble and Gillette, which not long ago were praised for their successful penetration of global markets, last week were punished harshly through stock sell-offs. General Electric, the world's most valuable public corporation and one of the most admired, fell 22%, losing $68 billion of its market value.

The near panic over emerging markets was strongest among some of the hedge funds, the high-risk vehicles that often deliver high returns to wealthy investors. After famed investor George Soros lost $2 billion in Russia, John Meriweather's Long-Term Capital Management announced that it had lost $2.1 billion, or half its asset value, so far this year. ‘‘Russia and Asia became the trigger for the correction in the U.S. stock market,’’ says David Wyss, chief economist at DRI/McGraw-Hill, a consulting firm. ‘‘Although there had already been a softening in earnings over the past few quarters, traders needed to be hit with a two-by-four to make them realize you just can't get double-digit increases in earnings every year.’’

Russia also became the trigger for another concern, at once political and economic: ‘‘We were suddenly threatened by an old fear—the Soviet Union and militarism,’’ says John Silvia, chief economist at Scudder Kemper Investments. ‘‘If the world is not as peaceful as we expected, then a lot of money in the U.S. that went into consumer spending and capital investment may now have to go back to defense, and that's going to shock the budget here.’’

As the Dow ended its week at 7640.25, it was approaching one of the standard benchmarks for a bear market: a 20% drop from a previous peak. Many investors, though, have been in a quiet bear market for several months; that's because, during the last stages of the run-up in the Dow and the S&P 500, most of the increase was accounted for by such large companies as Coca-Cola and Microsoft; many smaller stocks were left behind. In the S&P 500, virtually all the gains in share prices in recent months were made by the 50 largest. At the same time, the Russell 2000 index of smaller stocks—traditionally favored by many individual investors—was off 29% from its April high. And as of Monday, the average stock in the New York Stock Exchange was off 38% this year. Even before last week, nearly half of U.S. domestic stock funds were losing money for the year.

Several economists see the current market as an untraditional bear market or, as Harvinder Kalirai, an economist at the consulting group I.D.E.A., sees it, what's happening on Wall Street is ‘‘a cyclical bear in a secular bull market. This is a cyclical fluctuation.’’ The longer-term or secular trend in the market, though, ‘‘is still high.’’

Many individual investors also hold that faith. Dennis Lese, 52, an executive with Amoco Corp. in Chicago, says that he is staying in the market but that the six-figure losses he suffered last week have caused him to postpone his planned early retirement. ‘‘I was thinking about retiring and living off stocks,’’ he says. ‘‘But now I think I'll work a few more years.’’

Others seemed content to ride it out, in the knowledge that the gains of the past few years will cushion the impact of a down market now. ‘‘Anyone with brains knows the thing to do is to sit back and wait,’’ says Stephanie Rubin, 52, an executive with a search firm in Chicago who has about $300,000 in stocks. ‘‘If it's down 25% on paper, it doesn't bother me because it's money tied up in an IRA account. I'm not going to touch this money till I'm 65.’’

Some people who were actively playing the market, however, were singing a different tune. ‘‘I was panicking,’’ said Alan Herkowitz, 39, a New York systems analyst and a self-described ‘‘short-term trader’’ who invests ‘‘play money’’ in the market.

One of the biggest worries in a sustained market downturn is that it might depress consumer confidence and spending. Contrary to popular belief, though, bit stock market drops alone rarely herald recessions. According to a study by Peter Temin, an economics professor at M.I.T., falling stock prices directly caused only one minor economic downturn in this century, in 1903.

But a slumping stock market can certainly add to the drag on a slowing economy, through the so-called wealth effect. In a rising market, economists estimate that for every dollar of increased wealth, consumers spend an additional 4 [cents]. And they often stop spending that money when their stock gains erode. If $2 trillion has been lost from investors' pockets over the past seven weeks, then at 4 [cents] on the dollar we could expect an $80 billion drop in annual consumer spending, or about 1% of the total U.S. economy. While that alone is not enough to stop the economy from growing, economists say, it could combine with the global currency crisis to tip the U.S. into recession later this year or in early 1999.

