CPI 12/9/96

Q. Didn't the Administration stake out new ground on the CPI this weekend in Secretary Rubin's and Director Raines' comments embracing the Boskin Commission's notion that we have to fix the CPI.

A. **Lead Response to Any CPI Question.** Yesterday, we heard that 4 key people on both sides: Rubin, Raines, Kasich, and Domenici all agree that this really needs to be a situation of getting the numbers right, regardless of politics or the budget process.

Nothing new was said over the weekend by Secretary Rubin or Director Raines. The Administration position remains the same:

- We should not rule out a change in the cost-of-living adjustment if, based on technical analysis, there's a broad-based agreement that there is a better and more accurate measure of the cost-of-living

- We should allow time for experts around the country in the private and public sector to digest and analyze the Boskin report and other similar reports and studies.

- The Administration has always stated that the question that must be asked is: Based on science and technology -- taken out of politics -- can we improve the CPI so that it better measures inflation?

Q. What did Rubin mean by saying that "Boskin got it right?"

A. The Secretary was only referring to the part of the report that said these are very serious issues and that the best way to treat their their report is for the best technical and scientific experts in the private and public sector to digest this report, analyze this report, and reach their own conclusions, and make their own recommendations.

Secretary Rubin did not embrace any specific recommendation of the Boskin commission.

Q. Does that mean you do or do not think will be part of budget process this year

A. The critical thing is that this be a technical, scientific inquiry to see where there is broad agreement among experts. I don't think anybody knows about whether such a broad technical agreement can be reached in a way that would be helpful to the balanced budget process. But we all think it should be looked at as a separate technical judgement.

Q. Would you be willing to have a legislative fix on CPI?

A. At this point we are interested in looking for broad technical agreements. That is the first step. At this point, we are not ruling in or out any particular means to how any adjustments will be made.

Our Administration is open to seeing where we can get broad agreement among experts as to the best CPI adjustment. The timing of when such an agreement can or cannot be reached cannot be determined at this time.

AARP NEWS

For further inquiry, contact American Association of Retired Persons • Communications Division
601 E Street, N.W. • Washington, D.C. 20049 • (202) 434-2560

AARP Statement by Executive Director Horace B. Deets
On The Consumer Price Index
December 4, 1996

The recommendation of the advisory commission headed by Michael J. Boskin to reduce the Consumer Price Index (CPI) by 1.1 percent would result in a tax increase and a Social Security cut. The CPI, which measures the prices of certain goods, determines adjustments to Social Security, Supplemental Security Income (SSI), and other federal benefits such as veterans benefits and federal pensions. It is also used to adjust income tax brackets, exemptions, and other tax provisions.

We should leave the calculation of the CPI as a technical process and not a legislative one. And that is not just AARP's opinion. President Bill Clinton and congressional leaders Newt Gingrich and Richard Gephardt, recently have each told the *AARP Bulletin* that they favor a technical solution to the CPI issue and that politics should be kept out of it.

To decrease the CPI arbitrarily through legislation means that the income of virtually anyone who pays taxes, receives Social Security benefits, veterans benefits, or federal pensions would be stripped away by inflation. A one-percent reduction of the CPI would cost the average Social Security beneficiary approximately $5,000 over ten years and would hurt those at or near the poverty level the most. Meanwhile more of their income would be taxed, often at a higher rate, because tax provisions are indexed for inflation.

Case studies prepared by Price Waterhouse, LLP illustrate the impact more clearly. A 65-year-old widow who relies on Social Security for most ($8,500) of her $10,000 income would lose benefits totaling nearly $22,000 through the year 2015 (her average life expectancy). Likewise, a non-elderly couple with two children and an income of $50,000 would pay $12,500 more in taxes over the same period.

Under the current system, experts in the Bureau of Labor Statistics (BLS) analyze the CPI and make technical changes based upon their research and analysis. There is no question that the CPI is not perfect — indeed the BLS continually searches for ways of improving the CPI's accuracy — but it is the best measure available.

-more-

Arbitrarily changing the CPI is a dangerous path to follow. If the Congress cannot balance the budget by reducing the CPI, will they next seek to legislate the unemployment rate or interest rates?

The Cost of Living Adjustments (COLAs) are not like Christmas bonuses that are awarded based on how well the government is doing. They are dollars people count on to live day by day, to keep pace with inflation, and for many, to stay above the poverty line. No one should play politics with those dollars. In fact, the current automatic COLA system was created in 1972 to take Social Security out of politics.

AARP strongly supports improving the accuracy of the CPI. We also support efforts to reduce the federal budget deficit. But there is a right way and a wrong way to accomplish these goals. The right way to adjust the CPI is to allow the experts at the BLS to continue doing their jobs and to keep politics out of it. The right way to reduce the federal deficit is for our elected officials to explain the tough decisions that need to be made and engage the public in a full and open discussion of the consequences of those decisions. The wrong way is to legislate a backdoor reduction in COLAs and a tax increase by changing the CPI and leaving millions of Americans wondering why they can no longer make ends meet.

We urge that the Administration and the Congress refer the Boskin commission recommendations to the BLS for review. Further, we recommend that the methodology suggested by the commission be carefully reviewed by technical experts to determine if it brings us any closer to an accurate determination of the true cost of living. The CPI is not perfect, but nothing suggested so far seems to be an improvement.

###

For more information, contact Christine Kirby or Tom Otwell at (202) 434-2560.

AARP

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Contact: Christine Kirby
202/434 -2560

BLS Changes to the CPI

The Consumer Price Index (CPI) is a measure of the average changes in prices paid by urban consumers for a fixed market basket of goods and services. It is calculated and published by the Bureau of Labor Statistics (BLS) every month.

Historically, the market basket of goods and services has been updated every ten years. The BLS is in the process of updating the index to reflect the 1993-1995 consumption patterns. This 1998 market basket update is projected to reduce the CPI's annual increase by an estimated 0.1% to 0.2%.

In addition to this periodic update, the BLS continually researches improved statistical formulae because the nature and use of goods changes constantly. For example, in 1995, the BLS corrected the formula bias in the CPI's housing, food-at-home (groceries) and prescription drug components, resulting in a reduction of 0.11% to the CPI's annual increase. Effective for 1996, the BLS improved the sample rotation and item substitution procedures which are projected to shave 0.1% from the CPI's annual price change.

With adequate resources and staff, we can expect the BLS to continue to make technical changes as needed based on their research and analysis. This process should remain free from political interference.

Boskin Commission Members Predisposed to a CPI Overstatement

In the Spring of 1995, a number of witnesses testified before the Senate Finance Committee about the Consumer Price Index (CPI) and were asked to estimate the extent of its overstatement. The 5-member Boskin Commission, appointed by the Finance Committee after the hearing, was composed almost entirely of those economists who provided the highest estimated overstatements. No one with a low or no estimate of overstatement was appointed to the Commission.

