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NOMINATION OF NANCY H. TEETERS

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HEARING

BEFORE THE

COMMITTEE ON

BANKING, HOUSING, AND URBAN AFFAIRS

UNITED STATES SENATE

NINETY-FIFTH CONGRESS

SECOND SESSION

ON

THE NOMINATION OF

NANCY H. TEETERS TO BE A MEMBER OF THE BOARD OF
GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SEPTEMBER 11, 1978

Printed for the use of the
Committee on Banking, Housing, and Urban Affairs

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NOMINATION OF NANCY H. TEETERS

MONDAY, SEPTEMBER 11, 1978

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, D.C.

The committee met at 10:05 a.m. in room 5302, Dirksen Senate Office Building, Senator William Proxmire, chairman of the committee, presiding.

Present: Senators Proxmire, Sparkman, and Sarbanes.

Also present: Senator Birch Bayh.

The CHAIRMAN. The committee will come to order.

We are honored this morning to have as our witness a nominee for the Federal Reserve Board, a distinguished nominee.

Mrs. Teeters, will you stand and raise your right hand? Do you swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

Mrs. TEETERS. I do.

The CHAIRMAN. Be seated.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

The CHAIRMAN. As you know, this is not only a highly prestigious but a very powerful and vital position on the Federal Reserve Board. I have been concerned for some time about the fact that Presidents have not appointed, in my judgment, people who are qualified, who really understood monetary policy, had a track record in monetary policy, had experience in monetary policy, understood the economy, had a basis on which we could judge their record.

There's no question that you have a remarkable background as an economist, that your background in the academic areas is very clear and very impressive. You also have background in working with the Government, including the Federal Reserve Board, which is most encouraging. You spent several years there in positions of considerable authority and responsibility and discharged those positions. Also, I'm delighted to say as a Senator, you have worked for the Congress of the United States at some length and there again you distinguished yourself by your knowledge of economic policy. We have a number of questions for you on economic policy.

We are looking forward to this hearing and I want to commend President Carter on appointing a very distinguished economist to the Federal Reserve Board. Nobody is perfect, not even Dr. Teeters. You don't have a banking or business background, but you do have a very strong background in economics and government and monetary policy and that's the most pertinent of all.

Mrs. TEETERS. Thank you.

The CHAIRMAN. Senator Sparkman.

**STATEMENT OF JOHN SPARKMAN, U.S. SENATOR FROM THE STATE
OF ALABAMA**

Senator SPARKMAN. Mr. Chairman, I listened to what you had to say. I haven't had an opportunity to read all of this statement we have before us, but I certainly agree that what I've seen does show that Mrs. Teeters had a wonderful record of performance.

The CHAIRMAN. Now we are happy to see our distinguished colleague from Indiana here this morning and I notice that you did come from Indiana. I challenged Birch on that. I didn't understand that you were an Indiana native, but I see you are, that you went to Horace Mann Elementary School in Marion, Ind., and Martin Boots Junior High in Marion, and I can see why Marion and Senator Bayh are so proud of your background. You also went to Marion High School and graduated from Marion, so you are a Hoosier.

Mrs. TEETERS. That's right.

The CHAIRMAN. I'll be happy to have the distinguished senior Hoosier introduce you, Senator Bayh.

**STATEMENT OF BIRCH BAYH, U.S. SENATOR FROM THE STATE
OF INDIANA**

Senator BAYH. Thank you, Mr. Chairman. I trust that the record will not show the surprised expression on the chairman's face. I don't know whether that was because he was comparing the Indiana origin with the significant background of academic and governmental expertise. I'm sure that's not the case. Mr. Chairman, you have important matters to discuss with the new nominee, but I did want to have a chance to say how proud I am of the fact that the President has chosen Dr. Nancy Teeters to serve in this critical role.

Both you and I have been critical of the past performance of certain members of the Board, not as individuals but because of the dramatic impact that the activities of those individuals have on the entire economic well-being of the country. I think we have in Dr. Teeters an individual with a rare combination of experiences—with the Board, with the Office of Management and Budget, in the private sector with Brookings where she coauthored the series of studies which were exceptional. And as you pointed out quite accurately, the outstanding job she's done in the House.

I think that we in Congress are really making history with the way we are trying to make our budgetary process work. It's our loss and the country's gain to lose someone like Dr. Teeters from the congressional budgetary process, but indeed the country needs someone with her talent on the Federal Reserve Board.

I might just add one other thought that I find particularly rewarding. As you know, I have been rather actively involved in a number of different issues as far as the needs of women of our country and I think it is a particularly impressive feature of the President's choice that he chose Dr. Teeters as the first woman in the 65-year history of the Federal Reserve Board. Normally that's not the kind of thing that would bear even mentioning, but the fact that there's never been a woman there before I think it should be mentioned. I think she's a good example of the fact that there are a number of women in this country who have the credentials to do the job; they just happen to be women as well; and I think the President has chosen a good person, a good, quali-

fied person. She can serve as a shining example to this administration and others that there are other people out there with her qualifications to be used in other places as well.

So I appreciate the privilege of the honor of joining in the welcoming of Dr. Teeters to the committee.

The CHAIRMAN. Thank you, Senator Bayh, and I'm also delighted that you mentioned the fine association that Dr. Teeters had with Brookings and the great work she did there. It was most impressive. As you say, the fact is that this is the first woman who's been appointed to the Federal Reserve Board and it's about time. The Federal Reserve Board has been in existence since 1913. That's 65 years, and it's a disgrace really that we haven't had a woman appointed to the Board, particularly when there are women who are qualified. Now we have a brilliantly qualified woman so it's doubly welcomed. Thank you very much.

SENATOR SPARKMAN. Mr. Chairman, before Dr. Teeters leaves, I would like to say that I now have had an opportunity to look through this paper that has been presented to us. I think she's had a wonderful record, just almost unbelievable in her accomplishments, and I want to congratulate her and join you in congratulating the President on designating her to this office of high responsibility.

The CHAIRMAN. Thank you, Senator Sparkman.

Mrs. Teeters, do you or any of your immediate family have any holdings that would constitute a potential conflict of interest in your new position?

Mrs. TEETERS. In the children's trust funds there are bonds issued by the Chemical Bank of New York which we have agreed to sell.

The CHAIRMAN. That's the only holding that you have that could be a conflict of interest?

Mrs. TEETERS. There's also American Express stock in one trust fund that we also agreed to sell. Those are the only conflicts of interest that I know of.

The CHAIRMAN. You have no other conflict of interest?

Mrs. TEETERS. Not according to the counsel of the Board. No, there's one other, a small one. We own four shares of the Newfound Corp., a land operation in the Virgin Islands, which we have also agreed to sell.

The CHAIRMAN. Why would that constitute a conflict of interest in the Federal Reserve Board, a land holding in the Virgin Islands? It seems to be remote from anything you could possibly influence.

Mrs. TEETERS. I have been asked to sell the stock because it's considered a speculative stock.

The CHAIRMAN. I see. Well, you're bending over backward, which is always welcome.

Do you agree to appear before appropriate congressional committees to testify when requested to do so?

Mrs. TEETERS. Yes, sir.

The CHAIRMAN. Now there were a series of interesting editorials and so forth in the Wall Street Journal this morning that relate to your new job, and I'd like to ask you about some of them because they are right on target with what you will have to deal with.