A persistent stock market decline can also hurt the economy by making companies more cautious about expansion and hiring. ''If the stock price isn't doing well,'' says John Lonski, chief economist for Moody's Investors Service, ''shareholders will put pressure on management to cut costs to improve returns.'' That usually means layoffs and plant closings, which ''ripple through the economy'' as laid-off people cut spending.

Pushing against these negative currents, fortunately, is the persistent, fundamental strength of the U.S. economy. The trend in wages and employment, which wield far more influence over consumer confidence and spending than stock prices, remains strong. As she placed a tortilla warmer in her shopping cart last week at a store in Nashville, Tenn., Sue Allison, 53, a public relations officer for the Tennessee supreme court, observed that ''there are a million people out tonight spending $90 on nothing, just as I am. My husband and I won't touch [our retirement stocks] for at least 15 years, so I don't worry about short-term losses.'' In fact, aside from corporate profits and stock prices, most other leading indicators are pointing briskly upward. Orders from American factories rose 1.2% in July, the strongest performance since November. As investors around the globe sought a safe haven for their capital, long-term interest rates continued their slide to 5.3%, a silver lining for the U.S. in the cloud over emerging markets. Those low rates in turn have boosted the used-housing market, which recorded an all-time high of houses sold in July. Housing values, another important factor in Americans' calculation of their wealth, are rising smartly at about 5% a year. Unemployment stands at 4.5%, nearly a 28-year low, and only 1.8% for those with college degrees. Thanks to rising productivity, real wages have been rising for the first time in nearly three decades without spurring inflation. The U.S. growth rate, while down from its feverish 5.5% in the first quarter, is still expected to register 2%-plus for the rest of the year. The only skunk at this picnic is the Asian, Russian and Latin financial crisis, estimated to have knocked about 2.5 percentage points off second-quarter growth of 1.5%.

If recession comes, economists say, the cause will be the inability of countries such as Brazil, Indonesia, Malaysia, Mexico and Venezuela to buy as many U.S. exports with their devalued currencies—and the hit on U.S. wages and corporate earnings as cheap imports from those countries grab a greater share of the U.S. consumer's wallet.

At Nucor Corp., a $4 billion North Carolina steelmaker, the global tumult has hit home in both ways. Nucor's exports are down, falling globally from an annual rate two years ago of 700,000 tons to the present 30,000 tons, much of which is accounted for by Asian markets. But far more worrisome is the tough competition in the U.S. market from cheap steel made in Japan, Korea and Russia. Currency devaluations in those countries have made their products cheap for American buyers, says chairman Ken Iverson. ''The U.S. is the only economy left that's doing well, so they're going to ship it all here.'' That makes America the consumer of last resort—a lifeline to many foreign economies, but at a heavy cost to many U.S. companies and workers. Again, such disruptions quickly get capitalized into stock prices: Nucor shares have fallen from $61 a year ago to $39 last week.

Another North Carolina company feeling the pain is Beacon Sweets, which makes, among other products, ''gummi watches'' (gelatin candy in the shape of a watch). Although most of its business is domestic, Beacon had begun to grow in China, Korea, Singapore, the Philippines and Japan. But over the past year, Beacon has seen its export business evaporate. Says Stephen Berkowitz, an executive vice president: ''Our business in those countries has absolutely dried up as a result of currency devaluations.''

Perhaps the greatest risk to both the U.S. and global economies is that today's hard times could bring a rising tide of global protectionism, including controls not only on trade but also on flows of capital. With the leadership in Russia and Japan virtually paralyzed, and President Clinton distracted by his personal problems there is a danger that the trend toward freer markets could be reversed. This is already happening in places like Malaysia, which last week imposed foreign-exchange controls hurtful to multinational firms in the U.S. and elsewhere—not to mention to Malaysia itself, which will be hard pressed to attract investment. Nor is the U.S. immune. If unemployment begins to rise, blame will quickly attach to the rocketing U.S. trade deficit—one of the most immediate effects of the crisis in Asia—and will tempt members of Congress to impose new limits on imports. That, more than any other factor, could eventually lead to a significant recession in this country and others. ''What we need is leadership,'' says Hugh Johnson, chief investment strategist at First Albany, a brokerage firm. ''Without it, we have a vacuum, and the market always hates that.''

