based upon population. Under this scenario we would see a massive shifting of funding from the Northeast, from Pennsylvania, Connecticut, New York, and Rhode Island, a shift from those States to the South and to the West.

The State of Rhode Island would see a 42-percent reduction in Medicaid funds from what it otherwise would have received. New York would see a 50-percent reduction if we use the formula based on population and projected population growth. Utah would see a 30-percent increase in Medicaid money. Oregon would receive an 11-percent increase. I chose Oregon, New York, Utah, and Rhode Island because all of those States have representation on the Finance Committee. You can see right away that a major battle would ensue.

Having voiced my concern about the block grant, I would like to outline an alternative approach which I am currently working on to meet the savings targets contained in the budget resolution. Whatever we do, I am going to stick by those targets. As far as I am concerned nothing can come out of the Finance Committee wherein we do not meet our targets.

But here is another way of doing it which would provide the additional flexibility the Governors need to make their systems more efficient. Two steps could go a long way—not all the way but a long way—toward meeting our reconciliation responsibilities with respect to Medicaid.

First, a per capita cap on Federal spending for each beneficiary; *x* amount of dollars for every beneficiary. That would encourage the States to provide more cost-effective care, without sacrificing access to additional Federal funds in times of recession, as would result under a block grant approach.

Second, let us reduce and redirect the so-called Federal disproportionate share payments going to hospitals. I am not going to go into a great deal of description of disproportionate share. All I can say is it is fraught with abuse.

These two options that I mentioned—the per capita cap on Federal spending and reducing and redirecting disproportionate share payments to hospitals—could yield between $100 and $130 billion savings over the next 7 years.

Our second objective of giving the Governors additional flexibility to achieve efficiency could be realized. What can we do to help the Governors?

One, eliminate the requirements that States obtain Federal waivers before moving forward to implement managed care. Get away from this waiver business.

Two, repeal the payment requirements, such as the Boren amendment and its so-called reasonable-cost reimbursement.

Three, replace what is known as the Qualified Medicare Beneficiary [QMB] Program, which requires States to pay Medicare premiums and cost sharing for low-income seniors, and replace this with a more rational federally financed system.

In conclusion, Mr. President, we have two choices. We can convert the Medicaid Program to a block grant and send out the checks, tell the States, "You are on your own. Take care of health care for low income. That is it." Or, Mr. President, we can acknowledge that the Federal Government has a greater responsibility in this than just sending the checks off in the mail. In partnership with the States, I think we have a responsibility to provide health care services to low-income seniors, children and the disabled.

The point I wish to make today is that with work and tough choices, we can meet our budget responsibilities without throwing this Federal-State partnership overboard as would result in the block grant approach. Certainly, that will be my preference between now and September 22, when the authorizing committees—in this instance the Finance Committee—must report their reconciliation legislation.

I intend to continue to explore ways to reform the Medicaid Program. In that regard, I welcome input. My tilt, as you know, is away from the block grant approach.

We need help. It is a tremendous goal that is set out, not only for the Medicaid Program but the Medicare likewise. The Finance Committee has tremendous challenges before us.

So, Mr. President, I thank you for this.

APPOINTMENTS BY THE VICE PRESIDENT

The PRESIDING OFFICER. The Chair, on behalf of the Vice President, pursuant to title 46, section 1295(b) of the United States Code, as amended by Public Law 101–595, appoints the following Senators to the Board of Visitors of the U.S. Merchant Marine Academy:

The Senator from South Dakota [Mr. PRESSLER], ex officio, as chairman of the Committee on Commerce, Science, and Transportation;

The Senator from Mississippi [Mr. LOTT], from the Committee on Commerce, Science and Transportation.

The Chair, on behalf of the Vice President, pursuant to title 14, section 194(a) of the United States Code, as amended by Public Law 101–595, appoints the following Senators to the Board of Visitors of the U.S. Coast Guard Academy:

The Senator from South Dakota [Mr. PRESSLER], ex officio as chairman of the Committee on Commerce, Science, and Transportation;

The Senator from Missouri [Mr. ASHCROFT], from the Committee on Commerce, Science and Transportation;

The Senator from South Carolina [Mr. HOLLINGS], from the Committee on Commerce, Science and Transportation;

The Senator from Washington [Mrs. MURRAY], at large.