In the first place, the economy as a whole and the problem of dealing with inflation and unemployment so puzzles everybody and we don't seem to have any good answers. Daniel Brill, Assistant Secre-

tary of Treasury for Economic Policy—and I'm sure you're familiar with Mr. Brill—said the following, and I'd like your comment on it:

The analytical frameworks have not kept pace with the changing economic environment, particularly in light of the rapid social and structural changes that have occurred in recent years. It is certainly a fact that some of our generally accepted propositions in economics have been placed on the injured reserve list, whether permanently or temporarily remains to be seen. This is not making the economic policy task any easier. It is difficult enough to chart a policy course without finding that some of the road signs are pointing in unexpected directions.

Mr. Brill points out, for instance, that the basic relationship between real economic growth and unemployment has gone awry in the past year or so, with the jobless rate falling sharply, even though the economy has grown only a bit faster than its long-term potential. This development seems to have invalidated "Okun's law"—which I'm sure you're familiar with—that says a growth rate of about 4 percent is required to keep unemployment from rising and an additional percentage point of growth is needed to reduce the jobless rate by one-third of a point.

What's your reaction to this very puzzling development that we have, plus the very difficult problem we have of coping with inflation when we still have a high level of unemployment?

Mrs. TEETERS. Frankly, Senator, I'm willing to wait a couple years to take a look at the statistics. Frequently we have an inconsistent set of relationships which tend to disappear after all the information is fully available. Okun's law has over time proven to be fairly accurate and looking back just in the field of the economy, I suspect that we are going to find it was growing faster than we thought it was at the time of the preliminary estimates of growth. I do find it both heartening and puzzling that we have had such a rapid increase in employment over the past 6 to 9 months. Of course, there is the other side, that at least at the present time, the statistics are reflecting very low estimates of productivity. So I have a feeling that the economy probably is progressing at a faster rate than the official statistics of growth are currently showing, and I think that's a long-range problem in information gathering.

However, I think Dan Brill is right that we have a number of—

The CHAIRMAN. You say you think that the economy is growing at a faster rate than the statistics show?

Mrs. TEETERS. Yes.

The CHAIRMAN. How much faster?

Mrs. TEETERS. I would guess about half a percentage point.

The CHAIRMAN. How can that be? Why should the statistics be wrong?

Mrs. TEETERS. They are all "preliminary" statistics at the present time. Final numbers are not available until 3 years after the actual event; with seasonal adjustment and other factors, a very different picture of the economy will often emerge.

The CHAIRMAN. Even with the half a percent greater increase in the last year, that wouldn't validate Okun's law, would it?

Mrs. TEETERS. I think Mr. Brill was saying currently reported statistics invalidates Okun's law.

The CHAIRMAN. Yes; he says it's invalidated under present circumstances. You explained that by saying the statistics underestimate the

growth rate, but the growth rate of one-half percent more would not give you a sufficient record so that you could justify the increase in the employment based on Okun's law.

Mrs. TEETERS. That's right. It doesn't validate Okun's law, nor does it throw it completely out. I think there has been extremely rapid growth in employment and, don't forget, we also moved the—

The CHAIRMAN. How about the fact that we have such a diminishing rate of productivity?

Mrs. TEETERS. Well, I think all of these are acting together. If the GNP statistics are wrong and there has been this rapid increase in employment, then there will be a low productivity number. On the other hand, if there is a higher GNP number and the employment numbers are not revised, the result will be more productivity than had been expected.

The CHAIRMAN. You sound as if—and I'm sure with your background it's very impressive—you sound less certain about the validity of our statistics than any witness I have heard in some time.

Mrs. TEETERS. I think it takes a great deal of constant monitoring of the statistics, and frankly I think we could do a great deal to improve them.

The CHAIRMAN. Do you think productivity statistics, the growth statistics, and the employment statistics, could vary substantially?

Mrs. TEETERS. They are linked together, with one being a result of the other. The productivity comes by taking real GNP and dividing it by the number of people employed. So if one of those two numbers is off, then productivity is going to be off.

A good example of the statistical problem occurred last year in 1977. The unemployment rate in 1977 fluctuated between 6.9 and 7.1 percent. It sort of bounced back and forth. When a seasonal adjustment was made in December, we found there was a constantly declining unemployment rate during the past year; and a different view of the 1977 economy emerged. I think Mr. Brill is right that many of our theories don't fit any more and I would say one of the biggest changes, which is hard for the American public to comprehend on an individual basis, is the exposure that the country now has to the fluctuations in the international world. During the three decades after World War II, we didn't have to pay attention to the rest of the world with regard to exchange rate; now we do; international relations have a lot to do with the domestic economy now.

The CHAIRMAN. Let me ask you about the inflation problem. Inflation does seem to be the No. 1 economic problem. The forecast by the Government forecasters has been way off. They have been much too optimistic, particularly this year. It seems to be getting worse, regardless of the steps being taken by the Federal Reserve, the administration, or the Congress. Many people look to the Federal Reserve Board to control inflation by restraining money growth and raising interest rates. Interest rates are now at a level that will have a punishing effect on housing and that will have a retarding effect on the growth of the rest of the economy.

So, given the current economic conditions, what can and should the Federal Reserve Board do to dampen inflation without bringing the economy to a halt or slowing down the growth to such an extent that unemployment increases?

Mrs. TEETERS. Well, the Federal Reserve has taken some moves in recent weeks which I think should help. It has removed the reserve requirements on foreign lending to encourage domestic borrowers to borrow in the Eurodollar market. This should help the pressure on credit domestic markets and absorb Eurodollars from the international market. That move is aimed at trying to move borrowing abroad rather than at home.

The Fed has raised the discount rate, as you are well aware, and apparently has raised their target on the Federal funds rate. Theoretically, this should reduce the amount of borrowing.

The CHAIRMAN. The rediscount and the Federal funds rate are getting pretty high and the mortgage rate is about as close to 10 percent as you can get without getting to it. Aren't we now in a zone where almost any increase from now on is likely to slow construction, slow housing, slow the economy?

Mrs. TEETERS. I would certainly say that the range that's available for Federal Reserve action is very narrow because the rates are now so high. I would be worried about higher rates at the present time. Fortunately, the housing market seems to be holding up relatively well with the introduction of the new T-bill and funds continue to flow into the saving and loan associations. As a result, there's no sharp indication of disintermediation.

The CHAIRMAN. What you're telling me is that the Federal Reserve, which many people feel is our best reliance or our one fairly consistent reliance on fighting inflation, has very little it can do. You say it can do something but the ranges which it can increase interest rates to retard inflationary pressure is now pretty limited.

Mrs. TEETERS. It's certainly more limited than it was at the beginning of the year.

The CHAIRMAN. It's so limited that the effect would be pretty marginal. Inflation continues to be, as I said, the No. 1 economic problem in the view of most people.

Mrs. TEETERS. I don't think, Senator, that the higher-interest rates have been in effect long enough to know what the impact is going to be. The Fed has moved over the year to raise the interest rates, which are now relatively high. It is still too soon to get any reading on the impact of those interest rates on the economy. Certainly to date—

The CHAIRMAN. You say we could have a fairly substantial increase in interest rates possibly without adverse effect on economic activity?

Mrs. TEETERS. No, sir; I did not say that. I'm saying that at the beginning of the year when the rates were a great deal lower, the Fed had a much larger margin in which they could operate. Part of that margin has been taken up, because we are now at a point where interest rates are very high. We still have not had a long enough period of time to assess the impact of the new higher rates on the rate of economic growth.