For Clinton, much is at stake. The rising market and robust economy have long boosted his approval rating and made both is allies and his adversaries loath to cross him. A significant downturn in the economy, or a longer stock decline than expected, could make Americans feel much less patient with his foibles, and could embolden his enemies. Studies of polling show that a sour economy in 1973–74 contributed significantly to Americans' disgust with President Richard Nixon in the later stages of the Watergate scandal.

For American investors too, much is at stake. One of the worst things they could do is let rising volatility and uncertainty drive them out of stock investments. Returns on stocks have far outdistanced most other investments over time, producing an average annual return, after inflation, of 6.4% from 1927 through 1995, which includes the period when stocks struggled to regain the highs they reached before the 1929 crash and the Great Depression. Investors can also take heart that the stock market usually bounces back far more quickly than it did in the 1930s. In nine of the 11 months where the S&P 500 lost 4% or more since October 1987, returns were positive within two months of the drop. In all cases, including the 1987 crash, the market returned to positive returns within six months. As TIME's Dan Kadlec explains in the following story, most investors should stay with stocks, except when handling money they might need within the next three years.

For all its problems, Harnischfeger offers encouragement to other Americans at this uncertain time. Folks at the Wisconsin company have earned higher wages and have been able to educate their children better because of the profits they have reaped from the unprecedented spread of global commerce and free trade. But the price of that prosperity is a global economy so interlinked that the troubles of America's trading partners very quickly become its troubles too, even when America's domestic economy is showing remarkable resilience, as it is now. Harnischfeger's managers believe they are in for a rough ride for several quarters, but that the company's future, like that of the American economy, is bright over the longer term. Says Francis Corby Jr., the company's executive vice president for finance and administration: ''We'll bounce back.'' They always have.

EXCERPTS

WHEN THE DOW BREAKS

Monday, Aug. 31—

Tuesday, Sept. 1—Financial and political turmoil in Asia and Russia trigger a plunge in the Dow on Monday, but bargain hunters help it recover more than half its loss on Tuesday, setting a record for trading volume.

Wednesday, Sept. 2—Stocks drift down slightly in relatively light trading as exhausted investors await signs of the market's direction.

Thursday, Sept. 3—Worries of an economic slowdown and lagging corporate profits contribute to the Dow's sixth drop in seven days.

Friday, Sept. 4—A burst of bargain hunting late in the day erases most of a sharp decline on Friday, leaving the Dow down 411 for the week.

A LITTLE PERSPECTIVE

A Short-Term Loss—If you had invested $10,000 in the S&P 500 at the market's peak on July 17, it would have been worth $8,206 on Sept. 4, after last week's market drop.

An Even Year—But if you had invested $10,000 12 months ago, on Sept. 1, 1997, it would now be worth $10,827.

A Long-Term Gain—And if you had invested $10,000 on the eve of the big market plunge a decade ago, on Oct. 19, 1987, your investment by now would be worth $34,450.—Source: Datastream

UNITED STATES

The Problems—The economy's increasing dependence on stock market, exports suffering as the world economy stumbles; widening income inequality a concern

The Solutions—Federal Reserve can lower interest rates to ease economic strains in troubled nations. At home, higher priority for education and training to enhance job skills

JAPAN

The Problems—The economy has been stagnant for seven years; banks crippled by massive amounts of bad loans; weak political leaders won't make hard decisions; exports hurt by Asian crisis

The Solutions—Pass permanent tax cuts to stimulate growth; use taxpayer funds to revitalize banks so they can issue credit again.

GERMANY

The Problems—High unemployment; excessive spending on social programs, high tax rates could threaten German competitive under Europe's new single-currency system, the euro

The Solutions—Accelerate labor-market reform to allow easier hiring and firing of workers; equalize tax rates before the euro arrives

INDONESIA

The Problems—Risk of social upheaval as poverty increases; dysfunctional banking system; absence of investor confidence; large companies closely linked to the government.

