

ECONOMIC OUTLOOK AND THE FEDERAL BUDGET

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET HOUSE OF REPRESENTATIVES

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ECONOMIC OUTLOOK AND THE FEDERAL BUDGET

THURSDAY, SEPTEMBER 12, 2002

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 10 a.m. in room 210, Cannon House Office Building, Hon. Jim Nussle (chairman of the committee) presiding.

Members present: Representatives Nussle, Bass, Gutknecht, Thornberry, Collins, Toomey, Watkins, Brown, Crenshaw, Putnam, Spratt, McDermott, Bentsen, Davis, Price, Moran, Baldwin, McCarthy, Moore, Honda, and Matheson.

Chairman NUSSLE. The House Budget Committee will come to order. This is a full committee hearing on the economic outlook and the Federal budget. We are very honored to have returning to our committee the very distinguished chairman of the Federal Reserve Board, Alan Greenspan. Chairman Greenspan has a 12:30 commitment that is one that he cannot break. And so, what I would suggest to all members is that we move as quickly as we can to his testimony.

Let me lay out that on behalf of all the members of the Budget Committee, we welcome you here today. It has always been true that everyone is interested in what you have to say, but given the economic and budgetary developments of the past 2 years, we have a particular interest in your views on the outlook of the economy and monetary and fiscal policies.

When this Congress took office, the economic and budgetary outlook were quite different than they are today. As we look back on the economic slowdown and the recession of the years 2000 and 2001, with the benefit of hindsight and a new government and new government data, we realize just how slow the economy was in the second half of 2000, even before the 107th Congress got started. And then a year ago—a year ago yesterday—we were hit with the shock of September 11 and its obvious economic and budgetary consequences.

So we have had to deal unexpectedly with a triple threat: a national emergency in the form of a continuing threat to our homeland; the war against international terrorism; and a slowdown and recession in our economy. We have done our best to work with the President to promote and adopt the policies that would help our economy. Last year's tax cuts have been roundly credited as being the right policy at the right time to help promote consumption and to boost the economy. Last fall, and this summer as well, in a bi-

partisan way we adopted emergency provisions to help with the rebuilding and the war efforts. Earlier this spring, again in a bipartisan way, we passed the stimulus package with investment tax incentives and unemployment benefits.

Although these policies have helped, ultimately it is the people of this country who have continued to press on and to make things work and to get the economy moving again. The one word I keep hearing again and again back home as well as around the country, and certainly from economists, is that our economy is “resilient.” Our Nation and its economy have been tough, yet flexible enough to adapt, and they cannot break our spirit and they cannot break our economy.

Even so, we have an unemployment rate that is too high, news today that continues to be concerning and that is not acceptable. We need to do our best to promote jobs and high real wages. It is true in my home state of Iowa and it is true around the country. Getting the economy growing at a healthy pace again is the best way to promote income growth and a predictable Federal budget revenue stream.

Ultimately we need to control what we can control. And this means Federal spending, particularly in the time we have remaining for this 107th Congress. Spending has already increased to accommodate necessary emergency spending and to stimulate the economy. Now we hear that the other body, the Senate, is considering appropriations spending for the next fiscal year that is well above the House budget that has been passed, and is the only budget that has been passed in this Congress, as well as the President’s requested levels. These bills that they are considering have costs that are significantly higher than they have even advertised and that they even have at self-imposed internal levels. If adopted as proposed, these measures would result in a discretionary spending increase of about \$15-billion larger than proposed by the President and the House. And that is even before you mentioned the close to \$6 billion in agriculture emergencies. Over the next 10 years, this increase would raise the baseline spending by \$225 billion. Faced with such spending demands, I am obviously very interested today in your views on the need for budgetary and spending restraint.

I welcome you here today, Mr. Chairman, and I am glad to hear your views on the economy.

[The prepared statement of Mr. Nussle follows:]

PREPARED STATEMENT OF HON. JIM NUSSLE, A REPRESENTATIVE IN CONGRESS FROM
THE STATE OF IOWA

On behalf of all the members of the Budget Committee, let me welcome you here today. We are pleased that you agreed to come before us today to discuss the economic outlook and the Federal budget.

It is always true that everyone is interested in what you have to say. But given the economic and budgetary developments of the past 2 years, we have a particular interest in your views on the outlook for the economy and fiscal policies.

When this 107th Congress took office, the economic and budget outlook were quite different from what they are today. As we look back at the economic slowdown and recession of 2000–01, with the benefit of hindsight and new government data, we realize just how slow the economy was in the second half of 2000, before the 107th Congress even started. And then, a year ago, we were hit with the shock from September 11 and its budget consequences.

So, we have had to unexpectedly face a triple threat: a National emergency in the form of a continuing threat to our homeland; a war against international terrorism; and a slowdown and recession in our economy.

We've done our best to work with President Bush to promote and adopt policies that would help the economy: last year's tax cuts have been roundly credited as being the right policy at the right time to help promote consumption and boost the economy; last fall and this summer as well, we adopted emergency provisions to help with rebuilding and war efforts; earlier this spring we passed the stimulus package with investment tax incentives and unemployment benefits.

Although these policies have helped, ultimately it is the people of this country who have continued to press on and make things work to get the U.S. economy moving again. The one word I keep hearing again and again in reference to the economy's performance is "resilience." Our Nation and its economy have been tough, yet flexible enough to adapt. And they can't break our Spirit.

Even so, we still have an unemployment rate that is too high, and that is not acceptable. We need to do our best to promote jobs and high real wages. Getting the economy growing at a healthy pace again is the best way to promote income growth and increases in Federal budget revenues.

Ultimately, we need to control what we can control. That means Federal spending. Spending has already increased to accommodate necessary, emergency spending and stimulate the economy. And now, the Senate is considering appropriations spending for next fiscal year well above the President's request. The bills they're considering have costs that are significantly higher than advertised. If adopted as proposed, the measures would result in a discretionary spending increase about \$15 billion larger than proposed by the President. Over the next 10 years, this increase would raise baseline spending by \$225 billion. Faced with such spending demands, I'm very interested in hearing your views on the need for spending restraint.

I welcome you here today and I will be glad to hear of your views on the economy, Federal budget issues, and the policies that will bring us back to full employment.

Chairman NUSSLE. And now I would like to recognize my friend Mr. Spratt for any comments he wishes to make.

Mr. SPRATT. Mr. Chairman, I join Chairman Nussle and welcome you to our committee, the Budget Committee. We are grateful to have you and we look forward to your testimony.

Obviously we hope that you will bring us good news about the budget today, about the economy today, but we also hope that you can help us reconnect to what is happening in the economy and what ought to be happening in our budget. This is the role of the Budget Committee.

In the maelstrom of other matters—terrorism, recession, corporate fraud, decline in the stock market, equity markets, and 5- to \$7-trillion loss in net worth—we have lost sight of the budget's bottom line. And while we weren't paying close attention to the black bottom line that we had just 2 years ago, the surplus estimated at \$5.6 trillion is all but disappeared.

Just a few weeks ago, the Congressional Budget Office did its annual update and came to the conclusion that assuming current policies, we had a surplus of \$336 billion over the next 10 years versus \$5.6 trillion just 2 years ago, down \$1.3 trillion since March alone in their estimation.

Obviously, that is not a course that is sustainable. It may be understandable that we have had our focus diverted. Terrorism is a huge problem, and some of these things truly do override the budget. But I don't think it is excusable—or in the long run sustainable—that we just forget the budget altogether and go off in attention to these other priorities.

Right now, we are back into the kind of phase where if you back out Social Security, as I think you should, we have got deficits for as far as the eye can see, for as far as we cast our forecast.

Two years ago we were in earnest, both sides, talking about lockboxes, about not spending ever again the surpluses in Social Security and, for that matter, Medicare too. Now, we have virtually fully consumed the surplus in Medicare for the next 10 years and we have spent most of the surplus in Social Security also for the next 10 years.

Two years ago we were talking seriously about being able to retire most of the debt held by the public over the next 10 to 12 years. Now if we continue on the course we are on, we not only will not retire that debt, we will actually add to that debt. We will add to the net national debt held by the public.

You told us 3 years ago, when we were sitting around wondering what should be the fiscal policy in light of these surpluses that we seemed to see rising on the horizon; that if we could muster the will to have a fiscal policy in which the public had confidence, we could drive down long rates; that you at the Fed could control short rates, but that your control over long rates was not nearly what it is over short rates; and that the markets would look to us, and their confidence in fiscal policy would determine whether or not we would be able to drive long rates down to the level they were in, say, the 1950s. I think you mentioned one of the rewards you might attain if you can genuinely achieve this kind of confidence equal to what we have achieved at the Fed in terms of monetary policy, you may see long rates down at 4½ percent. And if you can drive long rates down to that, drive the cost of capital down like that, you will see stable growth for years to come. And growth, of course, is what makes possible many of the promises, keeping the promises that we have made.

I hope, therefore, you can help us, as I said, reconnect the budget to the economy, reemphasize the primacy of the budget. After all, 20 percent of our GDP in effect flows through the Federal budget. It has a profound effect. And we saw in the 1990s what happens when you have a complementary of monetary and fiscal policy. As we were reducing and improving the bottom line of the budget every year for nearly 8 straight years, the economy got better and better as well. There had to be some kind of connection between the two, and we have lost sight of that. And we hope in your testimony today, in addition to talking about the economy, you can talk about the primacy of the budget, about our need to get back on course to where we were just 2 years ago—saving instead of spending—and moving, keeping the economy in surplus, if not avoiding the deficits we have accumulated.