The CHAIRMAN. I will be back with more questions.

Senator Sparkman.

Senator SPARKMAN. I believe I'll yield since Senator Sarbanes is here.

STATEMENT OF SENATOR SARBANES

Senator SARBANES. Mr. Chairman, I have no questions. I really came this morning to state to the committee and place on the public

record that I think this is an absolutely superb appointment. I was on Walter Heller's staff at the Council of Economic Advisers when Nancy Teeters came over from the Federal Reserve, where she was a distinguished member of the Fed's staff to be a staff member of the Council of Economic Advisers. I can attest personally to the important role which she played at the Council and the extraordinary quality of her work. She then went back to the Fed and from there to the Office of Management and Budget and then to the Brookings Institution and the Library of Congress Congressional Research Service. For the last few years she's been one of a handful of top staff members of the House Budget Committee.

She is superbly qualified to be a member of the Federal Reserve Board. I have just come this morning to be in a position at the right time to move her favorable recommendation by the committee.

Having said that, I will yield the rest of my time to the chairman so he can continue his interrogation.

The CHAIRMAN. You obviously have some fast friends on the committee and it's always a good thing to have.

As you know, the Federal Reserve in their discussion of monetary policy with the Congress announce target ranges for the monetary aggregates, M_1 , M_2 and M_3 . We worked that out with Chairman Burns a couple years ago and there are several aspects of that that bother me very much.

One is the breadth of the ranges. When we first contemplated this I very much wanted a specific figure. I pointed to the German Bundesbank which this year had an 8-percent target for the rate of increase in the money supply in M_1 and I wanted us to have something like one figure so that we could make an evaluation of it.

The Federal Reserve has come in with ranges so broad that they are very nearly meaningless. They go all the way from 4 percent to 6½ now. They are even having trouble with that. There's a minority vote to push it up higher than that. In spite of that range, the Federal Reserve seems to have trouble staying within that range. They have gone above it rather consistently. The M_1 is 4 to 6½ percent, yet there is almost no chance that 4-percent growth could be achieved this year. Similarly, there is little chance that M_2 growth of 6 percent can or should be reached. The target ranges if they are to be useful should be meaningful.

I understand there's a psychological problem here if they should abandon the 4 percent and move it from 6 to 9 percent or something of that kind, which would be more realistic; then the feeling would be that the Federal Reserve is throwing in the sponge in the fight against inflation.

Do you think the money growth ranges the Fed announced are useful and meaningful representations of Fed monetary policy?

Mrs. TEETERS. Senator Proxmire, I'm not a monetarist either philosophically or by training. I think that the money ranges have been helpful, but I think that they are only one of a variety of indicators that anyone interested in monetary policy and the progress of the economy should look at. I have some sympathy with the Fed's range. In fact, I'm almost envious of them—from my role as a forecaster of the House. If I would have been able to give the range of growth in a specific number—

The CHAIRMAN. That's exactly the point. That's what I'm getting at. If nothing else, you say give us a range so the deficit will be anything from \$40 to \$60 billion, which is equivalent to this thing, or the growth in the economy would be anything from 2 percent to 6 percent. You know, when you get something like that, you don't have anything to work with, and I realize if they give a specific figure they are not going to be right; they are going to be above it or below it in most cases; but at least we have some notion of what they are aiming at. Now they just come in with a broad range that means very little.

Mrs. TEETERS. As a matter of fact, the estimates on the deficits for the past 4 years have been remarkably wrong because of the shortfall problems with expenditures that we have been coping with.

The CHAIRMAN. You have had lesser deficit than you estimated.

Mrs. TEETERS. That's absolutely right, by \$10 to \$15 billion from time to time. Any time you give a point estimate for the future, you know automatically it's going to be wrong; and whether you openly say you have a range or whether you implicitly have it, it's a range around which you think that your estimate is probably the midpoint of that range. If anybody takes a point estimate as being what's going to happen in the world over the future, I would say that they are not aware of reality.

I know the ranges are large and, realistically, if you're going to talk about where you think the economy is going to go, those numbers should be given ranges as well. However, the size of the range possibly could be narrower. Given the publicity that the press gives to aberrations of M_1 from a certain range of growth, there's too much attention focused, I think, on the rate of growth in M_1 , in particular, in very short periods of time.

The CHAIRMAN. Well, you're not a monetarist. The monetarists say that's the whole ballgame. They are very distinguished people, including Nobel Prize winner Friedman and others, who say that's the ballgame. How do you answer the argument that after all prices are a relationship between the quantity of money and the quantity of goods? If you increase the quantity of money, the value of that money is likely to decline. If the quantity of money goes down in relationship to the availability of goods, then the price level would tend to go down too.

Mrs. TEETERS. Well, I think their track record has not been good over the years, and another variable even in their own equation is the rate of turnover in money.

The CHAIRMAN. Isn't it a matter of lag, though? Friedman argues if you do it over a period of time that it would work out. Sometimes the monetarists' view can be pretty cruel, and the effect on the economy can be pretty devastating. If, for example, we followed what Friedman seems to want to do, let the money supply increase, say, at a 3-percent or 3½-percent rate regardless, would you agree or would you disagree that you might get price stability but at a terrible price? That is a big increase in unemployment then.

Mrs. TEETERS. I think the price may be too high. It seems to me that the major goals of someone working in the policy area have to be aimed at what you want in the economy. Certainly excessive money can lead to inflation; on the other hand, too little money can cut down on the rate of real growth and lead to more unemployment. So you're con-

stantly balancing one off against the other. I don't think we have had rates of growth in the money supply, with maybe a few exceptional periods, in which the money supply has been the major cause of the inflation. The inflation has been coming rather steadily out of other areas and—

The CHAIRMAN. Would you argue that the inflation that we have had in the last 2, 3, or 4 years has not been in any significant part a function of the increase in the supply of money?

Mrs. TEETERS. I think it was coming from sources such as food prices, fuel prices, decreases in the value of the dollar, and increases in wages.

The CHAIRMAN. But what Friedman says seems to be true, that if the price of energy would go up, regardless of what you do with monetary policy, the price of other commodities would go down because you depress the economy, if you held down the rate of increase in the supply of money. In other words, there would be a tradeoff. There would be a drop in the price of other things. People wouldn't be able to afford to buy cars and other things, and that would compensate overall for what would happen to the increase in the price of energy.

Mrs. TEETERS. But there would also be a very large increase in the rate of unemployment.

The CHAIRMAN. Yes.

Mrs. TEETERS. If you force the oil prices to be absorbed within a given framework, it means there are other goods that are not going to be purchased and lots of jobs would be lost. I happen to think that unemployment and employment are important goals in our society.

The CHAIRMAN. I agree with that wholeheartedly, but I'm saying that doesn't go to the integrity of the monetarists' argument which is that the heart of it is the relationship between the increase in the money supply and the price level. If you follow their policy, they will get price stability, but you would say the cost of that price stability is so great that you wouldn't want to pay it?

Mrs. TEETERS. I think the cost would be extraordinarily expensive. I am sure that there are other factors operating in the inflation situation which probably would escalate prices even if you followed a strict monetarist approach to the world. OPEC is not under our control. The food shortages have escalated food prices very rapidly. We have an economy which is heavily organized as far as union wages are concerned, and we have industries which have the ability to set their own prices. So a simple approach of money alone does not take into account the complex world that we live in.