The Solutions—Restructure banks and companies; promote domestic stability; restore confidence of ethnic Chinese businesses

BRAZIL

The Problems—Massive government-budget deficit; foreign reserves dwindling as the nation defends its currency, the real

The Solutions—Overhaul the social security plan and pare back spending to lower the deficit; privatize more government-owned companies to free resources and increase productivity

MEXICO

The Problems—Low oil prices are slashing government income, causing the budget deficit to swell; the peso is unstable because of highly volatile world currency.

The Solutions—Political leaders need to set strict limits on domestic spending; the central bank should maintain a tight monetary policy to support the currency.

RUSSIA

The Problems—Poor tax collection; corruption; little access to credit markets; creeping hyperinflation; zero credibility that the country will carry out economic reforms.

The Solutions—Collect taxes owed to pay wages owed; stay committed to free and open markets to stabilize the ruble; overhaul the banks; stop the crooks.

HONG KONG

The Problems—The government is fiercely defending an overvalued currency; interest rates are excessively high; real estate is overvalued; a faltering financial sector is burdened by shaky real estate.

The Solutions—End the currency peg to the dollar; reduce interest rates to ease pressure on the banks.

CHINA

The Problems—Falling exports and foreign investments plus damaging floods will slow economic growth below 8% target; a virtually insolvent banking system; state-owned enterprises are drowning in red ink.

The Solutions—Devalue the renminbi 15% to keep exports competitive; privatize government-owned companies.

MALAYSIA

The Problems—An autocratic ruler is turning toward a controlled economy; foreign investors have little confidence; domestic debt is dangerously high; a serious threat of inflation.

The Solutions—Revamp the banking system and promote a level playing field in the economy; stick to austerity plan to support the ringgit.

Mr. HARKIN. One argument against lowering interest rates is that our unemployment levels are already low. Some say that our current rate of unemployment at 4.5 percent is too low, companies cannot find workers and will be forced to pay more, hurting their profits, hurting the economy.

Businesses have surprised many economists by creating multiple ways to improve efficiency. Of course, more can and should be done. I believe there is room for additional job growth. Companies have also been effective at finding new employees who were not actively looking for work and were, therefore, not counted as unemployed.

We need economic growth to continue in order to improve wages, to bring still more people into the labor force, to give those working part time the chance to work full time, and to provide opportunity for those on welfare, and for those who have entered the workforce at the bottom rung, to start moving up the ladder.

With only those looking for work counted as unemployed, there are still millions of others not counted as unemployed who could be brought into the workforce. As difficult as it may be to find workers now, this will be viewed as a small problem compared to a serious economic downturn, a recession, and deflation.

Again, if inflation should start to accelerate we can always apply the brakes and whatever inflation may have occurred can be reduced. But to forever limit our growth to a preset limit blocks Americans from the opportunity of reaching their full potential.

If we do move to deflation, if we go into a serious recession at this point, without America's strength, the world's economy could sink to Depression-era levels.

For the sake of our farmers and our small business owners, for hard-working Americans, and the rest of our economy, and for countries around the world, I sincerely hope that Chairman Greenspan and the Federal Open Market Committee do not misjudge the current economic indicators in the U.S. and worldwide economies.

While I am pleased that Chairman Greenspan recently hinted at a possible rate cut, I am afraid the Federal Open Market Committee may have already misjudged the ominous economic signs that are out there. I only hope it is not too late. That is why, Mr. President, the Senate must send a clear signal to the Federal Reserve: Lower interest rates now.

The Fed must show that it has as much concern for the jobs of American workers as it has for the interests of U.S. investors throughout the world. An immediate cut in interest rates will give our economy the boost it needs to maintain its strength during the next year as the fragile nature of many economies throughout the world recovers.

So, Mr. President, that is what we need—for this Senate to send a clear signal that we have looked at the economy, we have listened to our constituents, we have been out in our States; we see it, we feel it, we know it. Things are declining —I can tell you that—in the farm sector and in rural America. We know what is happening worldwide. Now is the time for the Fed to act for a significant cut in interest rates.