	Estimate of CPI Overstatement
Dr. Michael Boskin	1 to 2%
Dr. Zvi Griliches	1%, ± 0.6%
Dr. Ellen Dulberger	No Estimate Provided
Dr. Robert Gordon	1.7%
Dr. Dale Jorgenson	1%, ± 0.5%

THE EFFECT OF A CPI MINUS ONE PERCENTAGE POINT ON SAMPLE FAMILIES

The CPI is used to determine cost-of-living adjustments for federal benefits, particularly Social Security, as well as the thresholds for federal income tax brackets, the standard deduction and the personal exemption levels. A CPI minus one percentage point results in a tax increase for all taxpayers and a benefit reduction for Social Security recipients.

The following case studies -- prepared by Price Waterhouse, LLP – show the tax and Social Security benefit impact (in nominal dollars) in each year and cumulatively through the year 2015.

A. A 65 year old widow who relies on Social Security benefits for most ($8,500) of her $10,000 income.

	1997	2001	2015*	Cumulative Loss Through 2015
Benefit Loss	-$85	-$469	-$2,528	-$21,848

(*Average life expectancy for a 65 year old woman in 1996 is 19 years, or 2015)

B. A couple, both 65 years old, with $22,000 of income ($15,000 from Social Security).

	1997	2001	2015	Cumulative Loss Through 2015
Benefit Loss	-$150	-$828	-$4,460	-$39,127

C. Non-elderly couple with two children and $35,000 of income.

	1997	2001	2015	Cumulative Tax Increase Through 2015
Tax Increase	$25	$140	$754	$6,444

D. Non-elderly couple with two children and $50,000 of income.

	1997	2001	2015	Cumulative Tax Increase Through 2015
Tax Increase	$25	$140	$1,693	$12,652

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PROPOSED ADJUSTMENTS TO THE CONSUMER PRICE INDEX (CPI)

The CPI determines the annual level for cost-of-living adjustments (COLAs) for Social Security and other federal benefits, as well as the levels for federal tax brackets, exemptions, and other tax provisions. The CPI is determined by the Bureau of Labor Statistics (BLS). The bureau has in place a system for making technical changes to the CPI. Every 10 years the market basket of goods is reworked and other adjustments, such as for new products, are made on an ongoing basis. However, proponents of changing the CPI argue that it does not accurately reflect overall inflation. Proposals to lower the CPI outside of BLS's procedures are nothing more than thinly disguised attempts to cut Social Security <u>and</u> increase taxes.

AARP opposes changing the CPI outside of the technical process for making such adjustments.

- Millions of Social Security recipients rely on annual COLAs to ensure that their purchasing power is not eroded by inflation. This is especially true for low to middle income beneficiaries who rely on Social Security as the primary source of their income. A proposal that "adjusts" the CPI downward by one percent would mean that today's average retired worker would lose over $5,000 in Social Security benefits over the next ten years.

- Proposals to lower the CPI through so-called "technical" revisions are simply back-door attempts to cut Social Security COLAs. Although advocates of the change contend the CPI overstates inflation, the issue remains in dispute. We should continue to allow professional economists in the Bureau of Labor Statistics to engage in a thorough analysis and state any reasons for change. Congress should not attempt to coerce or pressure BLS in the course of doing its job of analyzing the data and setting the CPI.

- The CPI may actually underestimate increases in the goods and services that older Americans purchase since they spend a much larger percentage of their income on health care, which continues to grow at a significantly higher rate than the CPI.

- Any "technical" change that lowers the CPI will decrease the annual indexation of the tax brackets, and other tax provisions, thereby increasing taxes for taxpaying Americans. If a tax increase is necessary, this too should not be disguised.

AARP strongly believes the CPI should not be politicized. Before Congress considers "adjustments" to the current index, AARP believes it is necessary for BLS to thoroughly evaluate whether the change is warranted. In addition, such evaluation should examine the extent to which older consumers have a different pattern of purchases than wage earners, particularly in the area of health care.

November 1996

American Association of Retired Persons 601 E Street, NW Washington, DC 20049 202 434-2277

Margaret A. Dixon, Ed.D. *President* Horace B. Deets *Executive Director*

Party Leaders Oppose Political Changes to the CPI

Key Democrats and Republicans have opposed making changes to the Consumer Price Index beyond those recommended by the technical experts at the Bureau of Labor Statistics.

President Bill Clinton:
"I think what we've done is the right policy which is to treat it as a matter of economics, not a matter of politics. I think we ought to stay with the system that we have."

- Interview in *AARP Bulletin*, October 1996

Senator Bob Dole:
"We ought to find out what that ought to be, and then it ought to be that. Just to move it around to save a chunk of money -- I don't believe in that."

- Interview in *AARP Bulletin*, October 1996

Speaker Newt Gingrich (R-GA):
"I think we can make a very fair argument that technical specialists should tell us what the honest COLA is and everybody should get an honest COLA. Don't get politicians second-guessing the COLA system or it will become a total mess."

- Interview in *AARP Bulletin*, November 1996

Minority Leader Richard Gephardt (D-MO):
"The American people, and recipients of Social Security, cannot and will not accept arbitrary judgments in this area."

- Interview in *AARP Bulletin*, November 1996

Senator Pete Domenici (R-NM), Chairman, Senate Budget Committee

"I believe I could spend time convincing the Senate that the small group of economists [Boskin Commission] that came up with the conclusion that we were off by anywhere from 1 percent to 2.7 percent are not an official commission of the Congress, or of the President, and that we should not be changing Social Security based upon their reasoning."

- Statement on Senate Floor, May 20, 1996

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500

THE CHAIRMAN

FOR IMMEDIATE RELEASE
WEDNESDAY, SEPT. 27, 1995

CONTACT: MICHELE JOLIN
CHIEF OF STAFF
(202) 395-5084

Statement of Dr. Joseph E. Stiglitz

Consumer Price Index

Current methodologies for estimating the magnitude of price changes suffer from a variety of limitations. There is, however, some disagreement about the magnitude of the possible biases.

We believe that whatever adjustments are made to reflect changes in the cost of living should be done on the best scientific evidence, and that the process of making such adjustments should not be politicized.

The Bureau of Labor Statistics has an ongoing effort to improve the CPI in order to make it more reflective of changes in the cost of living. The BLS, together with other government agencies, including the Council of Economic Advisers, will continue to carefully review the evidence and any new information about the magnitude of possible biases.

The White House
Office of Presidential Letters and Messages

THE WHITE HOUSE
WASHINGTON

Facsimile from Seth Masket
Voice: (202) 456-5514; FAX: (202) 456-2806

No. of Pages (including cover): 3 Date: 12/7/95

To: Molly Brostrom

Voice: 6-5561 Fax: 6-7028

Comments: As we discussed. Thanks.