THE PRC'S MISSILE TESTS

Mr. THOMAS. Mr. President, as the chairman of the Subcommittee on East Asian and Pacific Affairs, I am dismayed to report to my colleagues this morning that the People's Republic of China has announced that it will conduct a new series of guided missile tests in the East China Sea between August 15 and 25. What dismays me about the announcement is that the tests—staged by the People's Liberation Army—will be the second series in less than a month to be conducted just off the coast of southeastern Zhejiang Province, and that the southern perimeter of the test area is only 90 miles north of Taiwan.

The PRC conducted similar tests of six air-to-air missiles from July 21 to 26 in an area only 60 kilometers north of Taiwan's Pengchiayu Island. The missiles test-fired consisted mainly of Dongfeng-31 intercontinental ballistic missiles and M-class short-range tactical missiles. At the same time, the PLA mobilized forces in coastal Fujian Province and moved a number of Jian-8 aircraft to the coast. It is likely that this new round of tests and exercises will be similar.

These tests clearly have a political purpose, and are meant as a warning to Taiwan to cease its efforts at expanding its international recognition. Although the PRC's Foreign Ministry, through its spokesman Shen Guofeng, has repeatedly denied any such purpose, I would remind them of one of their own sayings: "Listen to what a person says, but watch what he does." These are the actions which call into serious question in my mind the validity of Mr. Shen's statement. The tests are being conducted within as close a proximity of Taiwanese territory as possible. While similar tests are a usual part of the annual training exercises of the Chinese 2d Artillery Corps, these are the only times in many years that the tests have been announced publicly. The tests follow closely on the heels of the private visit of President Lee Tang-hui to Cornell University, and amid a flurry of mainland Chinese invective denouncing the visit and President Lee. In conjunction with the tests, Taiwan intelligence reported that the PRC was planning on conducting a joint sea-air military exercise codenamed "Jiu-wu-qi" and that on July 16 the PRC Air Force stationed a number of F–7 or F–8 aircraft at airports located within 250 nautical miles of Taiwan—a highly unusual and provocative move.

The PLA is clearly the principal force pushing for the tests. At a time when the jockeying for position in the PRC's transitional post-Deng Government continues, taking what can be perceived as a soft stance toward either the United States or Taiwan is considered by many to be the equivalent of political suicide. When the Party and military hierarchy were assured by the Foreign Ministry that the United States would never allow President Lee to visit, only to have the visa approved a few days later, it caused a serious ''we-told-you-so'' backlash from the hardline conservative PLA leadership. In order to maintain credibility with the military, and continue to enjoy their support, the political hierarchy has decided to react strongly—one would almost say overreact—to President Lee's visit and other perceived threats.

Mr. President, although the Taiwan Government and people have shown remarkable restraint in calmly facing these latest antagonisms, I am sure that a continuation of the mainland's provocations cannot go unanswered for long. This is especially true in light of statements such as a recent pronouncement by Chinese Defense Minister Chi Haotian, reported by the Chinese official news agency Xinhua on July 31, that the PLA will not undertake to give up the use of force in settling the Taiwan issue. Certainly, as the perceived threat to Taiwan increases, so too will their reaction. The PRC's tests are clearly behind an August 2 statement by Lt. General Ju Kai-sheng, President of Taiwan's Army Artillery Training School, that Taiwan is ready to establish anti-missile systems to beef up its defensive capabilities. Toward that end, Taiwan has struck a deal with the Massachusetts-based Raytheon Corp. to purchase approximately $796 million worth of Patriot missiles.

If the Beijing Government continues in this antagonistic posture, it will only end up shooting itself in the foot. I would remind the Beijing Government that pursuant to the three joint communiqués and the Taiwan Relations Act, the United States can supply defensive military technology to Taiwan. While we have not been predisposed over the last few years to exercise that right, continuing threatening military displays aimed at Taiwan will, I am sure, have an effect on that posture that the PRC will likely not appreciate.

SAVINGS AND BENEFITS OF THE ''DIRECT LENDING'' REFORM FOR COLLEGE STUDENT LOANS

Mr. KENNEDY. Mr. President, 2 years ago, after a major battle with special interest groups, Congress enacted a far-reaching reform of the College Student Loan Program. We did so with strong bipartisan support, because the reform was so clearly beneficial to colleges and students alike.

The reform is called direct lending, because it permits college students to obtain their loans directly from the Federal Government through their colleges, rather than through assorted banks and guaranty agencies under the complex and costly Government Guaranteed Loan Program.