The CHAIRMAN. Then if we are going to go along with the recognition that we need a substantial increase in the money supply, M_1 has to go up at a rate of 7 or 8 percent, are we then recognizing that we will have to have a rather steady increase in price level over the next 20 years?

Mrs. TEETERS. I think it is very important how the reported effort of the White House to keep the most recent increases in prices out of industry wage settlements is resolved. We have had a situation where one sector of the economy has gained at the expense of other sectors. In the early 1970's, it was the agricultural sector. People want to maintain their real income, and we are fighting back and forth to cut a pie

which is not growing as fast in real terms as people want it to. Each one is trying to maintain their relative advantage compared to other people. We don't have a system or a mechanism which says basically that all of us have to take a smaller growth in our real income, and somehow we have to find a way of dividing up this pie without competing segments of our economy trying constantly to recoup.

The CHAIRMAN. I agree with that wholeheartedly, but wage increases have been translated into price increases. The question is not if that's a fact, but what you are going to do about it. It's perfectly understandable on the part of labor that they want a cost-of-living adjustment, and they are getting it. In more and more contracts it's automatic. The only way you can break that probably, to be blunt about it—and I wouldn't want to do it—but isn't it true that the only way you can break that is by a tight monetary policy, among other things, that pushes us into something of a recession, increased unemployment, weakens the ability of labor to get what they would like to get and therefore tends to correct our inflation by creating a situation where wages don't go up as fast?

Mrs. TEETERS. I'm not aware that the recent recession in 1974 and 1975 really broke the wage negotiation power of the unions, nor did it prevent the large companies from going forward with increased prices. The steel industry had a rapid increase in both prices and wages over this period of time.

The CHAIRMAN. Did they repeal the law of supply and demand? They had labor available there looking for work, and yet wages you say went up just as fast—

Mrs. TEETERS. I think the people who get hit worst by recession are not the ones protected by the unions. When you come to the laws of supply and demand, you have to take into account the productive capacity.

The CHAIRMAN. Of course, you're absolutely right, but 80 percent of the people in this country don't belong to unions, but wages would tend to fluctuate.

Mrs. TEETERS. There was no downward fluctuation in wages in the past 4 or 5 years. The last downward movement in wages was in the Depression period in the 1930's.

The CHAIRMAN. Did they go up as fast in a period of recession?

Mrs. TEETERS. They probably went up somewhat slower but not a great deal slower. Remember that the 1975 recession occurred after the enormous double-digit inflation of 1974-75. Given the 11-percent increase in the CPI, I think there was a great deal of fear that the unions would ask for increased wages of 13 percent. In reality, wage increases averaged about 8 percent.

The CHAIRMAN. What is your conclusion as to the level of inflation we are likely to have to face?

Mrs. TEETERS. I think we have built in a lot of inflation. It's getting into wage contracts. I think the way to reduce it is to slowly push down on the level of the rate of increase in wages and prices from what it was previously.

The CHAIRMAN. Can you just do that when you have what we all hope to have, a diminishing level of unemployment or holding unemployment, say, at 5½ or 6 percent moving down to 5? We all would like, including the President and the overwhelming majority of Congress, to reduce unemployment. We realize it's too high.

Mrs. TEETERS. I agree, and I also do not think the inflation is coming from shortages of labor or capital. So it seems to me you could still move to absorb the excess industrial capacity and lower the unemployment rate without that being a source of increased inflation. We still have some margin on the product side and we certainly have a margin on the labor side. There will come a point at which we do begin to have a shortage of labor and reach a high level of capacity utilization; then you could expect inflation in that area. I think we are not in that range at the present time.

The CHAIRMAN. We have had this gentle but determined effort on the part of the President and on the part of the people around him to try to persuade labor to do this. What is there now that can persuade them to do it? The Wall Street Journal—and I quote it again—says this:

Journal reporters Richard Levine and Urban Lehner wrote in this paper Friday about ideas being cooked up in the White House for a second phase of the battle against inflation. Announcement of a plan is possible in a matter of weeks. Under this plan, the second phase would consist of voluntary wage and price guidelines, backed by limited sanctions. Wages, for example, would be allowed to rise no faster than the consumer price index, evidently meaning no one gets a raise at all but must pay higher taxes as inflation jacks him up through the progressive income tax schedule. Price guidelines would vary from industry to industry, depending on how fast prices for particular products have been rising in the past. All of this would be enforced through various slings and arrows—cracking down on regulated industries, yanking federal contracts from wayward employers, ending special import protections and so on. Exceptions to the general rules could be won by properly courting the appropriate federal bureaucrat.

Now that's the Wall Street Journal philosophy. Nevertheless, there is a certain kernel of reality there.

Are you advocating that they move to this kind of semicontrolled situation where you use various Federal sanctions—contracts and so forth—to crack down on employers who raise their wages or who increase prices?

Mrs. TEETERS. Senator, I have not seen the plan. However, I, along with many other people, am deeply disappointed that there has not been voluntary compliance with the guidelines set up by the President.

The CHAIRMAN. So where do we go?

Mrs. TEETERS. I don't know where we go. There's a book titled "Exhortation and Controls" which is a history of wage and price controls in this country since the beginning of World War II. It's a fascinating book to read. It's also a very discouraging book to read, because we have tried so many different things, so many different times, to control the rate of inflation.

As I said, next year we have major wage negotiations coming up. If we could, in some way, convince the negotiators that they have a major role to play in reducing the rate of inflation in this country, we would all be much better off. However, we don't have a carrot or a stick. Under present law, we don't have any way to bring this cooperation about.

The CHAIRMAN. Let me ask you about two remedies that have been proposed. The second one I'm going to ask about is the big one that many people think is the answer. The first is the more subtle one that many economists seem to applaud. That's TIP (tax-based incomes policy). We have had hearings before this committee on it, incentives in

the tax law to persuade unions to hold down wage demands and persuade employers to hold down settlements and also price increases. What do you think of those?

Mrs. TEETERS. Well, my initial reaction to TIP is that it would be almost as hard to administer as wage and price controls. It means that you really have to get back into the questions of what is productivity, how to define jobs, and what is a wage increase.

The CHAIRMAN. Have you discussd this with Arthur Okun?

Mrs. TEETERS. Oh, yes, frequently.

The CHAIRMAN. And Henry Wallich?

Mrs. TEETERS. Yes; as you probably know, Brookings had a conference on TIP last fall. I think that the major reservation is the administrative problem, and it is large. As time goes on, TIP becomes more attractive, particularly if you could somehow limit it with price restrictions to the large unions and to the large manufacturers. A program doesn't have to be universal to work, just like wage settlements don't have to be universal to be the ones that are followed by the nonwage sector of the economy.

So if other things fall by the wayside, TIP becomes the only thing we haven't tried over the years, it becomes much more attractive.

The CHAIRMAN. It seems like the only game in town. Leonard Silk in an article in the New York Times—he's a very able and bright commentator—he indicated that we ought to try it; that's the only thing left. We are working very hard on this committee. We have been working with the various economists on it and we expect to have something we can offer as an amendment on the floor. We are not going to press it this year, but we think it ought to be debated and discussed and that it has possibility.

Mrs. TEETERS. As I say, it has enormous administrative problems.