Once again, thank you for coming and we look forward to your testimony.

Chairman NUSSLE. All members will have 7 days to submit statements at this time. Mr. Chairman, we welcome you to the committee and we are pleased to receive your testimony.

[Question submitted for the record by Mr. Kirk follows:]

QUESTION POSED TO CHAIRMAN GREENSPAN BY CONGRESSMAN KIRK

Question: Establishing a Federal budget is always challenging, but it gets harder when the forecasts we depend on shift by a hundred billion dollars in just 6 months. Do you believe that year-to-year “backcasting,” which would compare annual budget projections to actual performance, could improve these forecasts?

Answer: I believe that the budget forecasts at CBO and OMB are well aware that large forecast revisions related to surplus developments, such as this spring's lower than expected tax collections, greatly complicate the process of developing sound budget policies. Therefore, they strive to minimize such revisions by taking account of all the useful information that is available at the time they make their projections. As you suggest, an analysis of the differences between past budget projections and actual outcomes can be a useful input to this forecast process, and indeed CBO is thinking very much along the same lines (see, for example, CBO, "Budget Resolution Targets and Actual Outcomes," Appendix C, The Budget and Economic Outlook: Fiscal Years 2003–2012).

STATEMENT OF ALAN GREENSPAN, CHAIRMAN, BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM

Mr. GREENSPAN. Thank you very much, Mr. Chairman. Is the microphone on? Thank you, Mr. Chairman. I am not used to your new structure here, but it is a very interesting improvement. Technology spills everywhere; let me put it that way.

I am especially pleased to appear here today to discuss some of the important issues related to the outlook for the economy and the attendant implications for the formulation of fiscal policy. The views I will be expressing are my own and not necessarily those of the Federal Reserve Board.

The U.S. economy has confronted very significant challenges over the past year: major declines in equity prices, sharp retrenchment in investment spending, and the tragic terrorist attacks of last September, a year ago. To date, the economy appears to have withstood this set of blows well, although the depressing effects still linger and continue to influence, in particular, the Federal budget outlook.

A year ago, the Congressional Budget Office expected the unified budget to post large and mounting surpluses over the coming decade. As you know, CBO is currently forecasting that if today's policies remain in place, the unified budget will post deficits through fiscal year 2005. For the fiscal year just ending, CBO now projects a budget balance that is more than \$300-billion below the level it had projected a year ago.

To a degree, the return to budget deficits resulted from temporary factors, especially the fall-off in revenues and the increase in outlays associated with the economy's downturn. But some of the factors accounting for the weaker budget outlook will have longer-lasting effects. A large portion of this year's decline in individual income tax revenues is clearly related to the retrenchment in equity markets. The sharp decline in stock prices appears to have markedly reduced final settlements for the 2001 tax year, as well as receipts on 2002 income. This effect works directly through less tax revenue from capital gains realizations, and indirectly through less revenue collected from the exercise of stock options, from stock-price-related bonuses, and from withdrawals from IRAs and 401(k) plans that have been augmented by capital gains.

Although official projections had been based on the assumption that tax collections related to the stock market would eventually decline from the elevated levels of the late 1990s, the sharp drop in equity markets was not expected, and the fallout from it will dampen tax revenues relative to earlier expectations for some time. Furthermore, the precipitous fall in tax receipts may have resulted from other factors as well—for example, a shift in the distribution

of income from higher to lower tax brackets and a change in the timing of tax collections. The recent surge in discretionary spending, necessitated only in part by the war on terrorism and the need for enhanced homeland security, has also made the budget picture less sanguine.

Nonetheless, despite the budget erosion over the past year, our underlying fiscal situation today remains significantly stronger than that of a decade ago when policymakers were struggling to rein in chronic large deficits and the ratio of Federal debt to GDP was approaching 50 percent and climbing. This turnaround was a result of several factors. To an extent, the fiscal improvement can be traced to the emergence of forces largely external to the fiscal process. The end of the cold war yielded a substantial peace dividend, and the pickup in productivity growth and surging stock market substantially boosted tax collections.

But such forces alone cannot wholly account for the improvement in the fiscal situation. Prudent policy also played an important role. After years of budgetary profligacy, a political consensus to move toward a balanced budget slowly emerged. Beginning in the late 1980s, impressive progress was made in restraining Federal expenditures and restoring a better balance between spending and revenues. Even with the consensus to balance the budget, such progress might have been evasive were it not for the procedural mechanisms that were developed to enforce that political consensus. The Budget Enforcement Act of 1990, building on earlier initiatives, provided such mechanisms. The statutory limits on discretionary spending and the so-called PAYGO rules requiring changes in mandatory spending and revenue policies to be budget-neutral, backed by a 60-vote point of order in the Senate, served as useful tools to control the deficits. In essence, the rules provided a means for advancing the broader good of sound fiscal policy over narrower interests.

The budget rules worked far better than many skeptics, myself included, had expected. Between 1990 and 1998, discretionary spending fell from more than 10 percent of GDP to less than 6½ percent. The end of the cold war was clearly a critical factor behind this decline, but the statutory caps helped to hold nondefense discretionary expenditure in check, and allowed the benefits of the decline in defense needs to go toward reducing deficits rather than toward facilitating increases in other spending. The PAYGO rules changed the way policymakers analyzed fiscal policy proposals; rather than focusing solely on the benefits of a proposal, policymakers were required to recognize the costs as well.

The Budget Enforcement Act was intended to address the problem of huge deficits. In 1990, the possibility that surpluses might emerge within the decade seemed remote indeed. When they unexpectedly arrived, the budget control measures appeared to be addressing a problem that had been solved. Fiscal discipline seemed to be a less pressing priority and was increasingly abandoned. Though the 1990 act was not amended, policymakers found ways to circumvent the discretionary caps and the PAYGO rules. They did not anticipate and, indeed, there were few indications that deficits were about to reemerge. Given the recent change in the budget

outlook, the commitment to fiscal responsibility that served us so well must now be reestablished.

The budget enforcement rules are set to expire on September 30. Failing to preserve them would be a grave mistake in my judgment. For without clear direction and constructive goals, the in-built political bias in favor of budget deficits likely will again become entrenched. We are all too aware that government spending programs and special tax benefits can be easy to initiate or expand, but extraordinarily difficult to trim or shut down once constituencies develop that have a stake in maintaining the status quo. The bottom line, Mr. Chairman, is that if we do not preserve the budget rules and reaffirm our commitment to fiscal responsibility, years of hard effort could be squandered.

Besides the near-term budgetary shortfalls that we currently face, the aging of the population presents a daunting long-term fiscal challenge. With the baby boomer generation beginning to retire in just six short years, we need to begin deciding exactly how to reform our retirement programs to close the gap between unified budget outlays and revenues. In essence, we will have to decide how to allocate available resources. All possible policy solutions should be on the table.

Recently, the Bureau of Labor Statistics introduced a new index that could provide a more accurate measure of the cost of living for the indexation of both the retirement benefits and tax brackets. More fundamentally, the way to prepare for the challenges ahead is to increase the real resources that will be available to meet those looming needs. The greater the resources available, the easier it will be to provide real benefits to retirees without unduly restraining the consumption of workers and without imposing large tax increases that would dampen incentives and reduce economic growth.

To summarize, then, now is not the time to abandon the discipline and structure that worked so well for so long. The framework enacted in the Budget Enforcement Act of 1990, and extended several times, must be preserved. Current budget projections remain relatively favorable, but those projections will be realized only under a disciplined approach to fiscal policy. Though undeniably difficult, following such a strategy will best prepare us for the fiscal pressures that will almost surely arise as the baby boomer generation begins to retire.

Mr. Chairman, I have a rather longer official statement, and request that it be included for the record.

Chairman NUSSLE. Without objection, your entire statement will be made part of the record, and we appreciate you summarizing your statement for us.

[The prepared statement of Dr. Greenspan follows:]

PREPARED STATEMENT OF ALAN GREENSPAN, CHAIRMAN, BOARD OF GOVERNORS,
FEDERAL RESERVE SYSTEM

I am pleased to appear here today to discuss some of the important issues related to the outlook for the economy and the attendant implications for the formulation of fiscal policy. The views I will be expressing are my own and not necessarily those of the Federal Reserve Board.

The U.S. economy has confronted very significant challenges over the past year—major declines in equity markets, a sharp retrenchment in investment spending, and the tragic terrorist attacks of last September. To date, the economy appears to have withstood this set of blows well, although the depressing effects still linger and

continue to influence, in particular, the Federal budget outlook. A year ago, the Congressional Budget Office expected the unified budget to post large and mounting surpluses over the coming decade. As you know, CBO is currently forecasting that, if today's policies remain in place, the unified budget will post deficits through fiscal year 2005. For the fiscal year just ending, CBO now projects a budget balance that is more than \$300 billion below the level it had projected a year ago.

To a degree, the return to budget deficits resulted from temporary factors, especially the fall-off in revenues and the increase in outlays associated with the economic downturn. But some of the factors accounting for the weaker budget outlook will have longer-lasting effects. A large portion of this year's decline in individual income tax revenues is clearly related to the retrenchment in equity markets. The sharp decline in stock prices appears to have markedly reduced final settlements for the 2001 tax year, as well as receipts on 2002 income. This effect works directly through less tax revenue from capital gains realizations, and indirectly through less revenue collected from the exercise of stock options, from stock-price-related bonuses, and from withdrawals from IRAs and 401(k) plans that have been augmented by capital gains.

Although official projections had been based on the assumption that tax collections related to the stock market would eventually decline from the elevated levels of the late 1990s, the sharp drop in equity markets was not expected, and the fall-out from it will likely dampen tax revenues relative to earlier expectations for some time. Furthermore, the precipitous fall in tax receipts may have resulted from other factors as well—for example, a shift in the distribution of income from higher to lower tax brackets and a change in the timing of tax collections. The recent surge in discretionary spending, necessitated only in part by the war on terrorism and the need for enhanced homeland security, has also made the budget picture less sanguine.

Nonetheless, despite the budget erosion over the past year, our underlying fiscal situation today remains significantly stronger than that of a decade ago, when policymakers were struggling to rein in chronic large deficits and the ratio of Federal debt to gross domestic product was approaching 50 percent and climbing. This turnaround was the result of several factors. To an extent, the fiscal improvement can be traced to the emergence of forces largely external to the fiscal process. The end of the cold war yielded a substantial peace dividend, and the pickup in productivity growth and surging stock market substantially boosted tax collections.

But such forces alone cannot wholly account for the improvement in the fiscal situation. Prudent policy also played an important role. After years of budgetary profligacy, a political consensus to move toward a balanced budget slowly emerged. Beginning in the late 1980s, impressive progress was made in restraining Federal expenditures and restoring a better balance between spending and revenues.

Even with a consensus to balance the budget, such progress might have been elusive were it not for the procedural mechanisms that were developed to enforce that political consensus. The Budget Enforcement Act of 1990, building on earlier initiatives, provided such mechanisms. The statutory limits on discretionary spending and the so-called PAYGO rules requiring changes in mandatory spending and revenue policies to be budget-neutral, backed by a 60-vote point of order in the Senate, served as useful tools to control deficits. In essence, the rules provided a means for advancing the broader good of sound fiscal policy over narrower interests.

The budget rules worked far better than many skeptics, myself included, had expected. Between 1990 and 1998, discretionary spending fell from more than 10 percent of GDP to less than 6½ percent. The end of the cold war was clearly a critical factor behind this decline, but the statutory caps helped to hold nondefense discretionary expenditures in check, and allowed the benefits of the decline in defense needs to go toward reducing deficits rather than toward facilitating increases in other spending. The PAYGO rules changed the way policymakers analyzed fiscal policy proposals: Rather than focusing solely on the benefits of a proposal, policymakers were required to recognize the costs as well.

The Budget Enforcement Act was intended to address the problem of huge deficits. In 1990, the possibility that surpluses might emerge within the decade seemed remote indeed. When they unexpectedly arrived, the budget control measures appeared to be addressing a problem that had been solved. Fiscal discipline seemed a less pressing priority and was increasingly abandoned. Though the 1990 act was not amended, policymakers found ways to circumvent the discretionary caps and the PAYGO rules. They did not anticipate—and, indeed, there were few indications—that deficits were about to reemerge. Given the recent change in budget outlook, the commitment to fiscal responsibility that served us so well must now be reestablished.

The budget enforcement rules are set to expire on September 30. Failing to preserve them would be a grave mistake. For without clear direction and constructive goals, the in-built political bias in favor of budget deficits likely will again become entrenched. We are all too aware that government spending programs and special tax benefits can be easy to initiate or expand but extraordinarily difficult to trim or shut down once constituencies develop that have a stake in maintaining the status quo. However, spending and tax-cutting restraint are not symmetrical. While there is no upside limit to spending, taxes cannot go below zero. In any case, the bottom line is that if we do not preserve the budget rules and reaffirm our commitment to fiscal responsibility, years of hard effort could be squandered.

In considering the extension of the Budget Enforcement Act, some have suggested amending the budget rules to limit the scope for circumventing the spending caps through the use of an “emergency” spending designation. Others have suggested rules that would be more flexible in the event of budget surpluses. These are thoughtful initiatives, but they are secondary to ensuring that the basic framework not be abandoned. Restoring fiscal discipline must be a high priority.

Besides the near-term budgetary shortfalls that we currently face, the aging of the population presents a daunting long-term fiscal challenge. Indeed, the extent of that challenge is not adequately reflected in conventional measures of the Federal budget.

Scoring the budget on an accrual basis—the private sector norm and, I believe, a sensible direction for Federal budget accounting—would better underscore the tradeoffs we face. Under accrual accounting, benefits would be counted as they are earned by workers rather than when they are paid out by the government. This method allows us to keep better track of the future obligations that the government has incurred. Under full accrual accounting, the Social Security program would have shown a substantial deficit last year, rather than the surplus measured under our current cash-accounting regimen.

Such accruals take account of still-growing contingent liabilities, which currently, under most reasonable sets of actuarial assumptions, amount to many trillions of dollars for Social Security benefits alone. The contingent liabilities implicit in the Medicare program are much more difficult to calculate—but they are also likely in the trillions of dollars. These liabilities are fast approaching their due date. With the baby boom generation beginning to retire in just six short years, cash benefits will soon begin to rise rapidly, exerting pressure on the unified budget.

Given the imminence of these demographic pressures, we need to begin deciding exactly how to reform our retirement programs to close the gap between unified budget outlays and revenues. In essence, we will have to decide how to allocate available resources. All possible policy should be on the table. Recently, the Bureau of Labor Statistics introduced a new index that could provide a more accurate measure of the cost of living for the indexation of both retirement benefits and tax brackets.

More fundamentally, the way to prepare for the challenges ahead is to increase the real resources that will be available to meet those looming needs. The greater the resources available, that is, the greater the output of goods and services produced by our economy, the easier it will be to provide real benefits to retirees without unduly restraining the consumption of workers and without imposing large tax increases that would damp incentives and reduce economic growth.

Although other elements are involved in long-run productivity growth, clearly, the more capital that is available per worker, the greater productivity will be, all other things being equal. The level of national savings, the primary source of capital investment financing, is significantly affected by the level of government saving (surpluses) or dissaving (deficits). Between 1992 and 2001, decreasing Federal budget deficits followed by surpluses were important in maintaining national saving in the face of declining private saving, a factor likely contributing to the marked step-up in productivity growth.

Returning to a fiscal climate of continuous large deficits would risk returning to an era of high interest rates, low levels of investment, and slower growth of productivity. To be sure, at the moment, Treasury rates are at the lowest level in more than forty years, and I can scarcely argue that deficits are pressuring interest rates. And, indeed, our current fiscal situation remains more favorable than it has over much of the past few decades. But history suggests that an abandonment of fiscal discipline will eventually push up interest rates, crowd out capital spending, lower productivity growth, and force harder choices upon us in the future.

To summarize, now is not the time to abandon the discipline and structure that worked so well for so long. The framework enacted in the Budget Enforcement Act of 1990, and extended several times, must be preserved. Current budget projections remain relatively favorable, but those projections will be realized only under a dis-

ciplined approach to fiscal policy. Though undeniably difficult, following such a strategy will best prepare us for the fiscal pressures that will almost surely arise as the baby boom generation begins to retire.

Chairman NUSSLE. Let me begin with the statement that you make as the bottom line. You say the bottom line is that if we do not preserve the budget rules and reaffirm our commitment to fiscal responsibility, years of hard effort could be squandered. What would the market reaction be as well? Years of hard effort looks behind us. What will be the years that we look ahead to and the reaction of our economy to market if we fail to continue budget discipline and fiscal responsibility?

Mr. GREENSPAN. Mr. Chairman, it took many years for the markets to take seriously the efforts of the budget committees to construct mechanisms to hold spending and budget deficits in check. As they did, as they began to take it seriously, really realizing that in fact it was a very potentially productive effort, you could see markets adjust. Long-term interest rates did come down. You could see expectations of inflation fall. You could see a whole series of positive elements emerging in the financial markets, which had been for years beset by the crowding out of American savings for the need to finance the unified budget deficit.

As that began to change, there was far more credibility given to the government budget process. And even now as deficits begin to emerge, that credibility is still intact; and the way we can tell is that, indeed, we have interest rates which reflect low inflation expectations and essentially a control of fiscal policy. If that process breaks down, I think the whole process will reverse.

Chairman NUSSLE. Mr. Chairman, 8 months ago the President, in reaction to the emergencies of September 11, 2001, in reaction to and planning for the war on terrorism, and with an eye toward stimulating an economy that had been in a downturn for, at that point, apparently over a year, produced a budget in February to meet those challenges. This committee passed a budget to meet those challenges in February, and in March the full House passed that budget, that budget plan.

That budget plan has been deemed to be the budget. The President has indicated his support for that budget plan. Yet we are now 8 months into this process, and still there is no proposal on the table that is anywhere near the majority support that is required in the Senate in order to adopt any kind of budget discipline. And what my friend Mr. Spratt calls budget primacy, in order to have the primacy of the budget, you need a budget.

It is kind of hard to have the primary focus of the Federal Government as far as architectural design, fiscal responsibility, to be the budget if you don't have a budget. The President has a budget. The House has a budget. We intend in the House of Representatives to enforce that budget.

Let me, if I can, go to a chart that indicates what happens if we don't enforce that budget, and move to what we are hearing the Senate may do as a result of not having any amount of fiscal discipline or spending restraint.

If you look at this chart, if you follow our budget, by CBO's projections, which seems to be the most pessimistic and that is fine—let's use the most pessimistic data that is on the table. We do go

back to a unified surplus, balanced budget by the year 2006, 2005; but as you can see by the red line, that is where the Senate currently is setting its discretionary spending, based on the numbers that the Senate Appropriations Committee is using in order to report their legislation. As you can see from that line, according to CBO, you never get back to anybody's definition of budget discipline or balanced budget in any time during the next 10 years.

The concern I have is that in order for us to enforce discipline, as you said, the first thing you need is you need to have a budget. It is our intention to enforce the House-passed levels.

My question for you is, if we do not, and if we, in fact, meet somewhere halfway, which, by the way, halfway means below balanced budget as well, how will that effect the markets? How will you react to that level of spending discipline, given your testimony here today?

Mr. GREENSPAN. Well, Mr. Chairman, it is difficult for me to make explicit projections of what the economy will look like 4 or 5, 6 years out. I think our ability to do that is clearly limited.

My discussions with a number of your colleagues in the Senate suggest that they, too, have a sense of frustration about not being able to put a budget together. I can't go much beyond what I said in my prepared statements. I think that we are clearly eroding the underlying structure of budget constraint that had characterized the Congress for quite a significant number of years. Fortunately, it has not yet gotten to the point where it has had significant negative market consequences. I can't obviously comment on what we at the Federal Reserve would do, because we respond not to fiscal policy per se, as I have said many times in the past, but to what the impact on the economy is, and we respond effectively to the economy.

Chairman NUSSLE. Well, then let me just wrap up and keep us moving here so that other members can ask questions. But let me report to you in conclusion that this committee is on record supporting the extension of those measures of fiscal discipline and PAYGO and the caps. We have passed a budget here in the House. If we are going to have budget discipline, if we are going to have spending discipline, if we are going to have fiscal restraint and responsibility, if we are going to have budget primacy, you need a budget. And the President has demonstrated an ability to present a budget, the House has demonstrated its ability to present a budget, and as of yet no one else has either presented a budget or passed a budget that meets those tests at any time during the last 8 months. We hope that will change here in the time that we have left in this fiscal year and in this 107th Congress.

With that, I return to my friend, Mr. Spratt.

Mr. SPRATT. Mr. Chairman, I believe the Senate Democrats did report a budget; the problem they have is getting it off the Senate floor if they would bring it to the Senate floor.

Let me share with you a chart just to join the debate, which is our projection of what happens under the President's proposals in July of this year in the Mid-Session Review sent us by OMB. Based upon this simple table, you start out with \$5.6 trillion. By August it was down to 3.4. By March it was down to \$1.7 trillion. By August, per CBO, it was down to \$336 billion, from \$5.6 trillion, to

\$336 billion. And if you factor into that baseline forecast by CBO—which was a current policy forecast, assuming no new policies—if you factor in just the policies proposed by President Bush as recently as July in the mid-session review, the surplus becomes a net deficit of \$480 billion, and there is only a black bottom line, because all of that is a Social Security surplus.

We don't have a budget now, and one of the problems with the budget process rules, Mr. Chairman, that you mentioned is that they were always passed and coupled with a plan. We had the budget summit in 1990 which we made with the first President Bush. We had President Clinton's budget in 1993, and we had the Balanced Budget Agreement of 1997. Every time we renewed those budget process rules, they worked, because they were coupled with a specific plan. Now, we fudged on the plan. We did not fully comply with the plan, but by and large it was a template which kept us in balance and helped us move the budget from \$290 billion in deficit in 1992 to a surplus in the year 2000; phenomenal progress with the budget.

Let me ask you about budget process rules, and one in particular which you mentioned. A year or two ago, as we were debating whether or not to have a tax cut of \$1.35 trillion, you suggested that we might have to trigger surplus-affecting policies, either spending or tax policies, that might be kept in balance if they were phased in, No. 1; and No. 2, if the forecast didn't fulfill itself, if it didn't obtain and the budget went deeper in deficit and surpluses disappeared, we might want to trigger off those surplus-affecting policies.

Do you still support some sort of mechanism like that as well as the other two you mentioned?

Mr. GREENSPAN. I do, Congressman, and the reason I do is that it has become evident over the years that the commitments that we make within the budget are increasingly longer-term and have long lives to them. Because as we very clearly demonstrated in the last year or so, long-term forecasts are difficult to make, and yet we note with reasonable certainty that we are going to have a very large increase in retirees as the so-called baby boomers begin to retire in large numbers. So we know that we have a fiscal problem of significant dimensions out there.

So I have argued, and I would continue to argue, that it is very important not only to have short-term budget plans, but to have plans which phase us into a very dramatic change that occurs in the fiscal outlook as we get into the next decade.

Mr. SPRATT. And phase us out if the underlying forecast does not obtain.

Mr. GREENSPAN. Therefore, because it is so difficult to forecast, I think it is essential that we have triggering mechanisms of one form or other on both taxes and spending initiatives.

Mr. SPRATT. We have a pie chart that shows our apportionment of the causes for the deterioration in the surplus over the next 10 years, and our pie chart shows that tax cuts account for about 40 percent, but the economy and technical factors account for 33 percent. In other words, there was a misestimation of the aggregate surplus over 10 years to the extent of about 43 percent, 10 percent for not correctly calculating the growth of the economy, but a large

33 percent for technical factors. Even though the economy is growing as anticipated in the outyears, the economy is still not generating the tax revenues that were anticipated in 2001. We got a sharp reminder of that in the CBO report that came up here on August 27. That report showed that even though they are assuming that the economy will grow this year at 2.3 percent, recover to 3 percent next year, and then bottom out at about 3.2 percent for the last of the forecast period—even though they are assuming reasonable growth, we still have a technical shortfall in tax revenues expected over that period of time of \$668 billion over the 10-year period, 2003 to 2012.

Do you share the opinion that we missed it a couple of years ago? That we grossly over-calculated what the surplus was, and therefore do we need to reconsider in light of the fact that the premises no longer apply?

Mr. GREENSPAN. Well, there were very considerable technical difficulties in budget estimates which confronted both OMB and CBO. We all knew that the rise in individual income tax receipts were far in excess of anything that could be determined by what we would call the tax base. We knew that a very substantial part of that rise in revenues relative to income was a consequence of stock price effects one way or the other. What we did not anticipate, or—I will put it this way: in the long-term projections, as I indicated in my prepared remarks, the CBO and indeed OMB projected that the market would come back to some average level and that the very significant amount of tax revenues which were raised because of stock option grant realizations would come down to normal, or to what they had been in the previous period.

Even though we do not yet have the full details and will not until we have the statistics of income for 2001, the decline in capital gains taxes, plus the stock option realizations apparently fell far faster than we expected, because you could see it in the final settlements, the receipts that occurred in April, and you could see it in the estimated tax receipts.

What that essentially means is that the expectations of the relationship between the stock market, capital gains, stock options, bonuses, withdrawals from 401(k)s and IRAs all were overestimated. That is what that technical 33 percent largely picks up.

We still don't know whether the forecasts are right. They may be too low for all I know going forward. But CBO and OMB do the best that they can. They are the only real players in the game, because they are the only ones who have the really very detailed budget and tax revenue data systems.

So I guess the best thing to do is to wish them well in making better estimates, but it is tough.

Mr. SPRATT. But in addition to that, being honest, looking back, saying "hey, what we expected has not happened," therefore we do have to change the plans that we based upon those expectations?

Mr. GREENSPAN. Oh, absolutely. Not only did it not happen, but things that we never even thought about happened.

Mr. SPRATT. One thing you popped out of your box on us in this testimony that is different from PAYGO rules, and discretionary spending caps is accrual accounting. It has been talked about for a long time. It is not easy to apply accrual accounting to govern-

ment accounts, but if we had accrual accounting, we would have a deficit, would we not, for as far as the eye sees, irrespective of these underlying numbers, because the accrual for Medicare and Social Security future liabilities alone would drive the bottom line down?

Mr. GREENSPAN. Yes, that is right, Congressman. If you take a look at any reasonable estimates of what the accruals are, and remember they require fairly sophisticated judgments with respect to the future, you end up with accruals being significantly above actual cash benefits on both OASDI, and on the Medicare programs. So that we are still accumulating contingent liabilities which obviously reflect both the difference between accruals and benefits, and the interest earned on those contingent liabilities, if you look at the aggregate contingent liabilities that are involved we are now somewhere in the area of \$10 trillion for Social Security alone.

So the numbers are quite significantly different, and it is certainly the case were we to go to accrual accounting, which in principle we ought to; that is what the private sector does.

Mr. SPRATT. If we had it on an accrual accounting Federal budget, and also a strictly observed PAYGO rule, we could not have any entitlement increases or spending cuts or tax cuts for a long time to come, could we?

Mr. GREENSPAN. I think it would be a very sobering budgetary experience.

Mr. SPRATT. One final question, because others want to ask you questions.

Right now we sort of are lulled into complacency, I think, because we have been able to run large deficits and have budgets that forecast large deficits, but we have not yet seen or felt the effects apparently in the long-term interest rate markets.

Mr. GREENSPAN. That is certainly correct. Indeed, it is hard to find any evidence of the move from surplus to deficits in long-term riskless Treasury instruments. One of the reasons, as I indicated before, is not only obviously that the economy has slowed down through the last year or two, but also there is still a degree of expectation that the fiscal policy process is under control.

Mr. SPRATT. Nevertheless, you still think there is a connection. You made a landmark speech at Jackson Hole recently and there were some economists there from Georgetown who I understand presented papers saying that even CBO's projection of long-term deficits had an effect on long-term interest rates. Do you think that there is still a serious connection there and that could hamper the long-term growth of the economy?

Mr. GREENSPAN. There is a large dispute within the economics profession of the impact of government debt and deficits on long-term interest rates. I am in the camp which believes there is a very close connection over the long run. To be sure, there are many other factors which affect long-term interest rates, but if you watch the way markets behave, and indeed the economics of it very strongly suggest that long-term interest rates, both real and nominal, are affected in a significant manner by the long-term fiscal outlook, and when you change the long-term fiscal outlook or, more exactly, when the markets perceive a change in the long-term fiscal outlook, interest rates react immediately.

Mr. SPRATT. And long-term rates are critically important in determining investments in plant and equipment, fixed long-term investments?

Mr. GREENSPAN. Long-term interest rates have been extraordinarily important, not only, as you point out, in the corporate sector, but they have been a major factor in inducing the extraction of equity from homes which been a very large contributor to the support the economy has had through this period of very severe equity market contraction.

Mr. SPRATT. Thank you very much, sir.

Chairman NUSSLE. Given the time constraints, I am going to ask members to hold very closely to the 5 minutes, and I will try to enforce that respectfully.

Mr. Gutknecht.

Mr. GUTKNECHT. Thank you, Mr. Chairman. Thank you, Dr. Greenspan. It is always good to have you here.

Mr. GREENSPAN. Thank you.

Mr. GUTKNECHT. I am reminded sort of in listening to some of your presentation of something my old German grandmother says. "So soon old and so late smart." It seems that we sort of have to relearn things so many times. In terms of predicting what the economy is going to do in the future, it is a very difficult business.

I want to first of all talk about something that our friends on the other side continue to talk about, and that is the tax cuts. Given the fact that the economy has been much more sluggish than we originally predicted, do you think we did the right thing in reducing taxes last year?

Mr. GREENSPAN. Oh, I do, Congressman.

Mr. GUTKNECHT. Let me go to the other side of the equation. Since we found out it is much more difficult to predict how much money is going to be coming into the Federal Government than we used to think, let's talk about the spending side. In the past you have said, I don't know if it is a direct quote, in the past you have said that the credibility of fiscal discipline such as discretionary spending caps promoted market confidence and thereby helped support economic growth. Do you still believe that? And perhaps you can expand upon that.

Mr. GREENSPAN. I do, Congressman. I don't think it is necessary to expand. It is well phrased.

Mr. GUTKNECHT. Yes, it is.

Well, that is the dilemma we are going to face here on this committee as we finish up the appropriation process for this year and look down the path. And we would certainly hope that you would continue to voice that opinion, because sometimes we are at a big minority here in Congress, because the demand for spending is enormous, and it comes from all quarters. Those of us who believe we have to continue to apply fiscal discipline are many times outnumbered.

I want to ask sort of an unrelated question, because there are really two, I think, important powers that the Federal Reserve has. One relates to the Fed funds rate, and I think you folks have responded appropriately there.

The other is with relation to margins. Maybe you could talk a little bit about what you do, and was there a way that you could have

used that power in retrospect looking at what you have described as the bubble in the market?

Mr. GREENSPAN. Congressman, we looked at that very carefully and concluded that by every analysis we were able to make our margin authority have virtually no effect on any speculative activity. And the reason, basically, is that margin debt is just a little over 1 percent of the value of the stock market, and the vast, vast proportion of traders in the market have access to borrowing to finance their purchases from a variety of sources. We concluded that the only thing that an increase in margin requirements would have done would be to restrain the very small investor whose access to lending was nowhere near that available to everybody else. It clearly would have had no effect on the speculation that was going on, and we concluded that as a consequence of that, rather than do something which seemed to be a major factor and was not, action on margins would only undermine the credibility of the whole monetary process itself.

Mr. GUTKNECHT. One last question. Some on Wall Street have been saying that Congress has been maybe too aggressive in beating up on corporate America relative to the corporate scandals. In your opinion, have we been too tough, not too tough, or just about right?

Mr. GREENSPAN. Well, I trust that we have learned everything that is going to come out, and I think it depends to a large extent on what that is. I do think that there were numbers of egregious acts that took place in the name of corporate governance over these years. My own impression is that the Sarbanes-Oxley Act has appropriately addressed everything of which I am aware should be addressed. Indeed, the major problem that I perceived and stated on several occasions, both in testimony and in speeches, was that the problem essentially rested with the chief executive officer and that those chief executive officers who wanted to spin the accounting system in order to give an impression of success where success did not exist, those would be duly restrained under the existing statute.

We see a lot of activities out in the corporate governance area which are essentially a reflection of the fact that companies tend to themselves reflect what CEOs try to put forth as the goal of the company. Those companies, or I should say those CEOs who called in their outside auditors early on and said, "Do not do me any favors about giving me numbers which look good. I have a corporate strategy out there. I need to know whether or not that strategy is working or not working, and if you give me numbers which fuzz up whether it is working or not, it doesn't allow me to correct mistakes, which I need to do."

I submit that very, very many corporate CEOs who did that turned out to have no problems whatever. There are a few—a larger number than I would like to have seen—who did get caught up in the short-term earnings game and its impact on stock prices, and that will very readily be addressed and, I think, fairly completely, by Sarbanes-Oxley.

Mr. GUTKNECHT. Thank you.

Chairman NUSSLE. Thank you.

Mr. Bentsen.

Mr. BENTSEN. Thank you, Mr. Chairman. Mr. Chairman, Chairman Greenspan, good to see you again. I have a couple of questions that I would like to get in if I could. The first one, I want to go back to your testimony that you gave before the Financial Services Committee in July. During that time you said the Fed's tendency for growth in 2002 would be between $3\frac{1}{2}$ and $3\frac{3}{4}$ percent in real GDP growth, and then later, $3\frac{1}{2}$ to 4 percent. Is that still the general tendency of the Fed?

Mr. GREENSPAN. I don't know that, and the reason is that, as you know, Congressman, those numbers are the projections of all of the members of the Federal Open Market Committee that we compile before the FOMC meeting. I would presume that, like the whole coterie of other forecasters out there, that were we to reestimate those numbers they would be somewhat lower. But that is not the forecast, I might say, of the staff, that is the forecast of the range of all of the 19 members on the Federal Open Market Committee.

Mr. BENTSEN. Thank you. The other question, I want to go back to what Mr. Spratt was asking and a little bit of Mr. Gutknecht as well.

In your testimony, you give a strong defense, and I think an appropriate defense, of the 1990 Budget Act and the PAYGO rules and caps that were put in place that expire at the end of this year and the caps arguably expired long before 2002. You also mentioned that discretionary spending during that time, at least between 1990 and 1998, fell by about 35 percent as a percentage of GDP. I know Mr. Gutknecht brought up concerns about rising discretionary spending and earlier this year I think we raised discretionary spending, the bulk of which went into defense and homeland security accounts, which I think most Members—this Member feels is appropriate spending.

But you also said that you still agree with your comments last January, or January of 2001, in which you believed there should be some sort of triggering mechanism in tax reductions in conjunction with some sort of triggering mechanisms with spending assumptions.

Given the fact that you believe that we ought to extend PAYGO, and I think you are correct in that assumption, do you think it is appropriate that the Congress consider at this point in time—given that we have lost \$5 trillion in surplus value in the last year—that we should very seriously consider freezing the further reductions assumed in the 2001 tax cut? Secondly, do you assume that a freezing of a future reduction is in itself a tax increase, or is it just forestalling future reductions? Because that is really what we are coming down to. I think we are going to have to have spending cuts, we are going to have to have caps again, we are going to have to have PAYGO offsets. But it seems to me that we cannot say we are for triggers, but then not exercise them as it relates to the 2001 tax cuts. So do you think we need to go back and look at the 2001 tax cut in conjunction with PAYGO and caps?

Mr. GREENSPAN. Well, I think it is important to remember that of the tax cut of \$1.5 trillion plus, including debt service, there is only \$500 billion left to be initiated, and I might say that part rescinding of that you will find would run into resistance from a significant majority of the Congress, so that there is not all that much

to change. My own view is that I would prefer not. And one of the reasons I would prefer not is that there is a significant segment of the business community, largely small businesses, who have presumably made capital investment commitments in the context of expecting that the long-term tax structure would remain in place. They presumably would think that if you rescinded it they would consider it a tax increase.

What constitutes a tax increase or not is clearly an issue of definition. Some would say yes, some would say no.

Mr. BENTSEN. Well, if I might in my remaining few seconds ask, given the fact that in your own testimony you say with the looming liabilities of Social Security and Medicare that need to be addressed, the long-term prognosis is not very positive for fiscal policy and your belief that there is a coordination between deficits and long-term interest rates, would not we be putting on those same small business people the rising cost of capital, particularly in the short-term markets where they participate the most that would offset any reduction that they might be getting through the tax cut?

Mr. GREENSPAN. Well, rather than focus on any individual part of the budget, I think I can just merely stipulate that what is required here is to look at the total. The particular political decisions of whether spending is cut or taxes are raised or vice versa I think is very properly in this committee and amongst your colleagues in the various appropriations committees, so I don't particularly wish to focus on any specific part of the budget. As I said, my own personal view would be, I trust that you do not rescind the tax cut, but that is a much broader question and I think it should not be answered without looking at the whole context of where you want this budget to be and in what form in, say, the year 2012.

Mr. BENTSEN. Thank you.

Thank you, Mr. Chairman.

Chairman NUSSLE. Thank you.

Mr. Thornberry.

Mr. THORNBERRY. Thank you, Mr. Chairman.

Chairman Greenspan, one of the reasons, it seems to me, that economics is as much an art as it is a science is that in some way you judge the reaction of the economy to various policy decisions which are made in Washington, reactions of markets and investors, consumers, businesses and so forth. I want to ask you about several policy options that are before us in the short term and your judgment as to whether it would be beneficial to the economy and attitudes about the economy.

One you have already, I guess, addressed somewhat. If we are able to finish our business this year with relatively restrained discretionary growth in spending, is that a positive thing for the economy? What sort of effects would that have?

Mr. GREENSPAN. It would be positive. The reason I say that is I know there are a lot of people out there who are arguing that what we need very significantly is fiscal stimulus, but the amount of stimulus already in the pipeline is really quite large. And, remember that we are looking at a CBO budget which is a current services budget. It does not have in it fairly substantial potential additional initiatives which are evidently important to the Congress, but they are not in the budget. I should think that the prob-

lems that are going to occur in the period immediately ahead are going to be more an issue of restraint than the need for any additional fiscal stimulus.

Mr. THORNBERRY. Let me ask about a second area. We have before us in Congress several things related to homeland security, reorganizing the government, terrorism insurance. If we are able to achieve those things before we leave this year, does that help the economy by giving some greater confidence that the government is actively protecting us?

Mr. GREENSPAN. Congressman, anything that reduces uncertainty is almost universally favorable to markets and to the economy, so to the extent that there are uncertainties hanging out there as to which way, for example, the terrorism issue is going to be handled, anything that can be done to remove that uncertainty would be helpful.

Mr. THORNBERRY. That answer may apply to this question, too. Before us is an energy bill. If we are able to take some action that will reduce our dependence upon foreign energy, for example, what is the reaction in the economy to that? Some speculation is that people are reluctant to invest because depending on events in the Middle East, that could have consequences to energy markets and the economy as a whole.

Mr. GREENSPAN. I would say anything we can do to increase our energy security is clearly to the advantage of the long-term outlook.

Mr. THORNBERRY. Let me ask you about one other area that is kind of on our plate in the short term.

There are those who suggest that we should take some action in the Tax Code to boost investor confidence. Some suggest further reductions in capital gains; others argue that making dividends deductible would be a good thing for investors, but would also help provide some stability dealing with some of the issues you and Mr. Gutknecht talked about. What is your judgment as to the advisability of some sort of a tax bill this year in the short-term dealing with these investor-type issues?

Mr. GREENSPAN. Well, I am not certain you can do it this year obviously, because you are going to be running out of time, but over the future, it is clearly for economic reasons desirable in some way, in some manner, to lower or hopefully basically eliminate the so-called double taxation on dividends. That is not very helpful for long-term capital investment or the allocation of capital, and, as I have said on other occasions, I am also in favor of reducing capital gains taxes and indeed eliminating them completely on the grounds that it is a very poor way of raising revenue.

But having said that, in the context of the requirement that we maintain an appropriately fiscally disciplined system, we cannot make and should not be making decisions without fitting them into the context of the long-term fiscal situation. There is no doubt in my mind that it would be desirable, for example, to increase the availability of subchapter S corporations which effectively eliminates the double taxation of dividends. There are a number of other things which I think would be quite helpful and to which we ought to aspire, but in the context of an overall budgetary fiscal posture.

Mr. THORNBERRY [presiding]. The Chair recognizes the gentleman from Virginia, Mr. Moran.

Mr. MORAN. Thank you, Mr. Chairman.

Mr. Greenspan, we are all aware that you are the most credible economic analyst in the country today, and so in many ways our country's fiscal solvency in the years ahead rests on your able shoulders. But your intellectual ability, of course, is only as constructive as your political independence. I have a little concern and I am feeling some frustration in that regard.

The current CBO Director has had the intellectual integrity, though a Republican, to tell his own party what they needed to know instead of what they wanted to hear. In his latest report he shows that the single greatest component to the erosion of the \$5.6 trillion budget surplus, and this projection of deficits in excess of \$200 billion a year, is primarily attributable to the tax cuts.

Mr. GREENSPAN. That is factually accurate.

Mr. MORAN. Well, I know that. And as a result, I suspect he is going to be removed. But in your testimony, you seem to studiously avoid what I think is a very important consideration. You knew that that \$5.6 trillion budget surplus was not sustainable. You knew and warned us that the equities markets were hyper-inflated and any number of contributing factors made you more aware than most people that the money was not there, and if we used the \$5.6 trillion figure to justify a substantial tax cut, that money was eventually going to have to be borrowed from the Social Security and Medicare Trust Funds, and that is exactly what has happened.

Mr. GREENSPAN. I testified a year ago, in which I took the CBO numbers as they stood, and if you look at what they were doing and the way they handled it, those estimates were professionally as good as you could do. We all—what I testified to is that these are variable estimates, but I didn't necessarily know that they were too high or too low.

Mr. MORAN. You were telling us that the equity market was not sustainable.

Mr. GREENSPAN. But remember, the \$5.6 trillion was based on the presumption that the equity market would be coming down over the long run.

Mr. MORAN. Well, I don't want to be too argumentative here with you, but you do acknowledge that the principal cause of the deficit today is the tax cut; it is anywhere from 35 to 40 percent, and the excess spending, additional spending is maybe 12 to 15, depending upon who you believe, and the sluggish economy maybe 15 percent of the deficit. That is where the emphasis, though, is being placed.

In your statement, if you read your statement without any larger context, you would think that the domestic discretionary spending is primarily attributable to the deficit, and that is where we need to focus almost exclusively our energies. But you also know that we reduced domestic discretionary spending from about 10 percent down to 6.5, 7 percent. So you know that there is just not that much more—

Mr. GREENSPAN. That includes defense.

Mr. MORAN. Well, I don't feel that you have indicated that you think the defense budget should be cut. I would be interested to know that if you think that it should be.

Mr. GREENSPAN. No.

Mr. MORAN. It seems to me that the only discretion we have is in domestic spending. That is where the argument over appropriations bills is going to be. That is why we are going to get stuck with a continuing resolution, because we can't come up with the money for the Labor, Health and Human Services bill. So we are not arguing over defense. But in your statement, if we do what you are implying we should do, we would further cut domestic discretionary spending. It just seems to me there is very little wiggle room left there.

Mr. GREENSPAN. No, I think that my statement was essentially an effort to indicate that we ought to have a long-term fiscal policy and adhere to it. I, hopefully, studiously avoided endeavoring to get involved in any specific way in which that should be achieved because that is the Congress' prerogative.

Mr. MORAN. Well, Mr. Chairman, the President has proposed additional tax cuts of about \$260 billion over the next 10 years. Do you think those should be implemented now, given the fact that they would have to be paid for out of Social Security and Medicare? Would you support delaying those until we can pay for them?

Mr. GREENSPAN. As I said to your colleague across the aisle, my own view is that all initiatives, both on the tax and the spending side, have to be made, in my judgment, in the context of what the long-term fiscal policy outlook is and what the goals of the Congress, hopefully in this committee and your colleagues in the Senate, decide is the appropriate stance.

Mr. GUTKNECHT [presiding]. The gentleman's time has expired, and Chairman Nussle would like to keep the committee meeting going during this vote, so I will recognize the gentleman from Georgia, Mr. Collins, for 5 minutes, and I understand Dr. Greenspan can only stay until about 12:30. If you need to go and vote, we are going to try and keep this going. The Chair will come back, and the Chair recognizes the gentleman from Georgia.

Mr. COLLINS. Thank you, Chairman Gutknecht.

I really appreciate the fact that you adhered to my advice with your most recent comment there, and that is you will leave the spending and the taxing to Congress and you will handle the interest rate based on Federal funding.

You know, when you testified here, I believe it was last year, the question was asked about interest rates; did you feel like you had raised interest rates too quick and too high, and of course you said no, that the purpose of raising those rates was to slow down corporate investments.

Mr. GREENSPAN. Did I say that?

Mr. COLLINS. You said that, sir, and I believe you achieved your goal. In fact, I think it kind of dried up. That might be about the time you spoke about the bubble, about when the bubble bursts.

Also at that same time is when we began to see a decline in revenues as far as the Federal Government, State governments and local governments. Also we began to see an erosion in consumer confidence, and consumer confidence, as you well know, is the marketplace and the economy, the cash flow of individuals.

A lot of that consumer confidence began to erode because of job loss. Job loss has required digging into many savings accounts and, as you said in your comments, there have been some 401(k)s cash-

ing in and IRAs and such to pull those funds out to meet the needs of the family budget. Retirement funds have declined, based on the fact that the market is way down, and that too has sent some shock waves throughout the consumer environment. Spending has not declined as such by the Federal Government. Even though we have seen a shortfall in revenues, we have been unable to tend to our own business and adjust our own cash flow accordingly.

My concern is, too, that there has been a lot said about the previous budgets, based on 1992 through the year 2000 and how we had a tremendous growth in revenue. I am reminded in 1993 that the party in charge then, their approach to budget deficit was to increase taxation. In January 1995, deficits were \$200 billion a year as far as you could even estimate. Also, in January 1995, the stock market was at 3,800 points, and in 2000 it rose to 11,000 points. A lot of that came, as you said in your statement, from the fact that there was some budget discipline that was beginning to take place within the Congress. I am sorry to say that budget discipline itself has eroded.

But my question to you, sir, is where do revenues for the government, where are they actually derived? Where do they come from?

Mr. GREENSPAN. They come from the taxable incomes of the American people.

Mr. COLLINS. From the American people, as far as the individual. And the corporate income tax, where does it come from?

Mr. GREENSPAN. It comes from the same people.

Mr. COLLINS. It comes from the fact that there is an earnings, a positive earnings within the corporate community.

Mr. GREENSPAN. True.

Mr. COLLINS. Those positive earnings in the corporate community are also responsible for the fact that it is the cash flow of the individual which puts them in a taxable situation, is that not true?

Mr. GREENSPAN. That is correct, Congressman.

Mr. COLLINS. We have a situation in this country, and I believe you referred to it, too, that we have imports that far exceed exports. We are in a global marketplace, is that not true?

Mr. GREENSPAN. It is.

Mr. COLLINS. Do you know, or are you aware of, a considerable number of differences between the tax provisions that we impose, which is cost to business in this country, which directly affects payrolls, which has led to the decline in the number of jobs, how our provisions relate and compare to provisions of other nations?

Mr. GREENSPAN. Well, there is very clearly an increasing amount of competition amongst nations to attract companies and, as a consequence of that, there is an ever-increasing convergence of tax structures amongst nations because of the competition.

Mr. COLLINS. Well, let's get a little bit more specific with some of the differences. We tend to have a higher capital gains rate than most industrialized nations, is that not true?

Mr. GREENSPAN. I believe that is still correct.

Mr. COLLINS. We have a higher rate than some nations, not all. We also have the corporate and the personal alternative minimum tax. Do you know of another nation that imposes such a tax?

Mr. GREENSPAN. I am not familiar with it, but that is only because of—

Mr. COLLINS. As compared to the Europeans, we double tax stock dividends which are directly related to portfolios and retirement of the individuals who work for businesses. In fact, the individuals make up the business; the business is only the name. Are you aware that the Europeans do not double tax?

Mr. GREENSPAN. Remember, the Europeans get a significant amount of their revenue from the value added tax, which essentially eliminates—

Mr. COLLINS. That is true, and a lot of our revenue in this country for our local and our State governments come from consumption taxes, too.

We also treat depreciation much different. We have oftentimes a double depreciation length of time versus an amortization of a capital investment. In your comments, you say the more capital that is available per worker—you are taking it right back down to the per worker basis—is very important. And so if we are not competitive in the world market, should we—well, no that is our question; that is the decision we have to make. But my statement is we should address the differences between our tax provisions in this country versus our competition in other parts of the world. If we have a team that weighs 150 pounds and we are up against 300-pound gorillas, we need to do something about our team, and our team is now the lesser on the field because of the competition and the lack of the provisions that we need to be competitive and the costs that we impose on businesses and on individuals in this country, because business only collects from its customers, it does not generate.

Thank you, Mr. Greenspan.

Chairman NUSSLE [presiding]. Mr. Chairman, I have a couple of follow-up questions. I know there are members who are trying to get to the floor to vote and then I know there is at least one, maybe two, who may come back and have final wrap-up questions. But before they come back, let me just ask you, you had mentioned in response to Mr. Spratt and others—and I share the frustration that so many have about the inaccuracies of the forecasts and the inaccuracies that appear to be either within the models that are used or the judgments that are provided—there is a tendency to shoot the forecasters, and that is, I suppose, I have done my fair share of shooting the messengers or shooting the forecasters.

Was there any way to predict this? I mean one thing that I recall as far as the downturn in revenue, one thing I recall in the opening predictions of the Congressional Budget Office, this would have been back in, oh, I want to say it was all the way back a year ago in February, so now a year-and-a-half ago, is they had built into their forecast of the \$5.6 trillion “surplus” a recession. In fact, they cheerfully testified to that fact, OMB testified to that fact, that was part of the advertisement, and yet even with this “built into the forecasts,” whatever happened, happened much larger than previously forecasted or explained.

Could this have been foreseen? Obviously hindsight is always 20/20, but should we be trying to figure out as we look forward into the nut a better way to forecast these kinds of things, either short term or long term?

Mr. GREENSPAN. Well, a very large part of the error occurs not as a consequence of misforecasting the economy—in other words, misforecasting the GDP and the wage and salary income and dividends and all of the standard means that we use to calculate taxable incomes. It occurs to a very substantial extent in relating the changes in, say, stock prices to capital gains taxes on the realizations of stock sales.

Remember, merely looking at a stock price pattern doesn't tell you what the actual realizations are. It gives you a rough cut, but you will find that it is not a simple issue to translate rising stock prices or rising values of real estate into taxes, because you don't know when these particular assets are going to be sold. So there has been a great deal of effort to try to get a better handle on that, and I hope we will continue to improve the techniques that we now have.

We had a reasonable shot, I think, at picking up the potential decline in income taxes paid on stock option exercises, and I think to a certain extent probably were able to get some judgments about the other areas which were affected by stock prices; but we did not get by any means the whole thing, because even making all of those adjustments, the final settlements numbers which showed up in the April tax collections implicitly came in far short of what we would have expected, and my belief is that I expect that the implied estimated taxes that show up in the non-withheld components for certain months also were coming in below those expectations. We won't know what the nature of the mistake was until we get the full detailed statistics of income for calendar year 2001 and are able to see what actually did happen.

Do we need to improve the techniques? I think we do. Do we have the capacity to do it? I am not sure at this particular stage, but we have no alternative but to continue to try.

Chairman NUSSLE. Thank you. I indicated that it was Mr. Toomey, and I apologize; it was Mr. Moore first. The gentleman is recognized.

Mr. MOORE. Thank you, Mr. Chairman. And Chairman Greenspan, thank you for being here.

You did testify, and this is not an exact quote, but I think it is close, the amount of stimulus in the pipeline already is really quite large, is that correct, sir?

Mr. GREENSPAN. That is correct.

Mr. MOORE. You talked some in answer to various questions here about additional tax cuts, and you said I think, and correct me if I am wrong, that there may be some need or a desire to further stimulate the economy in the future?

Mr. GREENSPAN. Well, tax cuts in the context that I was discussing them work to improve the underlying structure of the economy, not as short-term economic stimulus.

Mr. MOORE. There was a tax cut that was voted on, presented in the House of Representatives and voted on and passed, the House at least, and that was what was called permanent repeal of the estate tax, and I voted for the \$1.35 trillion tax—I am sorry, the \$1 trillion tax cut proposed by the President last year. Would this permanent repeal stimulate the economy?

Mr. GREENSPAN. Well, I think over the long run, it clearly would be removing a tax on capital which tends over the long run to improve the capital efficiency of the system.

Mr. MOORE. What would it do, though, what would it do to our financial condition as a Nation?

Mr. GREENSPAN. Well, as I responded to another one of your colleagues earlier, the application of any form of spending initiatives and tax cuts, even though they are in and of themselves clearly of value and would be perceived as having value to a majority of both Houses, there is still the question that you have a budget which must at some point balance or, if it is not balanced, be unbalanced for very conscious reasons. So there is a two-stage question here: One, other things being equal, is a particular tax cut or a spending initiative of value; and does it fit into the overall budget program, long term, in the context of the various priorities which presumably are passed by both this committee and your counterparts in the Senate?

Mr. MOORE. I believe you also said, and this is not a direct quote, but it is difficult to make projections 4 or 5 or 6 years out. Is that correct?

Mr. GREENSPAN. It is easy to make projections of certain things such as population, age distribution, and a number of things which essentially are currently almost inexorably evolving.

Mr. MOORE. Sure.

Mr. GREENSPAN. But the broader aspects of economic forecasting create fairly large uncertainties when you get beyond the immediate short-term period.

Mr. MOORE. Last year, shortly after the vote on the tax cut, in fact, a couple of months after the vote on the tax cut, I was at a high school government class talking to high school seniors about Chairman Greenspan on the economy and the wisdom of fiscal restraint and responsibility. And I told them last year, last February, we as a Nation had a \$5.6 trillion projected surplus over the next 10 years. And then this was this year, I guess, because I said now, the projected surplus a year later was \$1.6 trillion, and somebody said to me what did you guys in Congress do with that surplus, the \$4 trillion? I said it was projected. I asked this high school class, how would you define projected surplus. This one girl raised her hand and she said, "maybe yes, maybe no." Is that a good definition?

Mr. GREENSPAN. I fear it might be better than most.

Mr. MOORE. I said to her, I would like you to teach some of my colleagues in Congress about projected surpluses and the wisdom of spending projected surpluses.

I guess my question is, what do we do? What do we do now to get back? I don't want to play politics here. I want to talk about would it be advisable for the President and Congress to get to the leadership at least and say, here is what we need to do to get back to a balanced budget.

Mr. GREENSPAN. It is the fundamentals of our political process or a democratic process to resolve these issues and, indeed, we have done it in the past. We have to do it in some way, in some manner. How specifically it is done is a political judgment.

Mr. MOORE. OK. Well, you always say that when you don't want to comment on it, and I think you are probably one of the most skilled politicians I have ever seen, and that is intended as a compliment, not as something bad.

Mr. GREENSPAN. Thank you.

Mr. MOORE. I have also heard you talk about keeping the triggers, or getting a trigger, keeping PAYGO and discretionary spending caps.

Now, the last question I guess—I am out of time here—is in view of our conversation about the problems with projecting what is going to happen in the future beyond just a few years, would it be advisable for us to stop these 10-year projections in terms of budgets and start going to maybe 3 years? Would that make more sense?

Mr. GREENSPAN. No, it doesn't, largely because the commitments we are making, especially now in the context of the fact that we have this major demographic shift, really require us to look deep, as deep into the future as we can. We are doing that implicitly by every passage of a bill that comes to the floor of this House. It is far better to at least focus on it. We may not know any more or learn any more by focusing on it, but it has to be an improvement over just making believe there is no problem.

Mr. MOORE. Thank you, sir.

Chairman NUSSLE. Mr. Toomey.

Mr. TOOMEY. Thank you, Mr. Chairman.

Chairman Greenspan, thanks for being here, once again.

I would like to really focus on the issue, maximizing economic growth. The first point though I think I would like to just develop briefly is something I think I alluded to. The biggest budgetary problems and challenges that we face seem to me by far to come from the inexorable demographics that are catching up to our Social Security and Medicare programs. Those strike me as far larger than the annual cash flow shortage and surplus that we have had in recent years. It seems to me that we are not going to be able to tax our way to a solution long term for those programs, we are not going to be able to cut spending as a way to achieve the solution; the only way we are going to solve that problem is profound, systemic reforms of those programs. Do you share that view?

Mr. GREENSPAN. I would tend to be in that direction, Congressman, yes.

Mr. TOOMEY. Then I think—and I fully believe we need to do that, and that should be a very high priority because every day that passes it becomes a more difficult challenge, certainly economically; politically it may or may not be. But with respect to the other issues, aside from those programs, and of course it is all related; but I wonder sometimes if the tail isn't wagging the dog a little bit. When we focus so much on the Federal budget per se and whether it is exactly how big the deficit is in a given year versus the next year, whether it is Social Security or outside Social Security. On page 5 you make a point which I think goes to the heart of what we in Congress ought to be focusing on, which is to increase the real resources that are available, and if the economy is growing in a robust fashion, then almost every single problem we address is much easier to solve. So I look at programs, I look at

ideas, such as some that we have discussed briefly earlier, ideas that we know, or at least we have a very high degree of confidence would improve the capital structure and the savings rate for America, lowering the taxes on capital, such as capital gains, lowering the taxes on dividends which are at minimum doubly taxed. Since we know that that does long-term economic good for our economy, isn't it worth going ahead and doing that and accepting that maybe next year we may see a negative Federal revenue impact from that, but it is going to in the long run do more good than harm?

Mr. GREENSPAN. In principle, you can make that statement. The question is, it is very difficult to make a judgment as to when, by increasing deficits and hence an incursion of the government debt on private savings begins to actually act as a negative force, you would be overriding the positive forces which you are very clearly enunciating.

So it is a really very tricky balance, but the process as you describe it I think is an accurate one.

Mr. TOOMEY. Well, to get to where we are in that balance—because I agree at a certain point a certain level of debt would be doing more harm to the national economy than good—but in recent decades it seems to me it is hard to show a correlation between the annual budget deficits or surpluses and the level of real or nominal interest rates. And if you look where we are right now obviously, in the last couple of years we have had this huge swing from big surpluses to deficits; and we have had a huge reduction in most interest rates across the yield curve.

Mr. GREENSPAN. But, as I pointed out before, I think that you have to be very careful in drawing conclusions like that because all the evidence that we have is that, at the end of the day, very large Federal debt does have an impact on interest rates and interest rates affect a very large part of the capital structure of our economy which we are trying to make more efficient.

Mr. TOOMEY. I understand. I am very limited on time, so if I could just go onto my last point which is, is it not possible or credible or plausible or what are your views on the possibility that it is really the total magnitude of Federal spending that has a bigger impact than whether or not we have a marginal deficit or surplus? And are we at a point in terms of Federal spending now as a percentage of GDP where we are, by virtue of the magnitude of spending, impeding the economic growth? We could have greater economic growth, in other words, if we diminish that level of spending.

Mr. GREENSPAN. That is my own personal impression, but I must tell you that the economic evidence is very mixed on this issue. Very clearly if you get to very substantial parts of the GDP being absorbed by government, you could very readily demonstrate that has a significant negative effect. But in areas where we currently exist, it is very difficult to find the data to demonstrate that. My own impression is that it is the difficulty of analysis in finding that relationship, rather than the true relationship that is involved. But, ultimately, you have to, in a democratic society, demonstrate that certain things are important.

Mr. TOOMEY. Thank you very much.

Chairman NUSSLE. Thank you.

Dr. McDermott.

Mr. McDERMOTT. Thank you, Mr. Chairman.

I am sorry, Mr. Greenspan. I was over on the floor fighting another tax giveaway, and I was unable to hear all your testimony. So I have got a question or two, and it may be redundant.

Do you believe that from this point forward we ought to apply PAYGO rules to any tax bill, whether it is an extension or any new one?

Mr. GREENSPAN. My view is that the simplest thing to do is merely extend the existing statute. But if you find ways to improve upon it and make it far more effective, I think that would be most helpful.

Mr. McDERMOTT. So what you are saying is that all these things that were put in temporarily last year, they can be extended with no problem and we don't have to worry about how much they cost or anything else.

Mr. GREENSPAN. No, no. I am basically saying that I am worried that as of October 1, the whole process will disappear, and so I am saying, as a start, let's make certain that that is extended. If you can do other things on top of that, by all means.

Mr. McDERMOTT. All new tax cuts PAYGO should apply to, in your opinion? I mean, you would encourage us to put that in process?

Mr. GREENSPAN. Well, yes, certainly. In other words, if you have PAYGO, it applies, and it applies to new tax cuts, it applies to new spending initiatives.

Mr. McDERMOTT. And that is also for the President's plan to extend these taxes that we have put in temporarily.

Mr. GREENSPAN. That is up to the Congress to make a decision of what it is you mean by the particular structure of the law.

Mr. McDERMOTT. I know that. But I would like to know what you think.

Mr. GREENSPAN. What I think?

Mr. McDERMOTT. I know the task.

Mr. GREENSPAN. OK. Let me put it to you this way. I am not going to comment on individual items, which really I know far less about in the process sense than members of this committee. I will try to state what I believe on things I think I know something about.

But if you are asking me, do I think that we ought to maintain as strict a fiscal discipline as we can manage, the answer is yes. If, in your judgment, that requires that you put PAYGO on various different items already in process, that is a judgment which I think legitimately needs to be made.

Mr. McDERMOTT. OK. Can we do dynamic scoring? I mean, do you believe in that concept?

Mr. GREENSPAN. Well, dynamic scoring is the ideal in endeavoring to evaluate any spending or tax program. The reason we tend not to do it and go to what we call static scoring is that it is very difficult to get general agreement on what the feedback effects of various different programs are, whereas there seems to be a general agreement on getting the gross impact of a program that is through static scoring, so that we have a general consensus. If we could find a way in which there was a general consensus as to how the economy fed back the impact of those various programs in sec-

ondary and tertiary ways, that would be an improvement on our techniques to determine the impact of various programs. We have not been able to do that.

Mr. MCDERMOTT. Is the Fed trying to find a way to do that, or do you think?

Mr. GREENSPAN. Well, I think all the academic community is endeavoring. We are. Most everybody is. We have not yet come to an agreement, and the reason basically is that none of us have a model of how the economy works which has been wholly successful. Until we get there, we really don't know the answer to these questions.

Mr. MCDERMOTT. I have one last question. I would like to hear your estimate of what you expect that going to war in Iraq would do to oil prices. Would you expect them to go up? I notice you talk about it being—the price of oil being a real drag on the economy. Would the price go up? Would the price go down? What would be your thinking, if you were talking to the President about whether or not he ought to go and the impact it would have on the economy if oil prices went up to \$350?

Mr. GREENSPAN. Well, my general view is that issues of foreign diplomacy and military strategy really ought not to take into consideration what the impact on the American economy is, but we do obviously need to know that as we go on. In other words, when we look at the oil market, we recognize certain things. First of all, the amount of oil per dollar of GDP has been coming down quite significantly over the years so that the impact now of a spike in oil prices presumably would be less than it has been in the past.

Having said that, it is factually the case that spikes in oil prices have preceded recent recessions. We think that is accidental because when we work through as much as we know of what the impact of an oil price spike is, it shouldn't have as large an effect as it did in the past.

But how military action, if it occurs, impacts on the price of oil is obviously a function of how long it takes, and the only example that we have which is really usable in this context is the experience of the Gulf war. As you may recall, big surges in prices occurred, and as soon as it became apparent that the war was going to be over quickly the markets came down very dramatically.

Mr. MCDERMOTT. If I can interpret that, you are saying that if we were to go to war, it would not surprise you if there were a spike in oil prices and a recession followed that or depression followed that.

Mr. GREENSPAN. It would surprise me.

Mr. MCDERMOTT. It would.

Mr. GREENSPAN. It would. Because I don't think that the effect of oil as it stands at this particular stage is large enough to impact the economy, unless the hostilities are prolonged. If that is the case, then we could run into difficulty.

Mr. MCDERMOTT. The Gulf war was less than a month, or it was a month.

Mr. GREENSPAN. The Gulf war—if we go through a timeframe such as the Gulf war, it is unlikely to have a significant impact on us.

Mr. MCDERMOTT. Thank you.

Thank you, Mr. Chairman.

Chairman NUSSLE. Thank you.

Mr. Greenspan, I have kept my promise to you with 5 minutes to spare. We appreciate your testimony today, and we look forward to the next opportunity to visit.

Mr. GREENSPAN. Thank you very much, Mr. Chairman.

Chairman NUSSLE. Thank you.

This hearing is adjourned.

[Whereupon, at 12:26 p.m., the committee was adjourned.]