Mr. President, I yield the floor.

Mr. GRASSLEY addressed the Chair.

The PRESIDING OFFICER. The Senator from Iowa.

Mr. GRASSLEY. Mr. President, I had asked one of the smartest people in the Senate on this issue, Senator DOMENICI, to debate it. And there is going to be some discussion of this amendment tomorrow before we vote on it. At that time, Senator DOMENICI will speak about it for our side. But I also want to address the issue shortly, but not from the standpoint of the merits of where interest rates ought to be, but just the issue of whether or not it is appropriate to do this on this bankruptcy legislation, as well as the whole issue of whether or not Congress should try to interfere with the issue of the Federal Reserve deciding what the interest rate should be. Because I think it is fair to assume that we want to make sure that interest rates are appropriate. But who should make that decision?

So I offer this advice to my colleagues on this amendment offered by my colleague from our State of Iowa, Senator HARKIN.

While we are all for lower interest rates, I think this amendment should be opposed because of the traditional separation of the Federal Reserve from the political process. What we generally speak of is the independence of the Federal Reserve System. For short, we all speak of the independence of the Fed.

This country has a very long history of protecting the work of the Federal Reserve from political manipulation. Since the 1930s, Congress has gently refrained from passing legislation in an attempt to influence monetary policy. In fact, according to the Congressional Research Service, in the past 25 years, Congress has acted on only five occasions on legislation that affects the Federal Reserve System. Most of these actions have been in the form of nonbinding resolutions or report language. So congressional action of a statutory nature has been rare, and when it has been done whenever Congress has spoken on this issue, it seems it has had a very tempered approach. Maybe we ought to say that this sense of the Senate is a tempered approach in the sense that it doesn't change statute, but still it is an attempt by a political body to influence a part of our government that we have always tried to keep immune and separated from politics.

There is a sound reason for keeping the Fed independent of this political process. It is because we in this body, whether we want to admit it or not, tend to think too much for the short-term. We tend to think in terms of the next election rather than the next generation. Too often, it is even more personal than that—what can I do to increase my chances of reelection? These short-term policies, as we too often find out, can lead to long-run disasters.

While increasing the money supply can put more people to work prior to an election, of course, it can lead to crippling inflation in the long run. The Fed appropriately is not subjected to the pressures to do something potentially reckless for the purpose of short-term gain. This policy has served us well for generations and the U.S. economy remains the envy of the world because of it. In fact, in this decade alone, many nations have followed the lead that the United States has practiced for over 60 years. They have done this by bringing more independence to their own central banks. Great Britain, under a new labor Prime Minister, has moved to make the Bank of England more independent. Other European Union nations in their new union have committed to an independent central bank upon the creation of that monetary union which starts January 1, 1999.

Furthermore, every nation that has faced a monetary crisis in recent memory has attempted in the name of reform to keep its central bank from political influences. We saw it in Mexico just 3½ years ago when the peso declined so rapidly in Mexico. They have moved in that direction. We see it today in Japan, Korea, and Thailand. A major reason for each of their economic problems, of course, is the cronyism in bank lending practices and political influence over the banking systems. Maybe another way to say it is too much of an incestuous relationship between their corporations and their government, between their bank and their government, to a point where there was no arm's length transactions; the marketplace did not work appropriately. Nobody had to make a sound business judgment because there was always somebody there to bail them out.

These people now, after the crisis in Southeast Asia, have begun to see the wisdom of a central bank, free of political influence. We should recognize the wisdom of it, as well.

As I said earlier, we are all for low interest rates. The relatively low interest rate environment that we currently enjoy has allowed millions of Americans to purchase a home for the first time. It has kept the cost of doing business for small business and farmers down. It has helped the Federal Government reduce its budget deficit by reducing the costs of the national debt.

Instead of pointing fingers at the Fed, Congress should instead focus on the things that are within its authority that lead to lower interest rates, like balancing the budget and reducing Government borrowing. We have been on this course now for the last 3 or 4 years. So, September 30th of this year for the first time we can tell the people we finished the fiscal year not only with the budget balanced but with paying down, probably 60-billion-some dollars, on the national debt.