The CHAIRMAN. Isn't there any way you can simplify it? Why should it be so hard to have a tax law that simply provides a reward for holding your price level below what it was last year, that you can reduce your taxes?

Mrs. TEETERS. You're going to have problems deciding what the price is and proving that you held it below last year's level and which prices you held below. It seems to me that TIP has all the inherent problems that you run into with wage and price controls. There is a substantial burden of proof which apparently would fall on the IRS. The one advantage of TIP over wage and price controls, although it has all the administrative problems of wage and price controls, is that it doesn't distort the wage and price mechanism of the economy. I have another problem with TIP. I'm reluctant to use the tax system for that type of economic policy. We've got so much loaded into the tax system now that this is just another distortion of the basic code. However, if it's a way to get at the inflationary problem, I certainly would be willing to try it.

The CHAIRMAN. I share all that reluctance with you very much. We do have much too complicated a tax code.

The other point, of course, is Government spending, the argument that we have enormously increased Government spending over the last few years. Even with a percentage of a growing GNP in an inflated economy it's gone from 18 percent to 20 percent—that is Federal spending as a percentage of GNP, and of course local and State spending—prodded to some extent by Federal policies has increased.

There's a taxpayer revolt developing in the country and there's a feeling on the part of many, many people that this is a big element in inflation, particularly spending in the defense area and other areas that are sterile and don't provide any economic good for the amount of expenditure that is made.

How do you feel with that as an element?

Mrs. TEETERS. Well, I think there are a number of things going on in the Government spending area. Part of the rise in spending in the past couple years has been in response to the 1974-75 recession—CETA, public works, countercyclical revenue sharing—there's a whole group of programs that were developed as a fight against the recession. Many of these programs were triggered on the employment rate. Unemployment compensation is responsive to the rate of unemployment. Part of the rise in the last few years has been purely antirecession and should disappear as the unemployment rate drops. The share of GNP going to the Federal Government has been relatively stable for 20 years. The big increase has been at the State and local level; it has gone from 7 percent GNP to about 15 percent, which was primarily for educational expenses associated with the baby boom. The pressure for educational expenses at the local levels is disappearing. There are empty schoolhouses now.

The CHAIRMAN. Maybe it should. We just passed an elementary and secondary education bill which has colossal increases in expenditure at the Federal level. We are diminishing it at the local level but we are spending more per capita based on any terms, and the momentum seems to be there and it's certainly not getting results. We had that documentary on CBS the other night, "The Education Slagheap," showing that here we are spending this enormous amount on education at every level and education is getting worse. The class size is falling every year and the functional illiteracy is increasing. It's an appalling situation. But you feel that we can diminish the percentage of our GNP going into education because of demographic features?

Mrs. TEETERS. I think the demographic features have been very important both in the quality of education and the amount we have been spending for it. As the baby boom generation grows up—and they are—I think you are going to find that there are literally fewer children in the educational system over the next 10 to 15 years. Defense, incidentally, has been a relatively smaller share of GNP for the past 10 years, with the exception of the Vietnam war. So that's not the source of the growth in the Federal expenditures; it's coming mainly in social programs and the expansion of social security, medicare, and medicaid.

The CHAIRMAN. Senator Sparkman.

Senator SPARKMAN. Mr. Chairman, I'm going to have to be on the floor to handle a matter at 11 o'clock so I'm going to have to leave, but before going I'd like to ask just a couple of questions if I may.

The CHAIRMAN. Fine.

Senator SPARKMAN. Am I correct in my feeling that the Federal Reserve must maintain a certain level of flexibility?

Mrs. TEETERS. The Federal Reserve, in the conduct of monetary policy, is the most flexible economic instrument that we have because it meets frequently, it can vote, and can change interest rates or targets for money growth. Yes; it's very flexible.

Senator SPARKMAN. Is it not so greatly concerned with such matters, for instance, at the present time as the problem of unemployment as against inflation?

Mrs. TEETERS. I would assume that at the present time the inflation problem seems to be more acute than the unemployment problem, although if the Federal Reserve were not concerned about the unemployment I would be most surprised. I personally am concerned with unemployment and employment as well as interest rates and inflation.

Senator SPARKMAN. Mr. Chairman, as I say, I must handle a matter on the floor at 11 o'clock so I'm going to have to leave, but I would like to give you my proxy to vote in favor of recommending Mrs. Teeters for confirmation.

The CHAIRMAN. Well, we will poll the committee today. I'm sure it will be unanimous. There are no members opposed and I agree with Senator Sarbanes that this is a superb appointment. I apologize for taking this much time but we rarely have such an opportunity. The Chairman of the Federal Reserve Board comes up before the committee quite often, but the members don't, and of course you have a vote and you're a very important member of the Federal Reserve. I will have to leave in about 5 minutes because I have to be on the floor at 11 o'clock, too.

Let me just ask you this question. I might have time for one more.

For a long time the economic strategy of the country seems to have been working toward tighter monetary policy and looser fiscal policy. That is, we seemed to be deepening our deficit and spending more, and we seem to be following a policy of fighting inflation with monetary policy and therefore higher interest rates. I have felt for a long time that's exactly the reverse policy—it ought to be a tight fiscal policy and an easy monetary policy, that the economy would work best on that basis—low interest rates and relatively low Federal spending and balanced budgets and so forth. How do you feel about that?

Mrs. TEETERS. Well, the most recent deficits from 1974 on have been heavily created by the economy itself. They have reduced the revenues because of low income growth. They have increased the unemployment compensation and other programs in order to compensate for the recession.

I think that the concept I would opt for, which I'm sure is familiar to you, would be to have a positive full employment surplus and let the action in the economy determine when the actual deficit is relative to a slightly positive full employment surplus.

The CHAIRMAN. The Federal Reserve releases the policy record of actions taken by the Open Market Committee with about a 30-day lag. Many people believe that the decisions made at the Open Market Committee meetings should be made public within a few days after they are made. Important decisions made by the Congress are debated in public and released immediately. I can see no reason why the release of the Open Market Committee policy record should be delayed.

Would you have any problem with having the Open Market Committee record of policy action released within a few days after each meeting?

Mrs. TEETERS. I understand that there are technical problems with preparing the record of policy actions. Given the problems of pre-

paring that record and having it reviewed by each member on the Federal Open Market Committee, it takes a certain amount of time. I think that the process of technically preparing it would have to be taken into consideration in setting a time limit for the release of the Federal Open Market Committee papers.

The CHAIRMAN. So it's strictly technical? You don't see any reason, like the effect it might have on speculation or the effect it might have on confidence?

Mrs. TEETERS. I don't know, Senator Proxmire. I have seen the markets respond in an ever-shortening period of time from the time of the Federal Open Market Committee hearings to the release of the record of policy actions. I can conceive of a problem of information leaking out in the sense that—

The CHAIRMAN. Why shouldn't it just be covered completely? The newspaper people tell me that covering the Fed is the most frustrating secretive action they have. It would be a great thing for the country to understand monetary policy and one reason we don't is so much of it is conducted privately, secretly, and then the release comes out after the fact and it's so long after the fact it's like a month-old newspaper. Nobody cares.

Mrs. TEETERS. Well, as I say, I think there are some technical problems. We have to have 12 people agree and acknowledge what they have said. It's like making a transcript.

The CHAIRMAN. We didn't use to permit anybody in our executive session of the House and Senate committees. Now we do and we find it doesn't make any difference. We all thought that would be a terrible thing.

Mrs. TEETERS. I approve of the sunshine laws. But I can see that if a few people got special information, with the markets as sensitive as they are and with as much money flowing through them, there could be problems. However, it seems to me that if everybody has all the information and it is correctly edited to reflect the views and what actually occurred, then the technical period of time for developing the printed material would be the limiting factor.

The CHAIRMAN. Well, I hope you will work on that, and I hope you can justify what you mean by technical. That does seem to me—I want to be fair to you and I know you're being completely honest, but technically just seems to be saying you don't have a good reason.

Mrs. TEETERS. As far as I'm concerned, I meant it literally that way. There are production problems of getting 12 people to look at it.

The CHAIRMAN. Why do they have to look at it? We correct ours in the Congressional Record but the press is there watching. They report it at the same time we say it.

Mrs. TEETERS. Some of my reservation comes from the enormous press coverage and commentary on anything the Board does. There's a great deal of pressure to make sure that what is being released is absolutely accurate. I have edited transcripts. There are some very funny things that can come from the spoken words. Spoken words don't read like written words.

The CHAIRMAN. We have the chairman of the Federal Reserve Board who's an extraordinarily able and articulate man, and his predecessors are the same, who come up here and off the cuff they talk about anything anywhere. You may have noticed the editorials in the Post the

other day where they called him the talkative Mr. Miller. He's free to talk any time, anywhere about anything. But when the FED Board has a meeting, somehow they have to study what they said and change it and throw it out, delete it, add to it, and then we only see the edited record 30 days later.

Well, thank you very much. I have a number of other questions I'd like to ask for the record. [See p. 29.]

Mrs. TEETERS. Certainly.

The CHAIRMAN. And I apologize for having to leave. As I said before and as Senator Sarbanes has said, you're a splendid appointment. It's a great credit to President Carter that he made it.

Senator SARBANES. Mr. Chairman, may I just make this observation? I think we have had an excellent discussion of economic policy this morning. I think that's testimony to the quality of the Chairman's questions and the quality of the nominee's answers and I think it's been demonstrated clearly that Nancy Teeters is going to be a very strong and positive force on the Federal Reserve Board. Perhaps the committee ought to consider urging Chairman Miller to bring along some of his Board members when he comes before the committee from time to time.

The CHAIRMAN. I think that's an excellent suggestion. We don't get them up here enough. There's a great deal of talent on that Board. Mr. Coldwell and Mr. Jackson we have on very special things and occasionally Mr. Partee. Maybe we could get the other members.

Mrs. TEETERS. I'd be delighted to come.

The CHAIRMAN. Very good. The committee will stand adjourned.

[Whereupon, at 11 a.m., the hearing was adjourned.]

[Additional material ordered inserted in the record follows:]

[Faint, mostly illegible text, likely bleed-through from the reverse side of the page.]

UNITED STATES SENATE
COMMITTEE ON BANKING, HOUSING
AND URBAN AFFAIRS

ROOM 5300 DIRKSEN BUILDING WASHINGTON, D.C. 20510
TELEPHONE 202-224-7391

STATEMENT
FOR COMPLETION BY PRESIDENTIAL
NOMINEES

Procedures formally adopted by the U.S. Senate Committee on Banking, Housing and Urban Affairs January 27, 1976, establish a uniform questionnaire for all Presidential nominees whose confirmation hearings come before this Committee.

In addition, the procedures establish that:

(1) A confirmation hearing shall normally be held at least five days after receipt of the completed questionnaire by the Committee unless waived by a majority vote of the Committee.

(2) The Committee shall vote on the confirmation not less than 24 hours after the Committee has received transcripts of the hearing unless waived by unanimous consent.

(3) All nominees routinely shall testify under oath at their confirmation hearings.

This questionnaire shall be made a part of the public record except for financial information, which shall be kept confidential.

Nominees are requested to answer all questions, and to add additional pages where necessary.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: Teeters (LAST) Nancy (FIRST) Hays (MIDDLE)

Position to which nominated: Governor of the Federal Reserve Board Date of nomination: August 28, 1978

Date of birth: 29 (DAY) July (MONTH) 1930 (YEAR) Place of birth: Marion, Indiana

Marital status: Married (26 yrs.) Full name of spouse: Robert D. Teeters

Name and ages of children: Ann Teeters 18 yrs.
James Schendel Teeters 17 yrs.
John Drake Teeters 14 yrs.

Education:	Institution	Dates attended	Degrees received	Dates of degrees
	<u>Marion, Indiana</u>			
	<u>Horace Mann Elementary</u>	<u>1936-1942</u>		
	<u>Marion, Indiana</u>			
	<u>Martin Boots Jr. High</u>	<u>1942-1945</u>		
	<u>Marion, Indiana</u>			
	<u>Marion High School</u>	<u>1945-1948</u>	<u>Diploma</u>	<u>1948</u>
	<u>Oberlin, Ohio</u>			
	<u>Oberlin College</u>	<u>1948-1952</u>	<u>AB</u>	<u>1952</u>
	<u>Ann Arbor, Michigan</u>			
	<u>University of Michigan</u>	<u>1952-1957 *</u>	<u>MA</u>	<u>1954</u>

* Academic year 1955-56 was spent in Germany

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships, and any other special recognitions for outstanding service or achievement.

See Schedule A

Government
experience:

List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part-time service or positions.

* Refer back to employment record

Part time consultant to the 1970 Advisory Council on

Social Security.

Published
writings:

List the titles, publishers and dates of books, articles, reports or other published materials you have written.

See Schedule B

Political
affiliations
and activities:

List all memberships and offices held in or financial contributions and services rendered to all political parties or election committees during the last ten years.

Donations: checks signed Nancy H. Teeters: McGovern, October 27, 1972 --\$10.00; Joe Fisher, August 24, 1974 -- \$25.00;

checks signed R. D. Teeters: People for Muskie, May 20, 1972 -

-- \$100.00; Mondale Volunteer Committee, September 1, 1972 --\$25.00;

Sarbanes for Senate, December 20, 1975 -- \$50.00.

See Schedule C

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
American Economic Association 1313-21st Ave. S., Nashville, Tenn.	---	1974 - Present
American Finance Association N.Y. Univ., Graduate School, N.Y.C.	Director	1971 - 1974
National Economists Club 2000 N St. NW, D. C.	Director, VP, President, Chairman	1968 - Present
Cleveland Park Club 3433 33rd Pl. NW, D. C.	---	1959 - Present
Institute for the Study of Education Policy, Howard University, D. C.	Member of National Advisory Board	1977 - Present

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and dates of inclusive employment.

1951-53	Oberlin College, Oberlin, Ohio	Various jobs
1954-55	University/Michigan, Economics Dept. Ann Arbor, Michigan	Teaching Fellow
1955-56	University of Maryland(Overseas) Stuttgart, Germany	Instructor
1956-57	University/Michigan, Economics Dept. Ann Arbor, Michigan	Teaching Fellow
1962-63	Council of Economic Advisers Washington, D. C.	Economist
1957-66	Federal Reserve Board, Washington, D. C.	Economist
1966-70	Office of Mgt. & Budget Washington, D. C.	Fiscal Economist
1970-73	Brookings Institution, Washington, D. C.	Senior Fellow
1973-75*	Library of Congress, Congressional Research Service, Washington, D. C.	Senior Specialist
1975*-Present	House of Representatives, Committee on the Budget, Washington, D. C.	Assistant Director - Chief Economist

* On loan to HBC by Library for one year

Qualifications: State fully your qualifications to serve in the position to which you have been named. (attach sheet)

See Schedule D

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

Yes

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

No present plans or commitments

3. Has anybody made you a commitment to a job after you leave government?

No

4. Do you expect to serve the full term for which you have been appointed?

Yes, I expect to serve until my term has expired.