141132

National Committee to
Preserve Social Security
and Medicare

[redacted]

November 16, 1995

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

The National Committee to Preserve Social Security and Medicare urges you to reject any budget proposal that tampers with the Consumer Price Index (CPI) or the Social Security annual cost of living adjustment (COLA). Some Members of Congress advocate reducing the CPI in order to raise significant funds for deficit reduction as part of a potential budget compromise.

We commend your strong leadership in opposition to the current budget resolution and its disproportionate targeting of Medicare and Medicaid to finance deficit reduction and tax cuts. Seniors across America have serious concerns about recent course of events in Washington. These concerns will be worsened by a raid on Social Security COLAs.

It is a mistake to politicize the government inflation measure or to use unsubstantiated claims of inaccuracy to justify a cut in the Social Security COLA and/or to increase taxes. Without clear evidence of error in the BLS calculations, an arbitrary decrease in the CPI is no more than a backdoor way to reduce Social Security benefits and increase taxes. Seniors will strongly oppose COLA reductions and will recognize the manipulation of the CPI as a backdoor effort to cut COLAs.

Despite claims that the CPI overstates inflation, no one to date has comprehensively reviewed <u>all</u> components of the CPI looking at both overstatement <u>and</u> understatement of inflation and eliminating possible double counting. Both the current and former Bureau of Labor Statistics (BLS) Commissioners believe that a thorough study may conclude that the CPI does <u>not</u> overstate inflation. The recent study commission appointed by the Senate was comprised only of economists who had previously concluded that CPI overstates inflation. Those economists who do not agree were not put on the commission. This commission did not comprehensively review all components of CPI.

In fact, sufficient evidence exists to argue that over the past decade of double digit health inflation, the CPI has understated the impact of inflation on older Americans. We call attention to research by CBO which concluded that between 1982 and 1993 an experimental index for the elderly increased at an annual average rate of 4.0 percent compared to 3.5 percent for the CPI used to calculate COLAs. Higher medical inflation was the main culprit in higher inflation for seniors.

2000 K Street, N.W., Suite 800 • Washington, D.C. 20006 • 202-822-9459

On behalf of the nearly six million members and supporters of the National Committee to preserve Social Security and Medicare, we urge you to oppose any quick-fix budget solution that involves tampering with Social Security COLAs or the calculation of the CPI.

Sincerely,

Martha A. McSteen
President

February 2, 1996

Mr. Steve Protulis
Executive Director
National Council of Senior Citizens
1331 F Street, N.W.
Washington, D.C. 20004-1171

Dear Steve:

Thank you for your letter regarding Social Security. I appreciate having your perspective on the consumer price index and Social Security's annual cost of living adjustments. As we fight to ensure that our nation does not turn its back on the health and well-being of older Americans, I will certainly keep your concerns in mind.

Sincerely,

BILL CLINTON

BC/SEM/JFB/DWB/lynn-efr (Corres. #2667390)
(1.protulis.s)

cc: w/copy of incoming to Molly Brostrom, ODP

President
Eugene Glover
Silver Spring, MD

National Council of Senior Citizens

Executive Director
Steve Protulis
Washington, DC

1331 F Street, N.W. • Washington, DC 20004-1171 • (202) 347-8800 • FAX (202) 624-9595

December 12, 1995

Dear Mr. President:

We understand that active consideration is being given to reducing the Consumer Price Index (CPI) by up to 0.6 percent or more as a means to balancing the budget. The National Council of Senior Citizens, representing five million older Americans, strongly objects to any move which would cut Social Security, Supplemental Security Income and Federal employees' and military pensions, plunging hundreds of thousands of beneficiaries into poverty. Over 60 percent of retirees depend on Social Security for more than half of their total income.

There is no valid statistical basis for any such cut.

The issue of whether the CPI is overstated should be considered on its own merits, not used as a politically convenient tool to balance the budget. The Bureau of Labor Statistics (BLS) is currently engaged in updating the CPI to be completed for publication in January 1997. No adjustment of the COLA, upward or downward, should be contemplated prior to the completion of the Bureau's work.

To require such adjustment, on legislative command, would open to serious question the integrity of the CPI and much of the economic statistical work of the Federal government.

A premature seat-of-the-pants change in the COLA would be all the more unjustified because the BLS, in response to a Congressional request, has constructed an experimental CPI for older Americans (at least 62 years of age) which shows a sharper rise than the CPI covering urban workers (CPI-W) which is used for computing the annual COLA. The BLS experimental CPI for the elderly shows that from the period between 1988-93 the CPI was between .1 and .6 percentage points lower each year than what the CPI should have been for the elderly and 2.4 percentage points lower over the entire period. This means that over the six-year period the elderly received at least $24 billion less than the actual rise in their cost-of-living required.*

This study suggests that only an upward adjustment of the COLA would be justified for the elderly. At this time, we are not requesting such a revision. However, we are requesting that consideration be given to the development of a CPI based on the buying patterns of Social Security beneficiaries which would be more appropriate for determining the annual Social Security COLA than the CPI-W currently uses.

Changing the CPI's computations to make it politically easier to balance the budget would be an enormous disservice to the millions of men and women in this country who depend upon it to maintain a decent standard of living. American citizens will see this for what it is—a backdoor reduction in real income for 42 million persons of modest means already facing diminished security as a consequence of the budget resolution. For these reasons, we urge that no arbitrary changes in the COLA be considered in the negotiations on the Budget bill.

Sincerely,

Steve Protulis

Steve Protulis
Executive Director

* *Monthly Labor Review*, May, 1994.

PANEL SAYS ERRORS IN INFLATION DATA DRAIN U.S. BUDGET

BENEFIT CHECKS AT ISSUE

If Estimate of Increase in Cost of Living Was Scaled Back, Most Would Feel Pinch

A1

By RICHARD W. STEVENSON

WASHINGTON, Dec. 3 — An independent commission appointed by Congress will report on Wednesday that the Government is overstating the inflation rate by 1.1 percentage points, costing it billions of dollars in inflated Social Security and other benefits payments. The commission will call on Congress and the Clinton Administration to solve the problem.

The report, on the Consumer Price Index, will stop short of advocating a specific plan for dealing with the predictable political opposition to any step that would rein in benefits like Social Security. But it will specifically recommend that Congress and the Administration take a variety of technical steps to fix the index, which is used to calculate cost of living increases for many union contracts as well for Government programs like Social Security.

Ultimately, the report suggests, legislation to revise the index might be the best approach, but both parties so far have been reluctant to take the lead on the issue.

The Consumer Price Index is compiled by the Labor Department Bureau of Labor Statistics. It measures inflation by tracking the prices of a "market basket" of products meant to reflect typical consumer purchases. It has played a major role in shaping the impression that the economy's performance has deteriorated over the past several decades, and, as the most widely used gauge of increases in the cost of living, it has become the basis for many decisions by Government and businesses.