During this 30-year period of irresponsible Federal spending in which the national debt has been run up to $5.4 billion, and without the changes made in the last 3 or 4 years, at the end of the Clinton administration the debt could have gone to $6.7 billion—at least that is what we were projecting in the 1994 budget resolution discussions. During this period of time of 30 years the Fed has been a counterbalance to an irresponsible Congress, trying to make sure that inflation was kept down as a result of fiscal policy that would tend to drive interest rates up for the Federal Government because the Federal Government always stands first in line for credit and is always willing to pay more and will pay more than any other borrower would pay or have to pay.

Congress has sole constitutional authority over the fiscal policy of this country, and in many respects fiscal policy has had as big an impact on interest rates as monetary policy. For instance, interest rates will remain relatively high as long as the Federal Government is competing with borrowers for money. That is why I find it interesting that often the same Members who want to direct monetary policy at the Fed tend to vote against sound fiscal policies such as balancing the budget and reducing Government spending.

If a Congress did its job of managing fiscal policy better, maybe we wouldn't have to worry so much about what the policy of the Federal Reserve is. Now we are in a position of balancing the budget, paying down some on the national debt, not having the Federal Government eating up all of the total credit that is needed, the Federal Reserve job will be much, much easier.

In short, I oppose these efforts to subject the decisionmaking of the Federal Reserve to the vagaries of the political process. By most accounts, the Fed has been largely responsible for this period of unprecedented economic growth fueled by both low interest rates and low inflation. So I say that we should stay on course that Congresses for the past 60 years have laid out for us, and that is keeping the Fed free of political influence that has led to economic calamities in so many other parts of the world.

I yield the floor.

Mr. HARKIN. Mr. President, I just want to respond a little bit to my colleague from Iowa by again pointing out to Senators that while we do respect the independence of the Fed, as we say, some argue that it is not even appropriate to debate monetary policy or to send signals to the Fed.

I say to my colleague from Iowa, as William Jackson at the Congressional Research Service writes in the report to Congress,

> Constitutional authority to regulate the value of money, and by implication, to determine monetary policy, rests with Congress, article I, section 8 of the Constitution.

This authority has been largely delegated to the Federal Reserve by the Federal Reserve Act, as amended. Nonetheless, the Fed, as a creature of law, may have its policies dictated as well as its structure changed by Congress. Since the 1930s, Congress has generally declined from doing either. But in the past 25 years, Congress has occasionally legislated more Fed accountability, with an aim towards influencing policy. And Congress has periodically enacted nonbinding language to express its monetary policy preferences to the Fed, with the implication that more structural changes could be forthcoming in the absence of policy response by Fed officials.

Again, I think it is not only our right but our duty as Senators to debate monetary policy and to give our thoughts and guidance and direction to the Fed.

The Federal Reserve, I keep reminding people, is nowhere mentioned in the Constitution of the United States. It is not a separate branch of government. It is not something that is under executive powers enumerated in the Constitution. The Constitution gave Congress the power to coin money and regulate the value thereof. Of course, we don't want to do that. I would hate to see us do that. So we delegate it. We set up the Federal Reserve with the Federal Reserve Act. We amended it many times to do that. And it has worked well.

But it still means that as policymakers we have a right and, I think, an obligation to send guidance and direction to the Fed about what is happening in the economy and what they ought to do. The last time the Senate debated a sense of the Congress calling on the Federal Reserve to lower interest rates was on December 19, 1982. It passed by a vote of 93 to nothing here in the Senate. Ninety-three to nothing the Senate passed a sense-of-the-Senate resolution asking the Fed to lower interest rates.

Again, given all of the recent support for interest rate cuts in the business community by economists, editorial boards, and political leaders on both sides of the aisle, I see no reason why the Senate should not vote unanimously, again, urging the Fed to lower interest rates to stem what I and others—not only myself but a lot of others, from conservative to more liberal economists all over America—are saying: there are ominous signs of a possible recession in the U.S. economy.