Potential conflicts of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

See answer to question 2 below

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

See Schedule E

Nancy Teeters, and her husband, Robert Teeters will take all necessary actions to eliminate conflicts arising from the trust funds enumerated in Schedule E

- 3. Describe any business relationship, dealing or financial transaction (other than tax-paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

See question 4 below and employment record on

Page 2.

- 4. List any lobbying activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

As assistant staff director and chief economist of the Committee on the Budget for the House of Representatives, I have been responsible for helping to develop the two concurrent resolutions on the budget required by law. I have provided staff support to the Members concerning proposed legislation that would affect the congressional budget process.

- 5. Explain how you will resolve any potential conflict of interest that may be disclosed by your responses to the above items.

I do not anticipate that my background will interfere with the performance of my duties. As indicated, I shall resign from my work with the House Budget Committee.

Nancy Hays TeetersSchedule A
August 17, 1978Honors and AwardsYear

1948	National Honorary Society (High School)
1948	Kiwanis Award (top 10 graduating seniors)
1948	Outstanding Senior Girl (High School)
1952	Comfort Starr Award (economics), Oberlin College
1952-53	Graduate Scholarship (economics), University of Michigan
1953-54	Graduate Scholarship (economics), University of Michigan
1954-55	Teaching Fellow (economics), University of Michigan
1956-57	Teaching Fellow (economics), University of Michigan
1976	Outstanding Service Award, National Economists Club, Washington, D. C.

Schedule B
August 17, 1978

Nancy Hays Teeters

Publications:

- "Federal, State, and Local Budgets," Methods and Techniques of Business Forecasting, William F. Butler, Robert A. Kavesh, and Robert B. Platt, editors, Prentice Hall, Inc.
- Setting National Priorities: the 1974 Budget, with Edward R. Fried, Alice M. Rivlin, and Charles L. Schultze, Brookings Institution, Washington, D. C. (1973)
- Setting National Priorities: the 1973 Budget, with Charles L. Schultze, Edward R. Fried, and Alice M. Rivlin, Brookings Institution, Washington, D. C. (1972)
- "The 1973 Federal Budget," Brookings Papers on Economic Activity, Vol. I, Brookings Institution, Washington, D. C. (1972)
- Setting National Priorities: the 1972 Budget, with Charles L. Schultze, Edward R. Fried, and Alice M. Rivlin, Brookings Institution, Washington, D. C. (1971)
- "Budgetary Outlook at Mid-Year," in Brookings Papers on Economic Activity, Brookings Institution, Washington, D. C. (1970)
- "Payroll Tax for Social Security," in Broad Based Taxes: New Options and Sources, Richard A. Musgrave, editor, Johns Hopkins University Press, Baltimore, Maryland (1973)
- "Outlook for Federal Fiscal Policy," Brookings Papers on Economic Activity, Vol. 2 Brookings Institution, Washington, D. C. (1972)
- "Built-in Flexibility of Federal Expenditures," Brookings Papers on Economic Activity, Brookings Institution, Washington, D. C. (1971)
- "Report of the Panel of Actuaries and Economists to the Subcommittee on Cost Estimates and Financial Policy of the Advisory Council on Social Security," with Otto Eckstein, Arnold Harberger, Murray Latimer, and Wendell Hillman. in Reports of the 1971 Advisory Council on Social Security, House Document 92-80, 92nd Congress, 1st Session (1971)
- "The Full Employment Surplus Revisited," with Arthur M. Okun, Brookings Papers on Economic Activity, Brookings Institution, Washington, D. C. (1970)

Schedule C

August 17, 1978

Nancy Hays TeetersServices:

Technical advisor for Democratic Platform Committee	June 1976
Member Economic Advisory Committee for President Carter	July - November 1976
Technical advisor to McGovern	1972
Carter Transition Staff	November 1976 - January 1977

Schedule D
August 17, 1978

Nancy Hays Teeters

Qualifications

By training, I am an economist. I concentrated in economics both as an undergraduate at Oberlin College and as a graduate student at the University of Michigan with special emphasis on fiscal and monetary policy.

My entire professional career of twenty-one years to date has been as an economist. From 1957 to 1966, I served as a staff economist in the Government Finance Section of the Division of Research and Statistics of the Federal Reserve Board. My responsibilities included such things as tracking the ownership of the Federal debt, estimating and interpreting Federal fiscal policy, supervising the development of certain computer programs, and special studies, such as the one on the fiscal impact of the social security system. In 1962, I was loaned to the Council of Economic Advisers, and helped to develop the tax reduction proposal which eventually was enacted into law in 1964.

From January of 1966 to January of 1970, I was an economist in the Fiscal Analysis Division of the Bureau of the Budget (now the Office of Management and Budget). During most of that time, I was the sole staff representative of the Bureau to the Troika -- the three agency, three level group that developed the official economic forecasts of the Government. I was also the staff liaison person with the Council of Economic Advisers and the revenue estimators at the Treasury. I was responsible for any economic discussion in the budget documents, the revenue section, and one of the special analyses. In addition to the macro-economic work, I participated in development of social security policy and the unified budget.

From February 1970 to September 1973, I was on the staff of the Brookings Institution. During that period, I was promoted from a research associate to a senior fellow. Since Brookings is a research institution, my work involved extensive research and writing on a variety of topics in economics (see attached list of publications, Schedule B). I was also a member of the Brookings Panel on Economic Activity. From September 1970 to May 1971, I served as a technical consultant to the Subcommittee to Evaluate the Actuarial Soundness of Social Security System of the 1970 Advisory Council on Social Security.

From September 1973 to December 1975, I was a senior specialist in the Congressional Research Service of the Library of Congress. However, from November 1974 until December 1975, I was on loan to the Committee on the Budget of the United States House of Representatives. Including the period on loan, I have been the Chief Economist and Assistant Director of the Budget Committee from 1974 to the present.

I have been involved with the formulation of Federal fiscal policy for much of my career. Correct evaluation of the impact of fiscal policy requires a

Page 2

Schedule D
August 17, 1978Nancy Hays Teeters

detailed knowledge of the workings of monetary policy. I have followed monetary policy closely, even during the years since I left the Federal Reserve Board. I have a thorough understanding of open market operations, and also have extensive experience in developing economic forecasts.

I have served three-year terms as a Director of the American Finance Association and on the Committee on the Status of Women of the American Economic Association. I have also been Vice President, President, Chairman of the Board, and member of the Board (ex officio) of the National Economists Club. I am currently a member of the National Advisory Board of the Institute for the Study of Educational Policy, Howard University.

If confirmed, I shall do my best to serve the Nation well as a member of the Board of Governors of the Federal Reserve System.

ROBERT N. GIAMMO, CONN.
CHAIRMAN

JIM WRIGHT, TEX.
THOMAS L. ASHLEY, OHIO
ROBERT L. LEGGETT, CALIF.
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JIM MATTOX, TEX.

MACE BRODIE,
EXECUTIVE DIRECTOR
225-7200

NINETY-FIFTH CONGRESS

U.S. House of Representatives
COMMITTEE ON THE BUDGET
Washington, D.C. 20515

September 12, 1978

DELBERT L. LAYTA, OHIO
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JOHN H. ROUSSELOT, CALIF.
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RALPH S. REGULA, OHIO
WILLIAM LILLEY III,
MINORITY STAFF DIRECTOR

Honorable William Proxmire
Chairman, Committee on Banking, Housing
and Urban Affairs
United States Senate
5300 Dirksen Office Building
Washington, D. C. 20510

Dear Chairman Proxmire:

Enclosed are the answers to the questions you requested in your letter of September 11th. If there are any further questions you wish answered, it will be my pleasure to do so.

Thank you for your consideration of this matter.

Sincerely yours,

Nancy G. Teeters

NANCY G. TEETERS
Assistant Director

NHT:w
Enclosures

ANSWER TO CHAIRMAN PROXMIRE'S QUESTIONS

1. I have long been in favor of having the Federal Reserve Board provide economic projections to the Congress so that we can more easily understand the intended effects of monetary policy. M-1 by itself is almost meaningless. They have refused to provide such projections to this or any other committee of the Congress.

QUESTION: Given your experience with economic forecasting and the need for information about monetary policy, especially in preparing budget forecasts, would you be willing to have Federal Reserve forecasts provided to the Congress in conjunction with its required reports on monetary policy?

ANSWER: It is my understanding that the Federal Open Market Committee (FOMC) does not make an official consensus forecast of the economy. However, individual members undoubtedly have opinions on this subject. Since Chairman Miller's appointment to the Board, he has been giving his forecast to the various committees in open testimony. I suspect, although I don't know for sure that Chairman Miller's forecasts reflect the consensus of the FOMC as he perceives it. I think it would be wise to wait and see whether the information now being provided by the Chairman meets the needs of Congress for additional information.

2. The declining value of the dollar has been a problem facing the Administration and the Federal Reserve for a long time. The Federal Reserve has taken steps to support the dollar from time to time. Raising the discount rate and borrowing from foreign central banks and then purchasing dollars has a temporary stabilizing effects. But they don't last long. Such policies do not get at the crux of the problem. The dollar's weakness is due to fundamental factors -- inflation, large oil imports, and faster economic growth in this country than that of our major trading partners. Last January the Fed raised the discount to support the dollar. Domestic interest rates rose and stayed up, but the dollar did not recover in value for very long. Several weeks ago the discount rate was raised again to shore-up the dollar. There is no guarantee that this will work for very long. Yet interest rates here have gone up about $\frac{1}{2}$ percent.

QUESTION: Given the economic outlook for the economy, current interest rate levels may cause problems in the future, without really doing much to aid the value of the dollar in any way. Would you as a member of the Board vote to use domestic monetary policy to provide quick but temporary support for the dollar?

ANSWER: The use of domestic monetary policy to support the international value of the dollar can, as you say, have only a temporary impact on the problems of the dollar. Whether I would vote to provide such support for the dollar would depend heavily on the circumstances at the time.

3. Governor Robertson, the distinguished former Vice Chairman of the Federal Reserve has stated that monetary policy control and bank regulation should not be combined in a single agency. His view is that bank regulators should not be tempted, for example, to color their assessment of the quality of a bank's assets by judgments of whether more loans should be made to support an expansionist monetary policy. Recently the President of First Pennsylvania Bank testified that he personally experienced a situation where the monetary policy staff of the Fed was encouraging his bank to make more loans while the Fed's bank examiners were cautioning him to slow down.

QUESTION: Is there a conflict of interest between the execution of monetary policy and bank regulation?

ANSWER: I know very little about the regulatory functions of the Board. I simply don't know the answer to the question. However, I will, of course, look into this problem if confirmed.

4. Senators Ribicoff, Javits and I have sponsored legislation which is under joint consideration by this Committee and the Governmental Affairs Committee which would consolidate the bank regulatory functions of the three separate agencies outside the Federal Reserve into a single bank regulatory agency.

The existing bank regulatory structure has been severely criticized as encouraging competition in laxity among the regulators.

QUESTION: Would you favor streamlining the bank regulatory structure along the lines we propose?

ANSWER: As I have said, I am not sufficiently knowledgeable in this area to have an informed opinion of this subject.

5. The Federal Reserve has significant regulatory responsibilities such as the Administration of the bank holding company.

QUESTION: What background do you bring to the Board in supervision and regulation?

ANSWER: None, except for general exposure during my years at the Board.

6. QUESTION: Do you know the amount of time the Board spends on bank regulatory matters versus monetary policy?

ANSWER: No

7. QUESTION: How do you expect to divide your time between monetary policy and bank regulation?

ANSWER: I don't know, but I assume it would vary depending on economic conditions and conditions within the banking industry.

8. Both this Committee and the House Banking Committee are considering bills to improve the conduct of monetary policy and to stem the erosion of Federal Reserve membership by providing for more uniform and universal reserve requirements. Universal reserve requirements and access to the Federal Reserve's discount window and to Federal Reserve services for all banks would be major improvements and would make the Federal Reserve more of a central bank.

QUESTION: What are your views on this legislation?

ANSWER: I have just learned of this proposed legislation and therefore, I have not studied it carefully. However, the proposal does seem to correct the problem of declining membership in the Federal Reserve System.

9. In July, 1976, the National Urban League and ten other civil rights groups filed suit against the Federal Reserve and the Comptroller of the Currency, the F.D.I.C.,

and the Federal Home Loan Bank Board charging a nearly total failure by these agencies to enforce the Nation's fair housing laws. Since then, the Comptroller, F.D.I.C., and the Bank Board have each settled the suit brought against them by agreeing to strengthen their enforcement substantially and to devise new methods of detecting discrimination by lenders.

Unfortunately, only the Fed has steadfastly refused to settle the suit against it. In fact, it succeeded in having the suit dismissed, but only on procedural grounds, not on its merits. A recent study of the Board's actions, however, has shown that the plaintiffs' charges were more than justified.

QUESTION: As a member of the Board, what would your position have been with regard to this litigation, and what would your attitude be toward the Board's fair housing activities generally?

ANSWER: I do not know the circumstances surrounding this suit, so I don't know what my position would be regarding it. I do feel that the Board should actively promote fair housing activities.

10. In October, 1977, the five Federal bank regulatory agencies issued proposed joint guidelines which would have required lenders who violate the Truth in Lending Act to refund excess interest charges to consumers. In the ten months which have followed, however, there has been no apparent progress toward finalizing these guidelines.

Statistics compiled by the agencies themselves indicate that interest overcharges under the Truth in Lending Act range anywhere from \$30 million to \$100 million annually. But despite knowledge of these overcharges, no refunds are being ordered and the restitution guidelines are bogged down in bureaucratic quicksand.

QUESTION: As a member of the Board, what would your position be on mandatory restitution of interest overcharges discovered by Federal Reserve examiners?

ANSWER: Part of the problem of restitution of interest overcharges is apparently the period of time over which restitution should be made. Overcharges that are discovered currently are obviously easier to repay than overcharges that occurred ten years ago. I would favor instituting the repayment of current overcharges and work out, if possible, the ones carried over from the past.