Although many of the problems with the index are arcane, any changes to it would ripple across the economy and through the personal finances of nearly everyone.

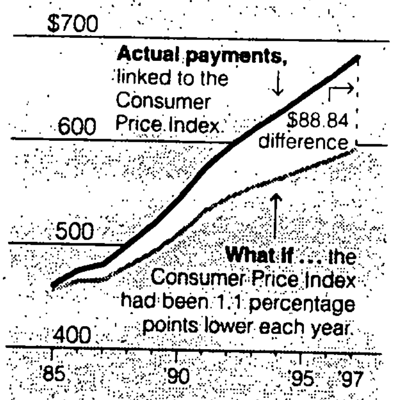
For instance, Social Security payments for next year are being calculated on the basis of a 2.9 percent increase in the cost of living. If that increase was 1.1 percentage points lower, the average monthly payment, now $724, would go to $737 rather than to $745 — a difference of $8 a month, or $96 a year. The effect would build on itself because a lower payment next year would mean a lower starting point when the benefit was adjusted for inflation the following year. In 15 years, the difference would amount to several thousands of dollars a year per recipient.

By the same token, the change would have a huge effect on efforts to balance the budget. According to an estimate by the Congressional Budget Office, done before the commission's recommendations, even a reduction of one percentage point in the cost of living increase would save the Government $34 billion in payments for Social Security and other retire-

Continued on Page B12, Column 2

For Social Security, Potential Erosion

The average monthly Social Security benefit paid to those retired by Dec. 31, 1984.*



*Average benefits vary by retirement date. The current average payment is $724 a month.

Source: Social Security Administration

The New York Times

Continued From Page A1

ment and benefit programs in 2002, the year by which both parties have pledged to eliminate the deficit.

Recalculating the index could raise taxes for many individuals by reducing the annual inflation-driven increases in the standard deduction, personal exemptions and the income levels at which higher tax rates kick in. By 2002, a reduction of one percentage point in the index would yield an additional $21.4 billion in tax revenues, the budget office calculates.

Together, the reductions in spending and the higher tax revenues could make up more than a third of the $150 billion annual deficit that the nation is projected to face in 2002.

Although fewer union contracts than in the past have wage increases directly tied to the price index, it is unclear how any changes in the index would affect pay for workers whose wage increases are more loosely based on the cost of living.

The recommendations by the five-member commission, headed by Michael J. Boskin, a Stanford University economist and a former head of the White House Council of Economic Advisers under President Bush, range from highly technical suggestions for fixing the monthly Consumer Price Index's statistical shortcomings to a call for a new annual index that could provide a more accurate measurement of cost of living increases.

Although both Democrats and Republicans have expressed vague support for revising the index, both parties are also fearful of being tagged by the other as willing to pursue fiscal austerity at the expense of the elderly, a fast-growing and increasingly politically powerful group.

As a result, there is little likelihood that the commission's findings will be embraced publicly by either side, at least immediately, although officials at both the White House and in Congress have said they might be willing to discuss the matter as part of a balanced budget agreement.

Senior Administration officials said privately that while they remained wary of the political pitfalls associated with the issue, they wanted to send a message to Republicans that they were open to further study and negotiation and to changing the

The New York Times, WEDNESDAY, DECEMBER 4, 1996

1-2

"All the News That's Fit to Print"

The New York Times

New York: Today, morning shower then sun [illegible]. High 48. Tonight, some clouds [illegible]. Tomorrow, early sun, then [illegible]. High [illegible]. Yesterday, high [illegible]. Details, page C18.

VOL. CXLVI . . . No. 50,631 | [illegible] | NEW YORK, WEDNESDAY, DECEMBER 4, 1996 | [illegible] beyond the greater New York metropolitan area | 60 CENTS

Deadly Explosion on a Paris Train

Rescue workers evacuated a wounded commuter from the Port Royal rail station in central Paris yesterday after a bomb exploded on a regional express train, killing two and badly wounding seven. Page A3.

GOVERNOR MAKES FIRST NOMINATION TO HIGHEST COURT

DEATH PENALTY BACKER

Pataki's Choice Seen as Effort to Push Court to Right — Democrats Offer Praise

By JAMES DAO

ALBANY, Dec. 3 — Gov. George E. Pataki, who has repeatedly criticized the state's highest court as soft on crime, announced his first nomination to the Court of Appeals today, choosing a pro-death-penalty Republican with a reputation for supporting prosecutors and interpreting laws narrowly.

The choice of Richard C. Wesley, a judge on the Appellate Division of State Supreme Court from near Rochester, clearly signals Mr. Pataki's desire to push the Court of Appeals in a more conservative direction, particularly on criminal justice issues. But it is also very likely to be the Republican Governor's only selection to the high court in his first term, and will not substantially shift the ideological position of a seven-member panel that will remain dominated by appointees of former Gov. Mario M. Cuomo, a Democrat.

If confirmed by the Republican-controlled State Senate, as is expected, Justice Wesley would replace Associate Judge Richard D. Simons, who is stepping down at the end of the year because he is reaching the mandatory retirement age of 70.

Justice Wesley, a friend and former legislative colleague of Mr. Pataki's, was known as an aggressive debater and conservative partisan in the Legislature who once proclaimed on the floor of the Assembly that the death penalty was needed to punish "animals" who "have no respect for human dignity."

But several Democrats also praised him today, describing him as a warm, funny, thoughtful man who always carefully considered the positions of his opponents. And though he was known for his strong anti-crime positions, he also displayed a keen interest in studying ways of reforming criminals beyond simply lengthening their prison sentences, Democrats said.

"He's an intelligent, rational guy," said Assemblyman Daniel L. Feldman, a Brooklyn Democrat who is chairman of the Assembly Correction Committee. "I'm delighted in

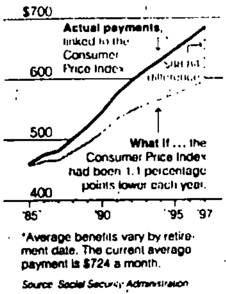
Continued on Page B4, Column 1

Special Courts for Boroughs

New York State's top judge said each borough would soon have hand-picked, trained judges to oversee domestic violence cases. Page B1.

For Social Security, Potential Erosion

The average monthly Social Security benefit paid to those retired by Dec. 31, 1984.*



*Average benefits vary by retirement date. The current average payment is $724 a month.

Source: Social Security Administration

The New York Times

Justices Weigh Rights of States In Gun Control

By LINDA GREENHOUSE

WASHINGTON, Dec. 3 — The Clinton Administration struggled today to convince the Supreme Court that the Brady gun control law does not trample on the constitutional principles of state sovereignty in requiring local law-enforcement officials to conduct background checks of prospective gun purchasers.

The Court's sympathies for the states'-rights side of the ongoing constitutional debate over federalism were very much in evidence in the hourlong argument. Justice Antonin Scalia offered the observation that the effect of the law was to "make the states dance like marionettes on the fingers of the Federal Government."

The law, which took effect in 1994, was named for James S. Brady, the former White House press secretary who was gravely wounded in the assassination attempt on President Ronald Reagan in 1981. Amending a 1968 law that prohibits convicted felons from buying guns, the law imposes a five-day waiting period for handgun purchases to provide time for a check of criminal records. Mr. Brady and his wife, Sarah, were in the courtroom audience today.

Two county sheriffs, from rural areas in Montana and Arizona, challenged the law's background check requirement as a burdensome incursion into the inner workings of state government. While they lost their case last year in the United States Court of Appeals for the Ninth Circuit, in San Francisco, another Federal appeals court has struck down the provision in a nearly identical case brought by sheriffs from Texas

Continued on Page A26, Column 3

PANEL SAYS ERRORS IN INFLATION DATA DRAIN U.S. BUDGET

BENEFIT CHECKS AT ISSUE

If Estimate of Increase in Cost of Living Was Scaled Back, Most Would Feel Pinch

By RICHARD W. STEVENSON

WASHINGTON, Dec. 3 — An independent commission appointed by Congress will report on Wednesday that the Government is overstating the inflation rate by 1.1 percentage points, costing it billions of dollars in inflated Social Security and other benefits payments. The commission will call on Congress and the Clinton Administration to solve the problem.

The report, on the Consumer Price Index, will stop short of advocating a specific plan for dealing with the predictable political opposition to any step that would result in benefits like Social Security. But it will specifically recommend that Congress and the Administration take a variety of technical steps to fix the index, which is used to calculate cost of living increases for many union contracts as well for Government programs like Social Security.

Ultimately, the report suggests, legislation to revise the index might be the best approach, but both parties so far have been reluctant to take the lead on the issue.

The Consumer Price Index is compiled by the Labor Department's Bureau of Labor Statistics. It measures inflation by tracking the prices of a "market basket" of products meant to reflect typical consumer purchases. It has played a major role in shaping the impression that the economy's performance has deteriorated over the past several decades, and, as the most widely used gauge of increases in the cost of living, it has become the basis for many decisions by Government and businesses.

Although many of the problems with the index are arcane, any changes to it would ripple across the economy and through the personal finances of nearly everyone.

For instance, Social Security payments for next year are being calculated on the basis of a 2.9 percent increase in the cost of living. If that increase was 1.1 percentage points lower, the average monthly payment, now $724, would go to $737 rather than to $745 — a difference of $8 a month, or $96 a year. The effect would build on itself because a lower payment next year would mean a lower starting point when the benefit was adjusted for inflation the following year. In 15 years, the difference would amount to several thousands of dollars a year per recipient.

By the same token, the change would have a huge effect on efforts to balance the budget. According to an estimate by the Congressional Budget Office, done before the commission's recommendations, even a reduction of one percentage point in the cost of living increase would save the Government $34 billion in payments for Social Security and other retire-

Continued on Page B12, Column 2

HAWAII JUDGE ENDS GAY-MARRIAGE BAN

But State's Lawyers Seek Stay Pending High Court Appeal

By CAREY GOLDBERG

A Circuit Court judge in Honolulu ruled today that lawyers for the state had failed to show any compelling reason for the existing ban on gay and lesbian unions. Calling the ban unconstitutional, the judge ordered the state to stop denying marriage licenses to same-sex couples.

The decision edged Hawaii one step closer to becoming the first state to recognize gay marriage, an appeal by opponents of the ban to the state Supreme Court is expected to take most of next year.

In 1993, the state Supreme Court had ruled that the ban appeared to be unconstitutional and ordered Hawaii to show a "compelling state interest" justifying it. Should the court rule the same way again, the legal battle in Hawaii will be over and marriage licenses will be granted there.

But the legal fights on the mainland will only be beginning as other states and the Federal Government wrestle with the issue of whether they must recognize same-sex marriages performed in Hawaii.

The prospect of would-be gay spouses flocking to the state to wed has prompted such widespread opposition that Congress passed the Defense of Marriage Act earlier this year declaring that states are not obliged to recognize single-sex marriages performed elsewhere. Though his spokesman denounced the meas-

Continued on Page A26, Column 1

3 Former Archer Daniels Officers Indicted on Price-Fixing Charges

By KURT EICHENWALD

A Federal grand jury indicted three former officers of the Archer Daniels Midland Company yesterday — including an executive who worked for almost three years as an undercover Government informant in the case — on charges that they conspired with competitors to fix the prices of a feed additive.

The grand jury in Chicago also indicted a senior executive at the Ajinomoto Company in Japan on charges that he participated in an illegal cartel to fix prices on the feed additive, called lysine.

The indictments, which the defendants have vowed to fight, set the stage for a court battle that would provide a rare look into the inner workings of Archer Daniels, the agricultural giant that has long been one of the nation's most influential and politically powerful corporations.

During the investigation, Mark E. Whitacre, the executive who acted as the informant and who was indicted yesterday, secretly taped hundreds of conversations at the highest reaches of the company, including meetings with its iron-fisted chairman, Dwayne O. Andreas.

But, according to the indictment, the criminal activity caught on tape reached only as high as Mr. Andreas's son, Michael D. Andreas. The younger Mr. Andreas, the company's vice chairman who recently went on leave, was among those indicted.

In addition to Mr. Whitacre and Michael Andreas, the others indicted yesterday were Terrance S. Wilson, until recently the head of the company's corn processing division, and Kazutoshi Yamada, a managing director at Ajinomoto in Tokyo.

The indictments followed the decision by Archer Daniels in October to plead guilty to charges of fixing prices of lysine and another agricultural product, citric acid. The company paid $100 million in fines, an amount more than seven times the previous largest financial penalty in such a case.

Three other companies, including Ajinomoto, have also pleaded guilty to price-fixing and agreed to pay fines. A fourth, Cheil Jedang Ltd. of South Korea, has also agreed to

Continued on Page D8, Column 4

Standoff in Serbia Is Nearing the Brink

The Serbian President and the opposition groups that have marched against his Government by the tens of thousands in the last two weeks edged closer to deploying the remaining weapons in their arsenals.

In his most drastic move yet, the President shut down the country's last independent news station, while the opposition answered with a reluctant call for nationwide strikes.

Article, page A10.

In Pop Records, All the Signs Are Gloomy

By NEIL STRAUSS

"I'm going to keep making money," the top-selling rapper Snoop Doggy Dogg boasts on his new album. He may be the only person in the music industry feeling that optimistic. The business is in one of the most perplexing crises it has faced in decades.

Growth in the $12 billion record industry, which for more than a decade has ranged from 12 to 20 percent annually, has slowed to nearly a standstill, and people in the business can't agree on why. All that is certain is that a malaise is sweeping every facet of music — its production, distribution and consumption.

Several of the country's largest record-store chains and hundreds of independent music shops have declared bankruptcy, gone out of business or put their stores up for sale. New albums by well-known pop acts like Hootie and the Blowfish, R.E.M., Pearl Jam, Sheryl Crow, Bryan Adams, Nirvana, Tom Petty and Phil Collins have fallen far short of their projected sales figures. Four of the industry's six major record labels have made extensive staff cuts, MTV is overhauling its programming, and concert promoters are suffering from lackluster ticket sales. Even with holiday shopping getting into full swing, music executives are wondering where the music fans are.

Record labels still expect to take in at least $11 billion this year, but too many businesses are competing for a piece of a market that not only is barely growing but is also failing to create stars with durable careers, people in the industry say. Executives say they expect the problems to last 12 to 18 months longer as the industry levels out after a period of overexpansion and misplaced optimism.

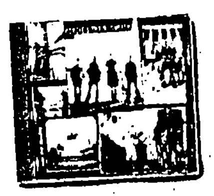
In the first half of the decade, record labels were confident as sales of alternative rock and country music boomed. But the presidents of several record labels said they felt they had since lost touch with their audience. They blamed themselves for this, saying that by chasing hit singles instead of building long-term success for bands, they had turned off many consumers.

"Record companies need to be [illegible] to [illegible] the tastes of record buyers, but their ears are [illegible] a little bit," said Russ Solomon, the president of Tower Records, which has had flat sales all year. "We don't have any teen idols, which in the past has been very important. Record companies have been busy trying to create new technology like the minidisk and the digital cassette, which have been flops, instead of focusing on the music."

Others contend the fall has less to do with record label negligence than with a changing [illegible]. "We do a lot of [illegible]," said [illegible], the president of MTV. "[illegible] the 12- to 24-year-olds we've been talking to are [illegible] from people in other age groups

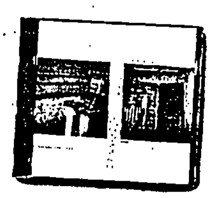
Continued on Page C11, Column 1

FOR EXAMPLE, HOOTIE AND THE BLOWFISH



9.2 million sold

Cracked Rear View
Released July 1994



2.0 million sold

Fairweather Johnson
Released April 1996

Strong Sales Last Time . . .

After the phenomenal success of Hootie and the Blowfish's last release two years ago, retailers expected their next album to sell five to six million copies.

. . . But a Weak Follow-Up

But it has shown no signs of meeting those expectations. After more than seven months on the racks, it has sold only two million copies.

The New York Times

The Moon May Have Water, And Many New Possibilities

By JOHN NOBLE WILFORD

Scientists think they have detected water on the Moon, and suddenly visions of people living in lunar colonies and stopping off there to refuel on the way to Mars seem a little less farfetched.

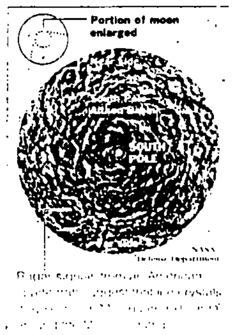
After two years of careful analysis, scientists said yesterday that radar signals from an American spacecraft indicated the Moon was not as bone-dry as is usually thought. The peculiar radar signatures suggested the presence of water ice in the permanently cold shadows of a deep basin near the lunar south pole.

The ice deposit is not at all like a frozen lake where astronauts might try skating in one-sixth gravity. Instead, the scientists said, the survey seemed to reveal a vast landscape of some 4,000 square miles in which ice crystals are mixed with dirt, a kind of permafrost that is presumably the residue of moisture from comets striking the Moon over the last three billion years.

"We think we have found ice," said Dr. Paul D. Spudis, a geologist at the Lunar and Planetary Institute in Houston. "We are not positive. But we see signals consistent with ice, and we think it's there."

But Dr. Spudis and other scientists reporting the findings by Clementine, a small Defense Department spacecraft, acknowledged that the discovery needed to be confirmed by an independent investigation. That

Continued on Page B[illegible], Column [illegible]



NASA; Defense Department

[illegible]

[illegible]

INSIDE

Plan for Sidewalk Structures

Seeking esthetic order on streets, Mayor Giuliani said newsstands and bus shelters would be refurbished and public toilets installed. Page B1.

Ich Bin Ein Dominicano

For some political candidates in New York, the Caribbean is competing with Europe as a regular campaign stop. Page B1.

Airline Merger Talks Seen

Delta Air Lines and Continental Airlines are discussing a possible merger, according to people close to the talks. Page D1.

On the Internet: www.nytimes.com

index if a broad technical and political consensus could be reached.

In its public statements, however, the White House was somewhat more restrained.

"The Administration considers the Boskin Commission and some experimental work the Bureau of Labor Statistics is doing as the beginning of the process, not the end of it," said Larry Haas, a spokesman for the Office of Management and Budget at the White House. "The President will direct his economic team to study these findings, and we will seek input from other experts before deciding how to react."

Senator William V. Roth Jr. of Delaware, a Republican who is chairman of the Senate Finance Committee, which set up the commission, said he was looking to the White House to "provide leadership" on the issue.

"My party is willing to work in a bipartisan manner on this issue," he said. "It can't be done without the President's support."

As a practical matter, Congress and the Administration could change the current system in one of three ways. They could direct the Bureau of Labor Statistics to change the price index to reflect the report's concerns. They could pass legislation to create an alternative cost of living index to be used in setting benefit levels. Or they could pass legislation directing that benefit levels be set by subtracting the amount of the mismeasurement from the price index.

Because the Bureau of Labor Statistics has made clear that it believes the Boskin Commission is overstating the scale of the problem, it appears unlikely to go along easily with a wholesale revision, and it is unclear whether either Congress or the Administration is willing to put direct political pressure on the agency, which jealously guards its independence.

Next year, the Labor Department will begin publishing an experimental price index that will attempt to account for one of the biggest problems, the tendency of consumers to reduce purchases of items that rise quickly in price and to substitute another product.

Mr. Boskin has long argued that the nation needs to improve the accuracy of its economic statistics, and he fought for additional financing for economic measurement programs while at the White House. He, like other economists and policy makers, including Alan Greenspan, the chairman of the Federal Reserve, has argued that the economy's shift from production of goods that are easy to measure, like cars and steel, to more abstract products, like software, has left the nation flying by faulty instrument readings.

The commission is expected to make a dozen specific recommendations to the Bureau of Labor Statistics, most of them highly technical. They are intended to address what the commission viewed as three major problems with the index that result in a mismeasurement of inflation of between 0.8 percentage points and 1.6 percentage points, with about 1.1 percentage points as the best estimate.

Of the 1.1 percentage points, failure to account for quality improvements and new products caused inflation to be overstated by 0.6 percentage points, people who have seen the report said.

The index's inability to account fully for decisions by consumers to substitute cheaper products for more expensive products when prices are rising accounts for 0.4 percentage points of error. The final tenth of a point of the error stems from the index's failure to pick up changes in where people shop. ?

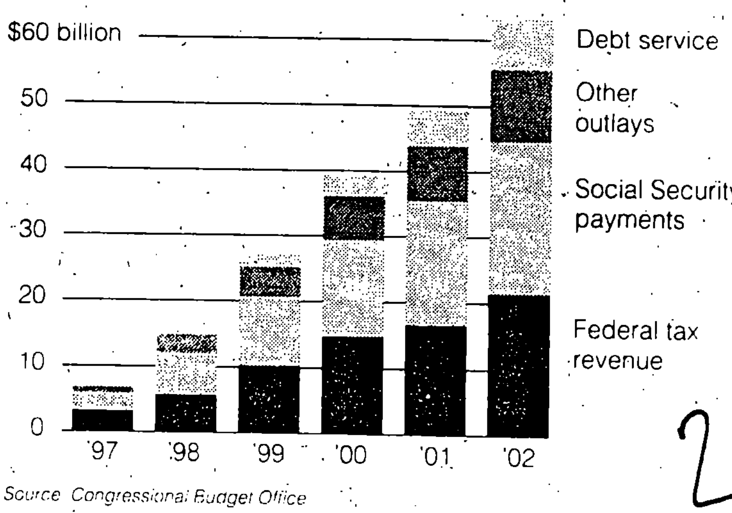
Economists have been arguing about how to account for quality changes and the introduction of new products and services for years. Even though there is broad agreement on the nature of the problem, there is little consensus about how to address it.

The New York Times
WEDNESDAY, DECEMBER 4, 1996

BY THE NUMBERS

Shrinking the Federal Deficit

The amount by which the Federal budget deficit would be reduced each fiscal year if the cost of living adjustment were 1 percentage point lower than currently projected. Fiscal years end Sept. 30.



Source: Congressional Budget Office

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4

GOVERNOR MAKES FIRST NOMINATION TO HIGHEST COURT

DEATH PENALTY BACKER

Pataki's Choice Seen as Effort to Push Court to Right — Democrats Offer Praise

A1

By JAMES DAO

ALBANY, Dec. 3 — Gov. George E. Pataki, who has repeatedly criticized the state's highest court as soft on crime, announced his first nomination to the Court of Appeals today, choosing a pro-death-penalty Republican with a reputation for supporting prosecutors and interpreting laws narrowly.

The choice of Richard C. Wesley, a judge on the Appellate Division of State Supreme Court from near Rochester, clearly signals Mr. Pataki's desire to push the Court of Appeals in a more conservative direction, particularly on criminal justice issues. But it is also very likely to be the Republican Governor's only selection to the high court in his first term, and will not substantially shift the ideological position of a seven-member panel that will remain dominated by appointees of former Gov. Mario M. Cuomo, a Democrat.

If confirmed by the Republican-controlled State Senate, as is expected, Justice Wesley would replace Associate Judge Richard D. Simons, who is stepping down at the end of the year because he is reaching the mandatory retirement age of 70.

Justice Wesley, a friend and former legislative colleague of Mr. Pataki's, was known as an aggressive debater and conservative partisan in the Legislature, who once proclaimed on the floor of the Assembly that the death penalty was needed to punish "animals" who "have no respect for human dignity."

But several Democrats also praised him today, describing him as a warm, funny, thoughtful man who always carefully considered the positions of his opponents. And though he was known for his strong anti-crime positions, he also displayed a keen interest in studying ways of reforming criminals beyond simply lengthening their prison sentences, Democrats said.

"He's an intelligent, rational guy," said Assemblyman Daniel L. Feldman, a Brooklyn Democrat who is chairman of the Assembly Corrections Committee. "I'm delighted in

Continued on Page B4, Column 1

Continued From Page A1

his nomination."

The Governor has been a vocal critic of the Court of Appeals, all of whose members were selected by Mr. Cuomo, particularly on criminal justice issues. He has accused the court of issuing rulings that have tied prosecutors' hands and openly fretted that it would overturn the death penalty law that he shepherded through the Legislature last year.

"Judge Wesley's great common sense will help insure that the rights of victims will be respected," the Governor said in a statement.

But Mr. Pataki insisted today that Justice Wesley's staunch support for capital punishment was not a deciding factor in his selection.

"The factor was the entire balance of leadership ability and intelligence and integrity that Judge Wesley has shown throughout public life," the Governor said at a news conference in the Capitol where he was joined by Judge Wesley and his family.

When asked to describe his judicial style, Justice Wesley replied, "I consider myself a conservative in nature, pragmatic at the same time, with a fair appreciation of judicial restraint."

Asked how he defined judicial restraint, he said: "I intend and have always restricted myself to what I understand to be the plain language of the statute, and do not go beyond that. As long as the language is plain, we should restrict ourselves. Public policy is made by the Legislature."

Academics who follow the Court of Appeals said Justice Wesley would have little short-term impact on the court's ideological direction, since he will be the lone Pataki appointee on a court with six Cuomo judges. At least four of Mr. Cuomo's appointees, including Chief Judge Judith S. Kaye, have formed the core of a liberal majority on an array of issues. Judge Simons was among the court's more moderate members.

"With regard to criminal law, which is the area Pataki seems most concerned, it's not going to change the court at all," said Vincent Bonventre, a professor at Albany Law School. "Judge Simon's record was strongly pro-prosecution."

But court observers said Justice Wesley's selection sends a message about the type of judge Mr. Pataki will seek to appoint to the high court in coming years. But Mr. Pataki will probably have to win reelection in 1998 to have another nomination to the court since the next scheduled vacancy comes in 1999. If Mr. Pataki is re-elected, he will have at least three more appointments to the court, enough to establish the majority.

Aides to Mr. Pataki said they believed that Justice Wesley, 47, was a strong enough personality and intellect to push some of Mr. Cuomo's more liberal appointees to the right.

A supporter of the death penalty who rules on the letter of the law.

But Professor Bonventre said Judge Simons, who was widely respected, played that role and he doubted that Justice Wesley could do more.

The aides said Mr. Pataki had been particularly impressed by two majority decisions written by Justice Wesley while in the Appellate Division's Fourth Department. In one, he ruled that only the Governor and not the courts have the power to grant clemency.

"It shows a sense of the separation of powers, of judicial restraint," said one Pataki aide, speaking on condition of anonymity. In the second instance, Justice Wesley took the prosecution side in a criminal case admitting a 911 tape as evidence.

The Senate majority leader, Joseph L. Bruno, said he expects the Senate to confirm Justice Wesley when the Legislature convenes next month. Court of Appeals judges serve for 14 years and are paid $125,000 a year.

Some Democrats said they were concerned about a 1991 ruling by Justice Wesley on the State Supreme Court, in which he ordered a rape suspect to undergo an AIDS test and release the results to the victim — a rare case in which a suspect was required to take the test before trial. But Senate Democrats said they did not expect to make an issue of that during confirmation hearings.

Justice Wesley, who lives in Livonia, just south of Rochester, beamed brightly as he stood on the dais today, his son, Matthew, and daughter, Sarah, at his side, his wife Kathryn's hand clasped firmly in his. "This is the most significant moment in my life, other than the birth of my two children and the poor judgment of my wife to marry me," he said.

The New York Times

WEDNESDAY, DECEMBER 4, 1996

DPC
- Please Circulate

Talking Points on CPI and Boskin Commission

I believe in having a cost-of-living adjustment and indexing our tax brackets to take account of inflation. The process of determining that should never be politicized, but should be based on the best scientific and objective technical judgment.

There have been, however, serious questions raised by experts -- including at the Bureau of Labor Statistics -- as to what is the most accurate measures of the cost-of-living.

I believe that all of us should be open to reviewing the best evidence and expertise as to what the most accurate cost-of- living measure should be, and that our goal should be to reach a broad agreement based on the best scientific and technical judgment possible.

Q: Are you willing to appoint a commission to look at this measure? What are you going to do?

A: There are new reports expected out by the Boskin Commission and a new experimental index by the Bureau of Labor Statistics early next year. The first step should be for everyone to carefully study these measures and keep an open mind. I am going to ask my economic team to review this new data.

Q: In the past the Administration appeared to state that CPI issues were technical and should be left to the BLS. Is the Administration now abandoning this position and saying they would look beyond the BLS to the views of outside economist for a possible legislative fix to the CPI?

A: The Administration believes that the cost-of-living adjustment should be based on the most accurate, technical and scientific judgment that can be broadly agreed to by the top experts across the nation. Much of this top expertise is housed at the BLS, but just as the BLS themselves do, other decision-makers in Washington should also be willing to weigh all of the top expert opinion and evidence from across the nation.

Q: Would the Administration consider a new index -- different from the CPI -- to base government benefit adjustments and tax bracket indexing to?

A: That's a premature questions at this point. As we have said, the important thing is to ensure that we have the most accurate and credible cost-of-living measure possible that protects people's standard of living and is based on the best scientific and technical judgment that can be broadly agreed to by the nation's top experts at BLS and elsewhere.

MORE DETAILED TALKING POINTS

(1) The Consumer Price Index (CPI) is more than just an objective yardstick of changes in consumer prices. It is used by millions of Americans to ensure that their Social Security and other benefits are protected from inflation and to adjust tax brackets to keep our tax system fair. Therefore it is imperative that the index reflects changes in the cost of living as accurately as possible.

(2) The Boskin report raises legitimate and important issues about how changes in the cost of living are measured. Most economists -- including those at the Bureau of Labor Statistics (BLS) -- agree that the existing CPI produced by the BLS is an imperfect measure of changes in the cost of living. The current CPI measures the cost of a <u>fixed</u> market basket of goods. For this reason, it does not reflect the extent to which people substitute less expensive items for more expensive items as relative prices change. Changes in quality are also difficult to capture fully in the index.

(3) The issues raised by the Boskin Commission report must be considered in this way. The BLS, the rest of the Administration, and the public will carefully review the new report and its recommendations. The BLS already has an ongoing effort to improve the CPI and indeed has already made several improvements over the last four years. This effort has identified many of the problems discussed by the Boskin group and has come up with a number of solutions.

(4) The process of making changes in the measurement of the cost of living cannot be politicized; it should be based on broad agreement among scientific and technical experts.

United States Senate

WASHINGTON, DC 20510

SEP 10 1996

Dear Mr. President,

As we work to complete FY 1997 Appropriations bills, both Democrat and Republican members of the Appropriations Committee are faced with an ever-increasing problem – the lack of money to fund projects that allow us to invest in America's future. We have struggled to complete our work on Commerce, Justice, State, Labor, HHS and other appropriations bills knowing that we face a veto threat because the level of funding in these bills is too low. As entitlement spending devours bigger and bigger pieces of the budget every year, we sacrifice our ability to adequately fund discretionary accounts which enable us to invest in education, infrastructure, parks, the environment, child care, research and development.

We believe, as 46 Members who voted for the Centrist Budget and/or Members of the Appropriations Commitee, that there is a simple and evenhanded way to confront this problem: a .5 adjustment to the Consumer Price Index (CPI). Mainstream economists agree that the CPI is overstated from between .7 to 2 points and accordingly, is not an accurate measure of inflation. Therefore, this appropriate adjustment will put us on the path toward endowing our children with a country full of opportunities – rather than a future full of debt. The savings we would achieve, as scored by the Congressional Budget Office, is as follows (in billions):

	1997	1998	1999	2000	2001	2002	2003	Total
CPI	4	7	12	17	22	29	34	125

A reduction in CPI is an equitable way to curb the increase in mandatory spending as it requires small sacrifices across several large programs rather than targeting a few programs for elimination or drastic cuts. It also has an effect on revenues – which again, allows us to the spread the sacrifice over a large number of people so that its impact on individuals is very small. By addressing the unsustainable growth in entitlement spending, we are preserving funding for discretionary programs. The appropriations battle we witnessed over the last two years will be nothing compared to the fight we will have six or seven years from now if we do not begin trimming entitlement spending.

Members of the Appropriations Committee understand the difficulties inherent in decreasing the amount of discretionary spending as a percentage of the budget each year. We share your concern about the unsustainable funding levels in these bills and encourage you to join us in supporting a .5 reduction in CPI which would ensure adequate funding for vital discretionary programs.

Senator Bob Kerrey

Senator Mark Hatfield

John H. Chafee

Senator John Chafee

Senator William Cohen

Senator Nancy Kassebaum

Hank Brown

Senator Claiborne Pell

Chuck Robb

Senator Charles Robb

Senator Paul Simon

Sam Nunn

3/25/96

CPI

The Administration believes that the measurement of the CPI should be left to experts. Periodically, the BLS reviews the methodology and latest evidence and adjusts their measurement of inflation.

Our 97 budget proposals make assumptions of what changes the Bureau of Labor Statistics will come up with (probably early summer) -- but we merely implement what they propose. The current best guess of what change BLS will make is a .3% reduction in CPI (many experts believe that there has been a tendency towards an upward bias over last number of years; this will correct).