As I said, even the Chairman of the Fed himself, Chairman Greenspan, has moved in this direction recently. He said encouraging things about the need to perhaps cut interest rates. But I am fearful that the rest of the Federal Open Market Committee hasn't gotten the word yet.

I think we need to send them the word that what we see as policymakers in our daily lives, what we see in our States, what we see in terms of the issues that we deal with in the Senate, that we see an economy that is going down from a 5.5 percent growth rate last quarter down to 1.6 percent next quarter. We see rapidly falling commodity prices, especially in the farm sector. We see wages beginning to stagnate. We see the 30-year Treasury bonds now lower than the Federal funds rate. There are some very ominous signs out there.

This amendment is designed to simply exercise not only our right but, I believe, our obligation as Senators to debate this situation.

Of course, if Senators don't agree that is what is happening—that indeed there may be a recession out there, that there are some signs of falling commodity prices, for example, and of worldwide recession—I guess people can debate that. Obviously, if Senators feel the other way, they obviously should not vote for a sense-of-the-Congress amendment like this. But I hope that Senators who feel that they shouldn't vote against it because Congress has no right telling the Fed what to do—I would just say look at the history.

I will have more to say tomorrow about the many times Congress has passed some legislation, or sense-of-the-Senate, or sense-of-the-Congress resolution giving guidance and direction to the Fed. I hope that we will exercise not only our right but I believe our obligation to do so.

I yield the floor.

Mr. GRASSLEY addressed the Chair.

The PRESIDING OFFICER (Mr. BROWNBACK). The Senator from Iowa.

Mr. GRASSLEY. Mr. President, my colleague from Iowa has accurately stated what the Constitution says and what we can do. I don't have any dispute with that. The only dispute I would have is whether or not it would be wise for Congress to do that after we have had such a success of building confidence in the economy when there is an absence of congressional manipulation of monetary policy. I fear if there is a perception in the private sector of Congress from time to time making an impact upon monetary policy, that is going to build in protection for people who are investing and, consequently, drive interest rates up. We don't want that to happen.

I yield the floor. I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative 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. Without objection, it is so ordered.

UNANIMOUS CONSENT REQUEST—S. 2176

Mr. GRASSLEY. Mr. President, I ask unanimous consent that the Senate now proceed to S. 2176, the Vacancy Act.

Mr. BYRD addressed the Chair.

The PRESIDING OFFICER. The Senator from West Virginia.

Mr. BYRD. Reserving the right to object Mr. President, I have advocated the passage of this bill. On a number of occasions I have asked the leader to proceed with this bill as soon as he could do so. And I introduced the legislation several months ago—I believe last year even—that went to the committee chaired by the distinguished Senator from Tennessee, Mr. THOMPSON. I asked the chairman to hold hearings on the bill, which he did. I appeared before the committee and spoke in support of the bill.

And that bill has been reported from the committee with some changes, which I support. So I support this bill 100 percent. But I am constrained to object this evening because of one or two colleagues on my side of the aisle who wish to object. I am sorry to have to do that. But with that explanation, Mr. President, I do object.

The PRESIDING OFFICER. Objection is heard.

FEDERAL VACANCIES REFORM ACT OF 1998—MOTION TO PROCEED

CLOTURE MOTION

Mr. GRASSLEY. With all respect to the Senator from West Virginia—and his explanation I think is very clear—in light of that explanation, I now move to proceed to S. 2176, and I send a cloture motion to the desk.

The PRESIDING OFFICER. The cloture motion having been presented under rule XXII, the Chair directs the clerk to read the motion.

The legislative clerk read as follows:

CLOTURE MOTION

We the undersigned Senators, in accordance with the provision of Rule XXII of the Standing Rules of the Senate, do hereby move to bring to a close debate on the motion to proceed to S. 2176, the Vacancies Act:

Trent Lott, Strom Thurmond, Charles Grassley, Thad Cochran, Wayne Allard, Ben Nighthorse Campbell, Don Nickles, Orrin G. Hatch, Pat Roberts, Tim Hutchinson, Richard Shelby, Conrad Burns, Jim Inhofe, Connie Mack, Fred Thompson, Spencer Abraham, and Robert C. Byrd.