The 1993 reform brought major advantages to students. It cut student loan fees in half, reduced interest rates on all student loans, and created more flexible repayment terms. According to estimates by the Congressional Budget Office at that time for the 5-year period 1994 to 1998, direct lending as phased in by the 1993 legislation yields $2 billion in savings for the 4 million college students who rely on student loans to finance their education, and it yields $4.3 billion in savings to taxpayers over the same period.

Direct lending also addresses the need for a more efficient and streamlined Federal Government. The Guaranteed Loan Program—far from being a private sector enterprise—operates through a system of Federal subsidies and Federal loan guarantees to 7,000 lenders and 41 guaranty agencies, as well as 25 secondary markets, which are entities that buy loans in bulk from lenders and then process the loan payments made by the students. The guaranty agencies alone have over 5,000 employees—25 percent more than the entire Department of Education and 10 times more than the 450 Department employees who would manage a full Direct Lending Program. Taxpayers—not the private sector—pay for the gross inefficiencies of the complex Guaranteed Loan Program.

Despite the obvious advantages to students, colleges, and taxpayers of the direct loan system, there was a major battle in 1993 to enact this reform. Banks, guaranty agencies, and other middlemen in the Guaranteed Loan Program did not want to give up the profits they made.

The key to breaking the deadlock and enacting direct lending was the savings to the Federal budget. My own preference at the time would have been to use the full $6.3 billion in estimated savings to benefit students. But the compromise enacted—allocation of $2 billion to students and $4.3 billion to deficit reduction—was acceptable because it ensured the enactment of the reform.

Under the Student Loan Reform Act of 1993, direct lending is being phased in over a 5-year period—5 percent of student loan volume in the 1st year, 40 percent in this, the 2d year, 50 percent in the 3d and 4th years, and 60 percent in the 5th year. Beginning in 1996, direct lending is permitted to exceed these percentages if a larger number of colleges and universities decide to participate in the program. This gradual phase-in enables the Department of Education to implement the program in a sensible and efficient manner, and it permits all colleges and universities to decide whether to participate in direct lending.

The Direct Student Loan Program is now entering its 2d year of operation on college campuses across the country, and it is an outstanding success. Colleges and universities participating in direct lending are virtually unanimous in their praise for the program. As the financial aid director of the University of Idaho put it:

> How do we measure the success or failure of our program? It's obvious. The students. Our students continue to praise the program for its simplicity and ability to provide loan funds to them in a short period of time.

A college president in New York writes:

> With our first year of experience in direct lending behind us, I can say confidently that this is a system that works. It is more efficient for us, far better for the students, and it saves the taxpayers a significant amount of money.

But the banks, guaranty agencies, and other middlemen who profit from the Guaranteed Student Loan Program have never accepted the direct lending reform. They have constantly sought to undermine it and undo it in order to restore their special interest profits, even if it means higher costs and more redtape for colleges and students. Now they have found their opportunity—as part of the antieducation budget adopted by the new Republican majority in Congress.

This budget contains the largest education cuts in U.S. history. Federal aid to college students will be slashed by $30 billion over 7 years—a one-third cut by the year 2002. Individual students face an increase in their student loan debt of up to 50 percent.

The Republican budget resolution passed last spring also contained a special interest provision designed to lay the groundwork for eliminating direct lending. It orders the Congressional Budget Office to recalculate the cost of student loan programs under new guidelines intentionally skewed to make direct lending seem more expensive than guaranteed loans.

Congressmen GOODLING and KASICH released the new CBO estimates last month. Predictably, they assert that direct lending no longer saves taxpayers money. They claim taxpayers will save $1.5 billion over the next 7 years by eliminating direct lending and returning to the Guaranteed Loan Program that the banks and guaranty agencies prefer.

Nothing could be farther from the truth. CBO's 1993 estimates, showing that direct lending would save $2 billion for students and $4.3 billion for taxpayers over 5 years, were based on budget rules adopted on a bipartisan basis in 1990 and signed into law by President Bush as part of a comprehensive, congressionally mandated reform of Federal credit programs. These rules applied to all 60 loan programs of the Federal Government, not just the Student Loan Program.

The rules adopted in 1990 were designed to calculate the real costs of all Federal loan programs more accurately—including both direct loans and guaranteed loans. There was no intention to slant the figures one way or another. The goal was to provide greater accuracy in budget estimates for all Federal credit programs.

However, the 1993 estimates inadvertently disadvantaged the Guaranteed Loan Program compared to the Direct Loan Program in one respect—the manner in which the administrative