Mr. BYRD. Mr. President, I ask unanimous consent that I be added as a signatory to the cloture motion.

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

Mr. GRASSLEY. Mr. President, for the information of all Senators, this cloture vote will occur on Thursday, at a time to be determined. In the meantime, I ask unanimous consent that the mandatory quorum under rule XXII be waived.

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

Mr. GRASSLEY. I now withdraw the motion, Mr. President.

The PRESIDING OFFICER. The motion is withdrawn.

CONSUMER BANKRUPTCY REFORM ACT OF 1998

The Senate continued with the consideration of the bill.

MODIFICATIONS TO AMENDMENT NO. 3595, AS MODIFIED

Mr. GRASSLEY. Mr. President, I ask unanimous consent that the amendment No. 3595, previously agreed to, be modified to make certain technical corrections and remove duplicate language. The language is now at the desk.

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

The modifications to Amendment No. 3595 are as follows:

1. Replace page 3 of the Amendment with the following language:

SEC. . ADDITIONAL AMENDMENTS TO TITLE 11, UNITED STATES CODE.

(a) Section 507(a) of title 11, United States Code, is amended by inserting after paragraph (9) the following:

''(10) Tenth, allowed claims for death or personal injuries resulting from the operation of a motor vehicle or vessel if such operation was unlawful because the debtor was intoxicated from using alcohol, a drug or another substance.''.

(b) Section 523(a)(9) of title 11, United States Code, is amended by inserting ''or vessel'' after ''vehicle''.

2. Replace pages 31 and 32 with the following language:

SEC. . DEBT LIMIT INCREASE.

Section 104(b) of title 11, United States Code, is amended by adding at the end the following:

''(4) The dollar amount in section 101(18) shall be adjusted at the same times and in the same manner as the dollar amounts in paragraph (1) of this subsection, beginning with the adjustment to be made on April 1, 2001.''.

SEC. . ELIMINATION OF REQUIREMENT THAT FAMILY FARMER AND SPOUSE RECEIVE OVER 50 PERCENT OF INCOME FROM FARMING OPERATION IN YEAR PRIOR TO BANKRUPTCY.

Section 101(18)(A) of title 11, United States Code, is amended by striking ''the taxable year preceding the taxable year'' and inserting ''at least one of the three calendar years preceding the year''

SEC. . PROHIBITION OF RETROACTIVE ASSESSMENT OF DISPOSABLE INCOME.

(a) Section 1225(b) of title 11, United States Code, is amended by adding at the end the following:

''(3) If the plan provides for specific amounts of property to be distributed on account of allowed unsecured claims as required by paragraph (1)(B) of this subsection, those amounts equal or exceed the debtor's projected disposable income for that period, and the plan meets the requirements for confirmation other than those of this subsection, the plan shall be confirmed.

(b) Section 1229 of title 11, United States Code, is amended by adding at the end the following:

''(d)(1) A modification of the plan under this section may not increase the amount of payments that were due prior to the date of the order modifying the plan.

''(2) A modification of the plan under this section to increase payments based on an increase in the debtor's disposable income may not require payments to unsecured creditors in any particular month greater than the debtor's disposable income for that month unless the debtor proposes such a modification.

''(3) A modification of the plan in the last year of the plan shall not require payments that would leave the debtor with insufficient funds to carry on the farming operation after the plan is completed unless the debtor proposes such a modification.''.

3. Strike pages 46 through 49.

4. Replace pages 58 and 59 with the following language:

SEC. . DISCOURAGING ABUSIVE REAFFIRMATION PRACTICES.

Section 524 of title 11, United States Code, is amended—

(1) in subsection (c)(2)(B) by adding at the end the following:

''(C) such agreement contains a clear and conspicuous statement which advises the debtor what portion of the debt to be reaffirmed is attributable to principal, interest, late fees, creditor's attorneys fees, expenses or other costs relating to the collection of the debt.''.

(2)(A) in subsection (c)(6)(B), by inserting after ''real property'' the following: ''or is a debt described in subsection (c)(7)''; and

(B) by adding at the end of subsection (c) the following: