

an ax to grind. They can contain any bizarre allegation that such an individual may concoct. This is the type of information that the Clinton White House thought should be trusted to a low-level civilian detailed from the Army who answered to a partisan, political appointee.

This all come up because of the inability of the White House to admit that it fired Billy Dale to make room for the President's Arkansas cousin and his Hollywood friends. For months, the White House has refused to comply with the Clinger committee's subpoena of all documents related to the Travel Office firings. When Billy Dale cried foul upon learning that his FBI file had been turned over to the White House, the White House claimed it received his file as part of a routine investigation of employees. That was the original explanation. Suddenly the Billy Dale file shows up in the White House. How did it get there? As part of a routine investigation of an employee? Then the story changed. The White House tried to claim that it was not its request after all. The GAO had asked for the FBI files. "No, no, no," said the GAO, "not us!" Suddenly the whole thing became an innocent mistake that involves trampling on the fundamental right to privacy of 330 loyal public servants.

I applaud Representative CLINGER, chairman of the House Committee on Government Reform and Oversight, for his commitment to untangling this web of misinformation, claims of executive privilege, and rationalizations. I believe that his matter is serious enough to warrant a full congressional investigation. Unfortunately, this White House has dodged the truth for too long.

I remember when an overzealous Bush supporter, Elizabeth Tamposi, who was an Assistant Secretary of State, decide to search the passport records of a young Governor from Arkansas, Bill Clinton. The press was outraged. Bill Clinton was outraged, but, most of all, President Bush was outraged. He fired Elizabeth Tamposi.

What have we heard from this administration about this latest scandal? Mark Fabiani, a White House attorney hired to answer questions about Whitewater and the Travel Office matter, believing that the best defense is a good offense, said, "Instead of attacking, CLINGER and Speaker GINGRICH should be apologizing." Now that ischutzpa if I ever heard it.

This is a serious matter Mr. President. We cannot have the FBI used as a private research agency for the White House. I think this matter needs immediate attention.

Mr. President, I yield the floor and again want to thank the Senator from Iowa for permitting me to go before him.

#### NOMINATION OF ALAN GREENSPAN, OF NEW YORK, TO BE CHAIRMAN OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

The PRESIDING OFFICER. Under the previous order, the Senate will proceed to the nomination of Alan Greenspan, to be Chairman of the Federal Reserve System. The clerk will report the nomination.

The bill clerk read the nomination of Alan Greenspan, of New York, to be Chairman of the Board of Governors of the Federal Reserve System for a term of 4 years.

The PRESIDING OFFICER (Mr. KEMPTHORNE). Under the previous order, time is equally divided under the control of Senator D'AMATO and Senator HARKIN. Senator HARKIN is recognized.

Mr. HARKIN. Mr. President, finally we have gotten to the nomination of Alan Greenspan to be Chairman of the Federal Reserve Board. I have been waiting for several months for this opportunity, to have the opportunity to debate not just the nomination but what this nomination means for the American people.

I am very pleased that we finally have a reasonable opportunity to debate this nomination, the nomination of the most important Presidential nomination to come before this Congress, the nomination of Alan Greenspan to serve as Chairman of the Federal Reserve System. I have been pushing for this debate for months, and I want to thank the Republican and Democratic leaders for scheduling this 3-day debate.

This debate about Chairman Greenspan's policies and their impact on our economy, about how we can get our economy to grow faster, about how we can create more jobs and raise incomes, zeros in on the most important issues that we face.

Before we get into substance, I want to be clear about one thing. This issue has never been about personalities. It is about policy. It is about making sure that this body gives thorough consideration to the nomination of the Chairman of the Federal Reserve System, the single most important economic decisionmaker in our land.

Over the course of today and tomorrow and next Thursday, I and others on our side hope to cover at least the following areas.

First, we want to talk about a policy of growth versus a policy of no growth that has been prevalent at the Fed for the last several years and that is prevalent today. We wish to talk about the record of Alan Greenspan. I will go into his record at some length. Why? Because he has been Chairman of the Fed now for two terms.

I think it is legitimate for us to ask: Has his stewardship, has his running of the Federal Reserve, been such that we, the Congress and the Senate, should reward him with another 4-year term? We would ask that of any person

nominated by the President to fill an important position. We certainly should ask it of Alan Greenspan and look at his record.

Third, we hope to talk about the impact on our budget and what we do here over the next several years and the impact on our economy of decisions made by the Federal Reserve Board, especially the Open Market Committee.

Fourth, a recent GAO study that recently came out in preliminary form—the final version of that, I guess, will be out next Thursday—I believe raises substantial questions about how the Federal Reserve System is operating. Let us also be clear about another thing, Mr. President. The Federal Reserve Board is a creature of Congress.

Yes, it is independent, and I believe it should be independent, but it is not a separate branch of Government enshrined in the Constitution. It is not like the judiciary or like the executive branch or the legislative branch. It is, in whole, a creature of the U.S. Congress. As such, it must be responsive to the Congress, responsive to the American people through Congress. I believe it is our duty to examine closely the policies of the Federal Reserve and to suggest through the legislative process changes that we may wish to make in the Federal Reserve System.

I will be talking about one thing later, for example, the fact that the minutes of the Federal Open Market Committee are held secret for 5 years. Why 5 years? Maybe there is a legitimate reason to keep them withheld for a period of time, but certainly not 5 years. I think that needs to be reexamined. Maybe 1 year, but not 5 years. Having said that, I will say we have gone back in the minutes of 5 years, 8 years, and 10 years ago and looked at the minutes, that quite frankly revealed some pretty interesting comments by the nominee now before the Senate. We will be talking about that at some length later, also. Those are the items we wish to cover in this debate.

Again, I want to thank both the Republican and Democratic leaders for working this out. It is something that is going to take some time because this is a complex subject, but, I believe, a very important subject, one that really ought to command the attention not only of the Senate, but of the American people.

The real point, I believe here, Mr. President, is to start a national dialog and to deliberate and not simply rubberstamp this important nomination, as well as other nominations to the Federal Reserve. The Chairman is the single most important. Again, I think that is our duty and our obligation. Let me say I consider this debate that we begin today a victory for this body and a victory for the American people. So we did not just rubberstamp and put someone through of this importance without raising serious policy questions about the Federal Reserve and how it is operated.

Mr. President, raising the living standards and real wages of ordinary Americans stands as our primary economic challenge. The policy of the Federal Reserve under Chairman Greenspan has stood in the way. Under current law, the Federal Reserve is obligated to conduct a balanced monetary policy, so as to reconcile reasonable price stability with full employment and strong, stable, economic growth, and balance. But under the Greenspan Fed, job growth and the living standards of average Americans have been sacrificed in the blind pursuit of inflation control. The Greenspan Fed has raised interest rates not when inflation was knocking at the door or threatening, but when there was not even any specter of inflation.

In 1994, in the midst of six straight rate increases, Chairman Greenspan himself acknowledged there was no evidence of rising inflation. Mr. President, I raise a lot of eyebrows at a lot of meetings when I talk about the Fed and why I wanted to have this debate. When I tell people, Mr. President, in 1 year, from February 1994 to February 1995, that Alan Greenspan raised interest rates 100 percent, people look at me like I arrived from another planet. They say, "That is impossible." It is true. Look at the record. The Federal funds rate went from 3 percent in February 1994 to 6 percent in 1995, a 100-percent increase in 1 year, with no inflation threatening. I will have more to say about that later. Since that time, it has only come down three-quarters of a point. Again, no inflation threatening. I believe that is leading this country to an economy where we see more and more millionaires every month, but average working families are stuck in a rut. They are working harder, spouses are working, and yet they are not getting ahead. I will have more data on that as we go through the debate in terms of what wage increases have been in the last few months, several months, last couple of years, what prices have done, to show the average working family is not only not getting ahead, they are falling behind in this great economy. Our stores are chock full of goods, and yet for some reason, the American family is not getting ahead.

One of the reasons they are not getting ahead is because their debt load is too great. We hear a lot of talk around here about cutting taxes, because the American people feel they are overburdened with taxes. They do and they are. I submit there is another burden that they are carrying that is weighing them down, and that is the burden of debt and the high interest rates that they are paying. There is no reason for those high interest rates now. Again, I intend to go into this in great depth over the next few days. Mr. President, 100-percent increase in interest rates in 1 year, and they are still there.

Mr. President, the decisions of a Fed Chairman touch every pocketbook and every family budget in America. The

decisions of this Chairman have cost American families in lost wages and lost opportunities. The Greenspan Fed has stifled economic growth and the incomes of average Americans. Interest rates have been kept artificially high, and middle-class families and businesses have been forced to pay the price. It is time for the Federal Reserve to pursue a more balanced policy based on raising economic growth and increasing jobs alongside continued vigilance against inflation.

America at this point in our history ought to have a forward-looking Fed Chairman who recognizes the importance of expanding opportunities for our economy and our people in today's global market. We do not live in the 1970's. We have changed considerably since that time. We need strong leadership, committed to higher growth and incomes, fuller employment, and lower, more stable interest rates to improve the quality of life for average Americans. We have not gotten that with Alan Greenspan. There is what I call a common thread, Mr. President, in the thinking and the actions, and the policies of Mr. Greenspan over the years. It did not start yesterday. It will not end tomorrow or next week.

Ripe from his days as Chairman of the Council of Economic Advisers under President Ford, until today, Mr. Greenspan has consistently shown the same two tendencies, as evidenced by the public record. First, he often misjudges the signs of an oncoming recession. Second, he does not act decisively enough to pull the economy out of recession because of an inordinate fear of inflation.

Again, I will discuss both of these issues in greater detail throughout my remarks. Let me ask unanimous consent to have printed in the RECORD at this point, Mr. President, a guest editorial that was in the Investor's Business Daily, May 1, 1996. It is headlined "Greenspan's Rotten Record," by Mr. Don Hays. I do not know Mr. Hays.

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

[From the Investor's Business Daily, May 1, 1996]

#### GREENSPAN'S ROTTEN RECORD

(By Don Hays)

We may have an exciting new contrary indicator: Alan Greenspan's predictions. Our search of the record has never found him to be right about what the economy, inflation or interest rates were going to do.

We could go back further, but let's begin with a much-noted 1981 speech. As a private and well-connected economist, Greenspan declared that inflation would not decline anytime soon. Whoops—inflation was about to drop from 12% a year down to 4%.

In 1982, he wrote a letter of commendation for Charles Keating. He also made an impassioned plea to Congress, asking for more freedom for the savings and loan industry. Years later, the S&Ls went bust at great cost to the taxpayers. Keating wound up in jail.

The same year, Greenspan's published economic forecast said bond yields would fall ¼% from the previous year-end level. In fact, they fell 3½%.

But the drop in inflation was only temporary, he argued in May 1983. The extraordinary Volcker-induced inflation calm, he insisted, was about to end. In fact, inflation stayed quite steady at 4% through 1987 and the end of the Volcker regime.

Also in 1983, Greenspan said long-term interest rates would increase 20 basis points. This proved to be his best forecast ever: Rates did rise—but by 1%, not the meager 0.2% he predicted.

At the start of 1984, he forecast that for the next three years, bond yields would rise from 5 to 55 basis points. They actually dropped each year, from 123 to 199 basis points.

Perhaps because he spent more time schmoozing the halls of the White House and Congress than he did in his office, in 1987 Greenspan was chosen to be chairman of the Federal Reserve Board. He promptly got in a contest with the Bundesbank to see who could raise interest rates faster, and also squabbled flagrantly with Treasury Secretary James Baker. Some would argue that the conditions fostered by these conflicts ultimately let to the October 1987 stock market crash.

Greenspan answered the crash with a flood of monetary easing. But by mid-88, he was right back to the battle, raising the fed funds level from 6% to 9% by mid 1980.

He seemed to think this famine-feast-famine was just the thing for the economy. In February 1990, he told Congress the economic weakness had stopped. In fact, it continued to weaken, and a recession began in August.

On top of his chaotic monetary reversals, he launched a regulatory war. In 1990-91, he bought the claim that banks held too many real estate loans. In concert with Treasury, he sent swat teams of auditors through the banking system, totally wrecking banks sentiment to loan.

As a result, when Greenspan tried to drive the economy away from the ditch he had steered it into in 1992 and 1993, he found the vehicle extremely sluggish, unresponsive to the lower fed funds rate. He had to ratchet them down until he'd achieved the steepest yield curve in history. With short-term rates at 3% and the long bond up close to 8%, Orange County and many corporations and hedge funds leveraged their bond positions to the hilt.

Let's jump ahead to a more recent example. In 1995, a sales slump moved auto dealers to offer the biggest rebates in history to tempt consumers. In September, Greenspan saw the temporary hike in auto sales in his rear-view mirror—and declared that his monetary policy and the economy were right on track. So he refused to lower interest rates. That Christmas was the weakest in at least four years. Judging by the bellwether Wal-Mart earnings, it could be argued that it was the weakest in 25 years.

Greenspan's rear-view mirror finally cleared up in late December, with the economy about to drive once again into the ditch. He reversed course, cutting interest rates by ¼% in December and again in January.

It looks like we can go in a direction always opposite to Greenspan's current message and look like an economic genius.

So why did Republicans leave President Clinton no choice but to reappoint Greenspan? Maybe they thought Clinton should have to suffer the same election-year treatment the Fed chief had dished out to GOP presidents. More likely, they are just more proof of his amazing ability to mesmerize the herd—despite a record that has virtually never been right.

Mr. HARKIN. I wanted to read a few of the lines from this editorial.

We may have an exciting new contrary indicator: Alan Greenspan's predictions. Our

search of the record has never found him to be right about what the economy, inflation or interest rates were going to do.

We could go back further back, but let's begin with a much noted-1981 speech. As a private and well-connected economist, Greenspan declared that inflation would not decline any time soon. Whoops, inflation was about to drop from 12 percent a year down to 4 percent.

In 1982 he wrote a letter of commendation for Charles Keating. He also made an impassioned plea to Congress, asking for more freedom for the savings and loan industry. Years later, the S&L's went bust at great cost to the taxpayers. Keating wound up in jail.

The same year, Mr. Greenspan's published economic forecasts said bond yields would fall one-quarter of a percent from the previous year-end level. In fact, they fell 3½ percent.

But the drop in inflation was only temporary, he argued in May of 1983. The extraordinary Volcker-induced inflation calm, he insisted, was about to end. In fact, inflation stayed quite steady at 4 percent through 1987 and the end of the Volcker regime.

Also in 1983, Mr. Greenspan said long-term interest rates would increase 20 basis points. This proved to be his best forecast ever: Rates did rise—but by 1 percent, not the meager .2 percent that he predicted.

At the start of 1984, he forecast that for the next 3 years bond yields would rise from 5 to 55 basis points.

Listen to this. At the start of 1984, he forecast that for the next 3 years bond yields would rise from 5 to 55 basis points. They actually dropped each year from 123 to 199 basis points.

Well, the article goes on. I will have more to say about this article. I do not know the author of the article, but he correctly, I think, captured the record of Mr. Greenspan.

Again, I want to talk about this because the bottom line is that Chairman Greenspan has this long history of focusing solely on inflation to such an extent that all focus on expanding our economy has been lost.

So what do we have today? We have a mindset at the Fed that 2-percent growth is acceptable—2 percent—that the economy cannot grow any faster; maybe 2.5, but that is getting close to the limits, but that we cannot have the 3-percent growth of the 1970's or the 4 percent growth of the 1960's. That is the mindset at the Fed.

Mr. President, I believe we ought to do more to promote stronger economic growth, and at the very least we should not put our economy in a harness when there is such a tremendous potential for growth in America today. Saying that America can grow at 2 or 2.5 percent is like saying that we are going to accept a C average when we know we can do a B-plus or an A. I would not let my kids get by with that, and neither would you, and neither would anyone else. We should not let America get harnessed in these shackles when all of the indications are out there that, with a better monetary policy at the Fed, our manufacturing sector will expand, we will get new plant and new equipment, we will have some wage growth for average working families that will not be inflationary, and our farmers

will be able to have a better deal, because they borrow a lot of money, and especially our small main street businesses. They are the ones in our main streets of our small towns that have to borrow money at higher rates of interest. They need a break, too. It is small businesses that employ most of the people, the ones that are getting the new jobs out there. They should not be shackled by this low-growth mentality that we see evidenced by the Chairman of the Fed.

I urged President Clinton to appoint someone with a greater orientation toward economic growth, someone with a greater concern for the need to increase the incomes of average Americans, and someone who would strive toward keeping the unemployment low.

There is a constant flow of articles written about relatively minor changes in tax policy or in the amount of spending for a number of relatively trivial Federal programs. Yet, the questions of our monetary policy and what we do about the supply of money and interest rates are just not being written about or discussed. That is one of the reasons I took the position which I did when this nomination came to the Senate back in March—that we needed articles written about him, that we needed voices heard around the country to start talking about the monetary policy of the Fed, to bring it out of the shadows and into the sunlight. We have seen more and more articles and more and more economists speaking out and business people speaking out saying that we ought to have a better growth policy at the Fed.

Because of the huge deficits run up in the 1980's to the present, fiscal policy changes in the amount of Government spending and taxes have become pretty ineffective in our efforts to stimulate the economy during poor economic times. We cannot afford to increase the deficit even when we are entering a recession. One of the reasons, I feel, for reaching a balanced budget and then to perhaps run a small surplus is so that we can restore this capability—this capability of the Federal Government to be able to respond to recessions in a meaningful manner. So with such a huge deficit and high debt load, we cannot do that. We need to get to that balanced budget and reduce the debt load of the United States so that we can begin to invest more in our infrastructure. I do not mean just our physical infrastructure; I mean our human infrastructure such as education.

This dependence that we have today on monetary policy and the extent that we have any control over it whatsoever is set by the Federal Reserve System. There is little doubt that the Chairman of the Federal Reserve and the policies he espouses are crucial to our economy.

What will be the balance between our concerns for inflation and our concern about economic growth and unemployment? Rising interest rates mean a tremendous downward pressure causing

the economy to slow. Higher interest rates mean higher costs of doing business, or running a farm. It means smaller profits. It means buying a home or a car is more difficult for working families. If you have an adjustable rate mortgage, as more and more people do these days, it means a bigger chunk of money will be going to the mortgage and less money will be available to your family for other needs like education. It also means we have rising interest rates; high interest rates. It means more unemployed people and the social unrest and harm that this causes.

When we talk about family values, few things are as destructive to a family as unemployment. It strains marriages, causes divorces, and our children suffer. This stricture on our monetary policy also means fewer pay increases and a lower standard of living even for those who do not lose their jobs. People ask a lot of times, and I read articles, about why in America today with our seemingly wonderful economy that the stores are full of goods, and prices in most cases are pretty decent, why is it that there seems to be this unrest among the American people? Mr. President, it was there in 1992. It was there in 1994, and it is still there in 1996. It can all be summed up by saying that the average working families are stagnant in their incomes. Their wages are not increasing as fast as prices. They are incurring more and more of a debt load and paying higher and higher interest rates for the money they borrow. I believe this is leading to great social unrest and will continue to lead to great social unrest unless we have a change in monetary policy at the Fed.

Federal Reserve policy has a considerable impact on the health of the economy, the level of unemployment, and the ability of average Americans to improve their incomes.

So I am happy to say that I have seen some increase in the number of substantive articles in this area over the past few months. I believe that is one of the benefits of the delay that we have had. I hope that we see more articles in the future.

Mr. President, Mr. Greenspan has had a long history in key economic positions; as chairman of the Council of Economic Advisers under President Ford, and as Chairman of the Federal Reserve since 1987. He is a known quantity. He is, I believe, proud of his reputation as a so-called inflation hawk. By that I mean he consistently emphasizes the need to fight inflation. Unfortunately, his policies seem cold to the needs of families to see a little more income come in and to not lose their job. I am not saying he does not care. I am just saying that his orientation toward fighting inflation is, in my view, almost obsessive. It seems to blind him to the need to react to signs of recession or to the societal inequities that his policies lead to.

Mr. President, the current law of the land is that the Federal Reserve is to

balance concerns about inflation on the one side and full employment and production on the other. These goals are in law, placed in law by the Full Employment and Balanced Growth Act of 1978. It is still the law of the land.

Prior to the 1978 act, I understand there was no specific mention of inflation in the law at all. It was not in the Employment Act of 1946 or laws prior to that, going all the way to the founding law of the Federal Reserve in 1913.

Now Mr. Greenspan wants to overturn that balance. He actually supports the concept of eliminating the requirement that the Federal Reserve consider the need for full employment and production. He wants to focus solely on the goal of very low inflation. That is not a balanced policy, in my view, and I think we need, at this point in our history, a Federal Reserve Chairman with more balance.

Mr. President, I now want to get back to looking at the results of some of Mr. Greenspan's policies at the Federal Reserve and what have been the results of his policies during his tenure at the Federal Reserve System. I have a series of charts and some other things I would like to refer to here at this point in time.

Let us take a look, first, at this chart. This is, "Economic Performance Under Greenspan." We have compared the years 1959 through 1987, in aggregate, versus his tenure at the Fed from 1987 to the present. We have different indices here. We have: GDP, real GDP, income per capita, payroll jobs, and productivity. The green bar represents the pre-Greenspan years. The orange bar depicts the Greenspan years.

Let us look at real GDP. During the years, cumulative years—and there were some that were pretty bad in there, too. There were some good and some bad. But during the years prior to Mr. Greenspan, real GDP averaged 3.4 percent per year. That is from 1959. The only reason we picked 1959 is because we changed the way we calculate the GDP. Those figures only go back to 1959. GDP averaged 3.4 percent. Under Mr. Greenspan, it has only averaged 2.2 percent growth, in real GDP.

Let us look at per capita income. The average prior to Mr. Greenspan's tenure, 2.5 percent growth in per capita income; under Mr. Greenspan, 1.2 percent average growth in per capita income.

Let us look at payroll jobs, growth of jobs, new jobs. Prior to Mr. Greenspan, an annual average of 2.4 percent growth in new jobs; with Mr. Greenspan, 1.7 percent growth in real jobs.

But this is one of the most telling of all, and that is the last bar on this graph. It has to do with productivity. Productivity prior to Mr. Greenspan averaged 2.3 percent. Under him, it has averaged 1.1 percent. That is crucial. It is through productivity growth that we get our ability to increase incomes of people with little inflation risk.

I suppose there are some who say there are other reasons for this. That may be true that there are other fac-

tors that influence this, but I believe that in each one of these, the key, let us say the one domino that you push that knocks over all the rest, is the actions taken by the Federal Reserve in each one of these areas, because it has to do with the monetary policy and what our monetary policy is.

I would like to turn to another chart, which was in an article written by Rosanne Cahn. I will read parts of that article. This article was in a publication, issued by CS First Boston. This is an economic treatise put out by CS First Boston, May 31, 1996, by Ms. Rosanne Cahn. Again, I do not know Ms. Cahn. Let me read some of this before I turn to the chart, because it will tell you what this chart shows. Ms. Kahn writes, in the May 31, 1996, CS First Boston report on the economy, "Grow Is Not a Four-Letter Word."

The Federal Reserve acts like it's wrong for the economy to grow at a reasonable rate. The bond market, conditioned by a stern parent, deteriorates so rapidly in response to strong growth that it may not even be necessary for the Fed to raise short-term rates anymore. Like a child catching itself in a naughty deed, it punishes itself by sitting in the corner in advance of a parent's reprimand.

Between 1950 and 1989, U.S. annual growth averaged 3.6 percent, with one-third of the years above 4 percent. The 1990's, at a 1.8 percent average annual rate, have been the slowest 6-year period since 1950.

We wonder why there is unrest around America?

The immediate post-war recession and the beginning of the Great Depression were the only 6-year periods with worse records since 1929. The rate that rocked the bond market this year was first published at 2.8 percent. . . .

That was first quarter. I remember when it came out, oh, my gosh, a huge surge in growth, 2.8 percent. Later on we found out that it had to be revised down to 2.3 percent. Ms. Cahn asked, "Can't we grow faster without jacking up bond yields by a percentage point?" These are not this Senator's words. These are words written by Rosanne Cahn in this article.

Chairman Alan Greenspan's record on growth is the worst of all post-war Fed Chairmen, with no meaningful progress on inflation.

Maybe, Mr. Greenspan argued, we have not had growth because we have had great progress on inflation. Well, that is not so. As shown, growth during his leadership has been, as I pointed out on the earlier chart, a paltry 2.2 percent—right down here, real GDP growth, 2.2 percent, with inflation in the year before he took over at 4.1 percent and inflation averaging 3.2 percent.

Paul Volcker, right before him, real GDP growth, 2.5 percent, kind of paltry but a little bit better than Greenspan's. But look what Mr. Volcker did with inflation. You can say, "Yeah, he didn't have much growth," but look at inflation. The year before he came in, inflation was 13.2 percent. He brought it down to 6.2 percent during his term. He cut it in half.

If you go back through, you can see the same thing. What has happened is in each of these cases—then you see here the real higher GDP growth rates during the other terms—what happened is that Mr. Greenspan really has not cut inflation by that much, but he has stifled the economy with low growth.

So, if we are going to be suffering with low growth, well, inflation 4.1, we should probably be down to zero inflation. We are not. So, again, we are suffering low growth without any real attack on inflation and no real headway made there at all.

Ms. Cahn goes on to say:

Some would assert that the U.S. economy's rate of expansion is constrained by its maturity. That argument has been made throughout history.

I particularly like this part.

For example, after the invention of the wheel, cavepeople presumably thought that there was nothing more they needed. Today, penetration of cellular phones and home computers is low, so buying them should keep consumers busy until the next new products/services are invented.

By some measure, there's not much wrong with the U.S. economy. For example, full employment has been achieved according to some experts. Why quibble over one percent? Anyone who is willing to give up a percentage point per year of income growth for the next six years can stop reading now. Multiply that by 100 million households and it adds up to real money.

Other wonderful things happen with a strong economy. The Federal budget deficit shrinks . . . For example, if growth were 1 percentage point per year faster for the next 6 years, that would reduce the deficit by \$120 billion, according to Congressional Budget Office (CBO) estimates, or bring it close to balance.

Households' debt problems evaporate if incomes grow without new debt being added. Income distribution disparities might or might not narrow, depending on structural factors behind the higher growth. However, the poor would certainly become less poor as the economy expanded rapidly.

So what is the problem? Why not go for growth?

Ms. Cahn goes on to say:

Prices are determined by the intersection of supply and demand. As demand gets closer to supply, inflation heats up. Inflation is bad because it allegedly causes distortions in the economy, and eventually accelerates enough to destabilize the economy. Most problems caused by inflation are infeasible to quantify; many are subtle or hidden. Therefore, no one has taken a stab at measuring the costs of inflation. However, adults who lived through the 1970s and early-1980s recognize double-digit inflation imposes serious burdens on the U.S. economy.

Without quantifying the cost of inflation, it is impossible to determine the rational policy choice between inflation and growth.

Besides, no one knows what number to put on full resource utilization, though many will argue vigorously for or against a specific one. In 1993 most analysts contend that NAIRU (non-accelerating inflation rate of unemployment) was above 6 percent; now some say 6 percent and many say 5½ percent. In mid-1960s, debate focused on 5 percent, 4½ percent and 4 percent.

The policy dilemma is compounded by the long lag between when the economy reaches full employment and when wage inflation picks up.

Under such uncertainty, what is a wise monetary policymaker to do? We'll never know, because the Fed's anti-inflationary fervor is more religious than intellectual.

Even if the above difficulties are serious, perhaps there is a more favorable inflation/employment trade-off than the Fed will allow, without taking too much risk in the area of uncertainty.

I think what Ms. Cahn basically has said here is that you have to have a balance, you have to have a balance between caution on inflation and making sure that we have adequate growth, and to just have this almost religious fervor against inflation can send us into a tailspin in terms of real GDP growth per capita income and the well-being of working Americans.

Mr. President, I want to talk just a minute more about NAIRU, the non-accelerating inflation rate of unemployment, and what that means. A lot of people say, "Well, we can't have lower unemployment because that will push wages up and that will cause inflation." Maybe that might have been true in the sixties, and it may have been true in the seventies, but we live in a different global economy today that a lesser unemployment rate and concurrently some wage increases for hard-working Americans can be offset.

We are in a global market. If they push too high, obviously businesses will tend to take their jobs offshore. Likewise, if the price of goods gets too high because the supply and demand is getting too close, well, then, because of the global economy, more goods can come in from overseas. So we do not have the kind of economic mix that we had in the sixties and seventies.

I might add one other thing. We did not have in those years either the kind of mass marketing and mass wholesaling that we have today, like the Wal-Mart syndrome that we have in America today. That, too, acts as a buffer, as a damper on the push on inflation if, in fact, supply and demand gets too close.

I now want to turn to a couple of articles by Mr. Felix Rohatyn. The first appeared in Time magazine in May, May 20, 1996. Mr. Rohatyn is a well-respected investment banker, perhaps the best kind of an economist, not one who lives in an ivory tower but one who is out there in the real world and has been very successful in what he does.

I first met Mr. Rohatyn over 20 years ago. Actually it has been 21 years ago, I think, when I was a Member of the House of Representatives. I represented a very rural district in Iowa, and that was about the time when New York City needed some help from the Federal Government in order to avoid defaulting in its financial obligations. I did not have much interest in that. In fact, I was predisposed to vote against the so-called bailout of New York City.

Then Mr. Rohatyn—I do not know what his position was at the time—came down to speak to us on behalf of the city government of New York City at the time. For a very then-young

freshman Member of the House of Representatives who was very much predisposed to vote against a bailout of New York City, I listened with great attention to what Mr. Rohatyn had to say about New York, why it was in the position it was in, how it was going to get out, why it was in the best interest of our country to pass the New York City bailout bill and how New York would pay back every dime on the dollar and how it would lead to greater growth in the future for that city.

I voted for the New York City bailout. It probably was not the smartest thing for a Congressman from a rural district in Iowa to do, but I did, and I defended it.

It turns out he was right and we were right to do what we did at that time. So I have had a great deal of respect for Mr. Rohatyn over all those years, because I felt he had a commonsense, hands-on judgment of really what was happening in the marketplace. I believe he understands economics very well, but he understands it both in the theoretical aspect and in the actual aspect.

The one thing I have always admired about Mr. Rohatyn is that he has always believed that America can do better, that we can grow better and not be just obsessed with the fear of inflation.

Anyway on May 20, in Time magazine Mr. Rohatyn wrote the following—I will not read it all, but I think there are some passages in here I want to read for the RECORD. The title is "Fear of Inflation Is Stifling the Nation. An outdated obsession is depriving us of greater wealth."

Mr. Rohatyn writes, on May 20, not even a month ago—

As recently as March, most observers were concerned that the economy might be headed for recession. Many expected the Federal Reserve to lower interest rates. Suddenly the great concern is that the economy may be growing too fast. Earlier this month, the Commerce Department reported that the economy grew at a rate of 2.8% during the first quarter of the year. The bond and stock markets treated this very good news as if it were an unwelcome visitor, and declined sharply. Fickle behavior in financial markets is nothing new, but this latest episode illustrates a deeper problem.

It has become an article of faith among policymakers and on Wall Street that if the economy grows at an annual rate above 2% or 2½%, inflation will rise, perhaps uncontrollably. As illustrated by recent events, such conventional wisdom has become almost a self-fulfilling limitation. When growth rises above this level, investors, spooked by a belief that the Federal Reserve will soon be "forced" to raise short-term interest rates in order to prevent an outbreak of inflation, rush to sell bonds. This pushes long-term interest rates up. The result is that prospects for future growth are dampened.

And he points out parenthetically— "(And should the Fed do nothing, bondholders sell because they fear the central bank is no longer vigilant against inflation.)"

The irony is that these economic statistics, which so frightened the markets, actually tell us that higher growth is possible

without inflation. The real rate of inflation for the first quarter was 2.1%, with no sign of any upward pressure; actual growth was understated because of the General Motors strike and the winter blizzard. And remember, inflation statistics are generally believed to be overstated at least 0.5%.

So perhaps the real rate of inflation was not 2.1 percent. It could have been closer to about 1.5 or 1.6 percent.

What the first-quarter results make clearer is that the economy can grow more than 3% while holding real inflation below 2%. The same can be said about unemployment. The latest unemployment figures came in at 5.4%; that's well below the 6% unemployment figure that is supposed to trigger inflation through demands for higher wages, according to the standard view.

That is the NAIRU view.

. . . This view fails to take into account the forces of global competition. American workers no longer compete for jobs only with one another, but with workers worldwide, and that tends to dampen wage demands at home. Wage inflation is not a real threat, but we keep treating it as such.

Sure, one quarter isn't a trend, but there is nothing in these numbers to provoke fear of inflation; on the contrary, they should have been the basis for satisfaction and the determination to do better.

I guess that is what I like about Mr. Rohatyn. He believes we can do better, that a C average is not good enough for America.

The conventional wisdom, however, is so embedded in the financial community that the National Economic Council chairman, Laura D'Andrea Tyson, felt understandably compelled to reassure the markets by announcing that the Administration's growth forecast for the year was unchanged from its original 2.2%. It should not be necessary to tell Wall Street that the economy isn't as good as it looks.

Perhaps this is an argument I have with the Clinton administration. If they are accepting a 2.2-percent growth forecast, and if that is acceptable to the Clinton administration, all I can say is it is unacceptable to me, and it ought to be unacceptable to this country. We need a higher growth rate than that.

Mr. Rohatyn goes on to say:

There was a time when 2.8% would have been considered a modest rate of growth; today it is considered dangerously robust. The sad reality is that it is still below our real needs. Many corporate leaders don't agree with this notion of dragging the anchor just as soon as the economy has the wind behind it. They understand how we can sustain high growth based on the muscular productivity improvements they are generating in their own businesses. In today's environment of rapid technological innovation and international integration, we should be willing to be bolder, both in fiscal and monetary policy.

Our excessive fear of inflation has a huge price: stagnating wages for the vast majority of American workers, the decline of our cities and the deepening of our social and economic ills. Although there is no single answer to these problems, increasing wealth and incomes hardly seems like a bad way to start. As President Kennedy said, "A rising tide lifts all boats." The difference between then and now is that the tide is not rising as fast—and it certainly is not raising all boats equally. Without more growth we are simply

setting the stage for a battle over the same pie.

We need higher growth if we are to balance the budget without unacceptable cuts to social programs, or without letting our infrastructure crumble. Only a growing economy lets us generate the revenues needed by the public sector while reducing the tax burden on the private sector.

The Clinton Administration is entitled to a great deal of credit for cutting the federal deficit in half, while putting the economy on a path of stable, moderate growth. But it's time for Administration and congressional leaders to take advantage of the current momentum to reach for a higher level. It's also time for Wall Street and the Federal Reserve to stop kicking up interest rates reflexively every time the economy shows signs of momentum. The notion that we must choose between growth and inflation is a false choice. Global competition as well as new technologies has set new parameters on every aspect of the economy. A 3%-to-3½% growth rate is not only an achievable national objective; it is an economic and social necessity.

Mr. President, I ask unanimous consent that that article be printed in its entirety in the RECORD.

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

[From Time Magazine, May 20, 1996]

(By Felix G. Rohatyn)

**FEAR OF INFLATION IS STIFLING THE NATION—  
AN OUTDATED OBSESSION IS DEPRIVING US  
OF GREATER WEALTH**

As recently as March, most observers were concerned that the economy might be headed for recession. Many expected the Federal Reserve to lower interest rates. Suddenly the great concern is that the economy may be growing too fast. Earlier this month, the Commerce Department reported that the economy grew at a rate of 2.8% during the first quarter of the year. The bond and stock markets treated this very good news as if it were an unwelcome visitor, and declined sharply. Fickle behavior in financial markets is nothing new, but this latest episode illustrates a deeper problem.

It has become an article of faith among policymakers and on Wall Street that if the economy grows at an annual rate above 2% or 2½%, inflation will rise, perhaps uncontrollably. As illustrated by recent events, such conventional wisdom has become almost a self-fulfilling limitation. When growth rises above this level, investors, spooked by a belief that the Federal Reserve will soon be "forced" to raise short-term interest rates in order to prevent an outbreak of inflation, rush to sell bonds. This pushes long-term interest rates up. The result is that prospects for future growth are dampened. (And should the Fed do nothing, bondholders sell because they fear the central bank is no longer vigilant against inflation.)

The irony is that these economic statistics, which so frightened the markets, actually tell us that higher growth is possible without inflation. The real rate of inflation for the first quarter was 2.1%, with no sign of any upward pressure; actual growth was understated because of the General Motors strike and the winter blizzard. And remember, inflation statistics are generally believed to be overstated at least 0.5%.

What the first-quarter results make clearer is that the economy can grow more than 3% while holding real inflation below 2%. The same can be said about unemployment. The latest unemployment figures came in at 5.4%; that's well below the 6% unemployment figure that is supposed to trigger inflation through demands for higher wages, ac-

ording to the standard view. This view fails to take into account the forces of global competition. American workers no longer compete for jobs only with one another, but with workers worldwide, and that tends to dampen wage demands at home. Wage inflation is not a real threat, but we keep treating it as such.

Sure, one quarter isn't a trend, but there is nothing in these numbers to provoke fear of inflation; on the contrary, they should have been the basis for satisfaction and the determination to do better. The conventional wisdom, however, is so embedded in the financial community that the National Economic Council chairman, Laura D'Andrea Tyson, felt understandably compelled to reassure the markets by announcing that the Administration's growth forecast for the year was unchanged from its original 2.2%. It should not be necessary to tell Wall Street that the economy isn't as good as it looks.

There was a time when 2.8% would have been considered a modest rate of growth; today it is considered dangerously robust. The sad reality is that it is still below our real needs. Many corporate leaders don't agree with this notion of dragging the anchor just as soon as the economy has the wind behind it. They understand how we can sustain high growth based on the muscular productivity improvements they are generating in their own businesses. In today's environment of rapid technological innovation and international integration, we should be willing to be bolder, both in fiscal and monetary policy.

Our excessive fear of inflation has a huge price: stagnating wages for the vast majority of American workers, the decline of our cities and the deepening of our social and economic ills. Although there is no single answer to these problems, increasing wealth and incomes hardly seems like a bad way to start. As President Kennedy said, "A rising tide lifts all boats." The difference between then and now is that the tide is not rising as fast—and it certainly is not raising all boats equally. Without more growth we are simply setting the stage for a battle over the same pie.

We need higher growth if we are to balance the budget without unacceptable cuts to social programs, or without letting our infrastructure crumble. Only a growing economy lets us generate the revenues needed by the public sector while reducing the tax burden on the private sector.

The Clinton Administration is entitled to a great deal of credit for cutting the federal deficit in half, while putting the economy on a path of stable, moderate growth. But it's time for Administration and congressional leaders to take advantage of the current momentum to reach for a higher level. It's also time for Wall Street and the Federal Reserve to stop kicking up interest rates reflexively every time the economy shows signs of momentum. The notion that we must choose between growth and inflation is a false choice. Global competition as well as new technologies has set new parameters on every aspect of the economy. A 3%-to-3½% growth rate is not only an achievable national objective; it is an economic and social necessity.

Mr. HARKIN. There was another article by Mr. Rohatyn. This one was in the Wall Street Journal, last December. In this article he talks about the growth assumptions that we have made and the affect it has on policy. I just want to read a couple of parts of it. I will not read the whole article, but I ask unanimous consent that it be printed in the RECORD.

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

[From the Asian Wall Street Journal, Dec. 7, 1995]

CUT AND BE PROSPEROUS

(By Felix G. Rohatyn)

The current budget debate in the U.S. between the Clinton administration and Congress has an air of unreality about it. First, the debate is dominated by economic numbers to which all sides cling with theological devotion, despite the lack of any evidence that they correspond to events in the real world. Second, the debate focuses on only one part of the budget-balancing equation—controlling expenditures. Nobody is talking about growing revenues by growing the economy, yet this is certainly more important than any other part of the budget equation.

Start with the numbers. Both the President and Congress have signed off on a seven-year goal to balance the budget. But there is nothing magical about the number seven. Whether the budget is balanced in seven years or six or eight has no economic, financial or intellectual relevance; the financial markets will react no differently if, ultimately, there is an eight-year or even nine-year agreement. What is critical to the markets is the certainty of the outcome. In the present seven-year plan there is no certainty whatsoever; the only certainty is that things will undoubtedly turn out differently than the budget forecast.

That's because the economic assumptions made by both sides are faulty. The Congressional Budget Office forecast is for 2.3% annual growth for the seven-year period; the administration's is for 2.5% annual growth. Both forecasts are undoubtedly wrong. That is not their greatest sin, however, because all forecasts are wrong, especially when they go beyond next year. Their greatest sin is to accept, and implicitly condemn, the U.S. to our present growth rate. Despite Wall Street's love affair with slow growth, the vast majority of the business community believes this to be far short of the economy's real capacity for noninflationary growth, as well as being inadequate to meet the nation's private and public investment needs.

What's pushing us toward accepting lower growth? Part of the problem is faulty economic measurements. Both Federal Reserve Chairman Alan Greenspan and a distinguished panel of economists have said that U.S. actual inflation rate may be more than 50% below the official measurement of the consumer price index. This means inflation may be a less immediate danger. Furthermore, the Bureau of Labor Statistics has decided that the methodology of growth rate measurements is faulty and needs to be revised downward. Once this is adjusted, it may ease fears that we're growing "too fast."

Another factor pushing the U.S. toward lower growth is its foreign trade partners. In Western Europe, the goal of a single European currency, requiring lower budget deficits and lower debt, is given priority over growth and employment in every country except Britain. Both Germany and France, with inflation rates around 2% and unemployment rates of 9% and 12% respectively, are running deflationary policies of high interest rates together with budgetary contraction. Japan is effectively in a no-growth, asset-deflation mode.

I would be a tragic mistake for the U.S. to join the rest of the developed world in a set of economic policies combining low growth, high real interest rates and fiscal contraction—the prescription seemingly favored by both Congress and the White House. The net result of these policies will not be balanced budgets but higher deficits and serious social strains, because they will lead to less growth and hence lower government revenues.



Every major American social and economic problem requires stronger economic growth for its solution. This includes improvements in public education as well as increasing private capital investment and savings; balancing the budget and maintaining a social safety net; improving the economic conditions in the big cities and reducing racial tensions as a result. The economic and social pressures of global capitalism can be offset only by higher rates of economic growth. Even when global competition was less severe and social problems less daunting, the U.S. did not generate sufficient jobs and government revenues at less than 3% to 3½% annual growth in gross domestic product.

There is only one explanation for the U.S. government's reluctance to adopt a higher growth objective: The inordinate fear of inflation resulting from higher growth. The view that the economy's capacity for noninflationary growth is limited to 2½% is strongly supported by the financial community, the Treasury and the Federal Reserve, all rightly anxious to protect the securities and currency markets. But business leaders strongly believe that we can achieve higher growth with little risk of higher inflation. The latest economic statistics seem to confirm this: The last quarter saw 4.2% growth and less than 2% inflation. It is totally appropriate to fight inflation; it is counterproductive to limit economic growth unnecessarily.

It is obviously not possible, overnight, to try to raise the growth rate without raising the fear of renewed inflation; global capital markets are very nervous, and maintaining a strong dollar is fundamental to U.S. prosperity. But a number of policy changes should be considered—but aren't at the moment.

First, the U.S.'s European and Japanese partners should be persuaded to set a parallel course and coordinate lower interest rates while promoting domestic growth policies of their own. At home, the U.S. should consider tax reform to promote investment and savings. It should make appropriate increases in public investment, even as it reduces the cost of social programs and defense spending. It should make improvements in public education an integral component of a strategy of higher growth and higher productivity. Hard money, higher rates of growth, low interest rates and low inflation should be the economic platform.

There will be obviously be vigorous differences between Republicans and the administration about the tax and spending policies needed to achieve these goals. However, since there is no real argument any more about the goal of a balanced budget let us, at least, agree that balance must be achieved by higher growth and retrenchment. There is an excellent precedent for this strategy: New York City's experience in 1975, when it teetered on the edge of bankruptcy. How did the city balance its budget in five years and regain access to the credit markets? Through a combination of rapid and sustained economic growth, on the one hand, and, on the other, year-by-year compliance with tough budget targets enforced by an Emergency Financial Control Board.

At the federal level, no new agency is needed—but a new mechanism is required to keep the budget plan on track year to year: First, the Congressional Budget Office would determine the actual deficit, as opposed to the projected one. Second, the President and the congressional leadership would agree on measures to resolve differences between the predicted deficit and the real one; this could include additional spending cuts or new taxes, or a combination of the two. This agreement would be subject to ratification

by Congress. Third, if no agreements was reached, automatic across-the-board cuts in the budget (interest payments on the debt alone would be exempt) would come into effect to comply with the forecast. Of course, provisions would have to be made to defer cuts in case of a serious recession or a national emergency, but this plan would reassure financial markets far more than any seven-year budget goal.

As a final step, both the administrative and the congressional Republicans should agree on an objective of at least 3% annual growth to be reached in the next two or three years. The difference between 2.3% and 2.5% growth over the seven-year period is \$475 billion of added revenues; the difference between 2.5% and 3% is more than \$1 trillion. There are stakes worth fighting for. The national debate should now focus on the most important issue facing America: not whether, but how, to generate the growth that is adequate to the country's needs.

Mr. HARKIN. This was in the December 7, Asian Wall Street Journal.

Mr. Rohatyn is talking about budget forecasts. Let me just start where he says:

That's because the economic assumptions made by both sides are faulty. The Congressional Budget Office forecast is for 2.3 percent annual growth for the seven-year period; the administration's is for 2.5 percent annual growth. Both forecasts are undoubtedly wrong. That is not their greatest sin, however, because all forecasts are wrong, especially when they go beyond next year. Their greatest sin is to accept, and implicitly condemn, the United States to our present growth rate.

Let me repeat that. What Mr. Rohatyn said is that to forecast and to set our policies based upon 2.3 percent or 2.5 percent growth for several years, that is not the greatest sin, he says, he stated the greatest sin is to accept and implicitly condemn the United States to our present growth rate.

Despite Wall Street's love affair with slow growth, the vast majority of the business community believes this to be far short of the economy's real capacity for noninflationary growth, as well as being inadequate to meet the Nation's private and public investment needs.

Mr. Rohatyn goes on, he says:

What is pushing us toward accepting lower growth? Part of the problem is faulty economic measurements. Both Federal Reserve Chairman Alan Greenspan and a distinguished panel of economists have said that U.S. actual inflation rate may be more than 50 percent below the official measurement of the Consumer Price Index. This means inflation may be a less immediate danger. Furthermore, the Bureau of Labor Statistics has decided that the methodology of growth rate measurements is faulty and needs to be revised downward. Once this is adjusted it may ease fears that we're growing "too fast."

Mr. Rohatyn goes on to say:

It would be a tragic mistake for the U.S. to join the rest of the developed world in a set of economic policies combining low growth, high real interest rates, and fiscal contraction—the prescription seemingly favored by both Congress and the White House. The net result of these policies will not be balanced budgets, but higher deficits and serious social strains, because they will lead to less growth, and hence lower Government revenues.

Every major American social and economic problem requires stronger economic

growth for its solution. This includes improvements in public education as well as increasing private capital investment and savings; balancing the budget and maintaining a social safety net; improving the economic conditions in the big cities and reducing racial tensions as a result. The economic and social pressures of global capitalism can be offset only by higher rates of economic growth. Even when global competition was less severe, and social problems less daunting, the U.S. did not generate sufficient jobs in Government revenues at less than 3 percent to 3½ percent annual growth in gross domestic product.

There is only one explanation, for the U.S. government's reluctance to adopt a higher growth objective: the inordinate fear of inflation resulting from higher growth. The view that the economy's capacity for noninflationary growth is limited to 2½ percent is strongly supported by the financial community and the treasury and the Federal Reserve, all rightly anxious to protect the securities and currency markets. But business leaders strongly believe we can achieve higher growth with little risk of higher inflation.

It is totally appropriate to fight inflation. It is counterproductive to limit economic growth unnecessarily.

(Mr. THOMPSON assumed the chair.)

Mr. HARKIN. Mr. President, I think Mr. Rohatyn, really in both those articles, has really outlined what our policy ought to be at the Federal Reserve. That is, a policy of balance. That is what he is arguing for. He is not saying, forget about inflation. He is saying, when there is no inflation, when the fear of inflation is low and inflation is way down, below 2 percent, we can take some risks for more growth.

Like the story about the turtle that only makes progress when he sticks his head out from underneath the shell. Of course, he is most vulnerable at that point. The turtle could live his entire life closed up in a shell. He would not get very far, but he would be safe. Like the turtle, we have to stick our necks out once in a while for growth. If we see inflation coming, yes, then we can retreat. But to retreat before inflation is threatened is to condemn America to slow growth, is to condemn American families to low wages and high unemployment. It means that we will have a tougher time balancing our budget, or it means if we do want to balance the budget, we are going to cut very deeply into social safety net programs. We will cut into education, we will cut into health, we will cut into Medicare, and we will start cutting to balance the budget. That will exacerbate and make worse social unrest that we already see starting out there.

We must have a policy of growth. The Federal Government cannot do it by itself. We have no magic here to do that. Yes, we can cut budgets, and we are. We can cut the deficit, and we are. We can streamline Government.

I commend the Clinton administration for what it has done to streamline Government. It was the Clinton administration that started the reorganization of the Federal Government. It was President Clinton who suggested we trim the size of the Federal bureaucracy to its lowest point since John Kennedy was President.

Yes, we can take those steps, and we are taking those steps, but unless we have growth in our economy, those cuts are going to get harder and harder in the future. It will be harder to make politically, but it will be harder on people with real needs, whether it is an elderly person who is ill or maybe an elderly person that needs heating oil in the wintertime and we do not have enough money to pay and to help them buy that heating oil to keep warm in the winter. It is a family that has a child that needs a Head Start Program and cannot get it because we do not have the money for it. We simply do not. Or maybe it is a young couple starting out, both of them are working, and they would like to save to buy a new home. They cannot to it because the interest rates are too high. That is what is ahead for us if we do not have growth in our economy.

As I said, we have limited resources at our fingertips here in the Congress to do that. We cut the deficit, we cut the size of the Federal Government, we can streamline, but in the end it has to be the Federal Reserve and its monetary policy to reduce the interest rates that will allow the private sector to expand. By allowing the private sector to expand and grow with new plants and new equipment and, yes, wage growth for hard-working families, that will create the kind of revenues that the Federal Government takes in to help meet our obligations to those less fortunate.

Mr. President, Rohatyn points out the increasing social unrest that will happen if we continue on with the tight money policy under Mr. Greenspan. Mr. President, I do think we should have monetary goals that allow for 3 percent, maybe 3½ percent growth, a percent higher than what we have. Of course, as I said, if it was achieved, we would see our revenues climb as profits and income increase, and many program costs would fall. Again, I commend President Clinton for the approach he has taken to reduce the budget deficit and to reduce the size of the Government.

Next, I want to discuss some of the recent news impacting on interest rates, how the perceptions of the Federal Reserve and its actions have shaped the market's reaction to the news, and why I believe Alan Greenspan's historic pattern of actions is not helpful for our economy to grow. I would like to know how approving his renomination and his hair-trigger reaction toward raising interest rates makes talk of a growing economy from a supply side tax cut totally impossible.

There are those who say we need to have this big tax cut now, as if somehow this tax cut is going to lend itself to a supply side growth in our economy. But if you have high interest rates, unreasonably high interest rates, tight money policy, then that will not happen. Tax cuts will just simply go for higher interest payments. That is

all they will go for. If you want to really get the economy moving, yes, you should get our rate of interest down, and then have targeted tax cuts to working families. That would really spur the economy. To do it without lowering interest rates is counterproductive.

If the Federal Reserve is going to look at a reduction of revenue without immediate offsetting reductions in spending as inflationary, then interest rates are likely to increase and higher interest rates will send the economy into a dive, further exacerbating the deficit. In that environment, the ability to promote any kind of a supply side tax reduction that benefited the economy becomes highly suspect.

One of the very strange things to most people who read the newspapers is how the bond and stock markets now tend to go down when there is significant good news about the economy as a whole, as I just read from a couple of articles. The reason is because they believe as soon as the economy gets better, interest rates will rise.

Will they rise because of fear of inflation, or do they think they will rise because of a hair-trigger orientation toward raising interest rates at the Federal Reserve? I believe a very large component is the fear of the Federal Reserve increases in its interest rates and not the fear of inflation.

I suppose Mr. Greenspan's supporters would say the answer is if the economy overheats, there will be a bottleneck in the economy, shortages of goods, the inability to deliver them on time, shortages in employees. This, of course, will result in higher prices for wages paid, and thus inflation. Inflation will increase and erode the value of long-term bonds. The bond market will therefore demand higher interest rates to slow the economy and reduce inflation, and clearly higher interest rates reduce consumer demands, increase business costs and lower profits.

Under Mr. Greenspan's Federal Reserve, I believe there is a perception, cultivated by him, that he does have a hair trigger and if there is ever any early sign at all of any inflation, they will raise interest rates. Unfortunately, it is more than true. He may claim it calms the markets, but I think he is leading the charge to higher rates in a slower economy.

Sometimes we have seen this hair trigger operate when signs of inflation are ephemeral, at best. The bonds and stock markets both initially hit the skids when the Bureau of Labor Statistics issued its report on May unemployment last Friday. What did the report say? Mr. President, 348,000 jobs were added to the payroll. In addition, there was an upward revision in the April employment figures by 163,000; about 500,000 additional jobs in America over a 2-month period. There was about 40,000 less than that because statistics counted higher for election day in many States, so we are talking about 460,000.

There was a huge 549,000 increase in the work force in May. Half a million people wanted to get into the job market. They wanted to work in April. Only two-thirds found jobs.

I hear people say, "My gosh, look at all the new jobs we have created. We are up to 500,000 in a couple of months." But what they point out is that in May, there was a 549,000 increase in the work force, and what we found is that over that period of time, about 460,000 new jobs.

So only about two-thirds of the people looking for work found work. So, in actuality, the unemployment rate increased from 3.6 to 5.6 percent in May. Again when you tell people that, they say, "Wait a minute. I have been reading about all of these new jobs created." That is true. That is only one side of the ledger. You must look at the other side of the ledger and how many people are looking for work. This is about a third more looking for work than actually found jobs. So unemployment actually increased. With a fear that increased jobs will yield to bottlenecks, this news says there are a lot more people looking, providing competition for the growing number of job positions that become available.

What about the direct measure of inflation—rising wages? We talked about unemployment; let us talk about wages. In the March figures released in April, wages increased by 7 cents. On Friday, the new figure said, after adjustments after the past 2 months, wages only increased by a penny an hour. The economy, they said, did very well in April. Generally, economists felt it was a pretty good month and a pretty good quarter of the year. There is a widely held view that the economy will not do as well in the second half.

What is the problem with rising bond prices? It is the Federal Reserve. Everyone in the market understands Mr. Greenspan's character. So the 30-year Federal bond interest rate increased by 13 basis points last Friday largely on the bet that the Federal Reserve rate increase was on the way. We keep hearing that, at the next meeting of the Federal Open Market Committee, there is going to probably be an increase.

First of all, unemployment actually went up. Rising wages is only about a penny an hour. Why? Yet, bond interest rates increased by 13 basis points. Why is all of this important? It is important because, in the short term, the fear and the expectation of Federal Reserve rate hikes mean higher mortgage rates and other interest costs even before possible Federal Reserve action. If the Federal Reserve increases the interest rates, which in recent years is almost automatically followed by increases in the prime rates of banks, then the cost of doing business or operating a farm will increase. The cost to consumers who want to buy things increases.

But the most important effect of Mr. Greenspan's Federal Reserve policy is it blocks faster economic growth. As I said, Mr. Greenspan talked about the



desirable growth at a bit over 2 percent a year. Many economists say that our economy could grow well over 3 percent, as Mr. Rohatyn does, without triggering higher inflation. Many say we could sustain that rate for a longer period of time.

But I think it can be said with certainty, a 1-percent increase in growth for 1 year means an extra \$75 billion added to the economy and the following year and each year thereafter. If we sustain that higher growth for 2 years, then we are talking about an extra \$150 billion in the size of the economy per year; 3 years, \$225 billion a year added; 4 years—you get my point. What this would mean in cumulative effects to the economy is nothing short of startling.

A larger economy means more in wages and a better quality of life for Americans. I believe it is worth a try. Mr. Rohatyn believes it is worth a try, and so do many, many economists. Especially business people think it is worth a try. I think we should allow the economy to grow at the strongest rate possible. Of course, this means we must lower interest rates.

Again, is there a risk of inflation? Yes; not as great as the risk would have been 20 years ago in the 1970's. As I pointed out, we have a world market in goods, we have a world market in labor, and we have new, more massive retailing and discounting in America that we never had 20 years ago. Plus we have a large pool not only of unemployed but underemployed.

That is another point that I am going to be talking about later. We can look at the unemployed figures. They say, "Well, it is 5.6-percent unemployment. But there are a lot of people—and we all know it because we talked to our constituents—there are a lot of people out there who are underemployed. They have a job, but it is not the job they want, and it is not the job paying them the wage that their education and their abilities might otherwise argue for. But they are taking it because there is nothing else. It is not uncommon for a family with the husband working one or two jobs, the spouse, the wife, working one or two jobs, and one or more of the children working. Many of those second jobs are lower wage, many times minimum-wage, jobs. So there is, I think, a great deal of underemployment.

So, if we were able to spur economic growth to buy new plants and equipment, new opportunities, I believe that a lot of the underutilized jobs would move to other sectors and a lot of the underemployed people would take those jobs. So again, it argues against any kind of tightness in the labor market that would argue for inflation. So, yes, there is a chance, there is a risk.

As I said, it is like the turtle. The turtle never makes progress until it sticks its neck out. Of course, that is when it is most vulnerable. A turtle can spend its whole life clammed up in its shell, but it would never get any-

where. We can spend the rest of this century and a good portion of the early part of the next century clammed up in our shell, too, while other nations outstrip us, while other nations' growth rates exceed ours, and while we condemn our people to a lower standard of living. That is really what this is about.

Some people say, "Well, you mean to tell me it is all wrapped up in one person, Mr. Greenspan?" My answer is, yes, a lot of it; not all of it, but a lot of it because of the power of the Federal Reserve Chairman and because of the monetary policy of the Federal Reserve.

Some would say that cannot be true. Alan Greenspan does not want the economy to grow more quickly? Is that a fair statement? Mr. Greenspan does not believe that the risk of inflation is worth what could be substantial job growth and higher income. He has spent his entire professional life fighting for that view. I believe he is so oriented toward that view, blinded by that view, that he failed to act decisively to bring the U.S. economy out of two of the most serious recessions in the post-World War II era.

In 1974, while chairman of President Ford's Council of Economic Advisers, and in 1990, as Chairman of the Federal Reserve, both times he failed to act decisively to bring the U.S. economy out of serious recessions. In February 1994, he started a series of seven interest-rate increases with no real sense of inflation. Perhaps on the horizon there may have been a mirage of inflation sometime in the future.

Last Thursday's Washington Post had an interesting article written by John Berry. It said the Federal Reserve officials did not intend to orchestrate a signal on the prior Wednesday, on May 29, that the Fed wanted to raise interest rates at their July 3 meeting. But we have seen a number of statements last week on exactly that point, a few days before the article. Some of those statements said that the Federal Reserve was not intending to raise rates, and inflation looks like it is under control; the economy is not going out of hand. But I note that the bond and stock markets did take some of the remarks made by Fed officials made on May 29 very seriously.

Susan Phillips, a member of the board, and Al Brodous a member of a Richmond bank, indicated that they were seeing inflationary pressures in the economy. When the news came out that the 30-year bond moved up, stocks quickly dipped when the economists were heard on Wall Street. Speaking in Washington, according to the Wall Street Journal, Phillips was concerned about rising commodity prices and Brodous was concerned about the tightness in the labor market. On Friday, 2 days later, the 30-year bond was still 13 basis points higher, affecting real people. Mortgage rates were also up sharply. The beginning of last week saw lots of statements of denial, and

the culmination was John Berry's piece in the Washington Post, and the 30-year bond returned to near its prior level.

My point in telling this is not to say that Fed officials purposely organized an effort to send a signal or not. That is not the point. It is to say that everyone in the market knows about Mr. Greenspan's hair trigger. If you are going to have large sums that will be invested in the bond market, that view is highly to your advantage. It keeps the chances of inflation way down. Unfortunately, it keeps the economy hobbling along and wages close to stagnant. What is good for bondholders is not necessarily always good for America, and not necessarily always good for the average American.

At the end of last week the 30-year bond was about 15 basis points higher than it was a few days before. Mortgage rates went up. And, unfortunately, there is now a reasonable chance that the Federal Reserve might increase rates on July 3. That is all being bandied about. Again, why? What is there out there that would even cause someone to think that the Federal Reserve might raise interest rates? The labor market is not tight. There is no inflation inherently threatening at all. Yet they are talking about it.

What was the truth, anyway—commodity prices? They have been stable for months. On the day Ms. Phillips made her comments, the IPC stood at 253. A month before, at the end of April, it was around 256. This is the Index of Prices for Commodities. So how could that statement be made that there is a tightening in commodities when, in fact, the index came down three points, from 1 month to the other?

Oil came down to about \$20 a barrel from its peak of about \$25 a couple of months ago. Oil prices are coming down, to the refinery. Unfortunately we have not seen much at the gas pump yet.

So where is the climb in commodity prices? They are generally going down more than up.

Let us look at the labor markets. Again, what do we see? Unemployment was up. Unemployment was up 5.4 percent for April, but unemployment has been in a range of 5.4 to 5.8 percent since October, 1994. And in 1994 many at the Fed were saying that anything below 6-percent unemployment would likely cause higher inflation. Wrong. Perhaps, if we would not send interest rates skyrocketing, we might discover we could sustain strong growth without accelerating inflation, bringing unemployment down actually to 5 percent.

In recent months the Help Wanted Index has also been low. This is a clear indication that employers are not having difficulty finding employees. A weak Help Wanted Index is something that might be expected in a slumping economy. More important, a weak Help Wanted Index is also one more indication that inflation is not threatening

because employers will not have to increase wages and benefits to attract employees. And we all know that employee wages and compensation are one of the greatest causes of inflation. So why the hair trigger? There is little reason, in my view, that fair-minded, balanced experts should want to raise interest rates at this time.

Just over the last couple of days we have received some good news about inflation. The CPI went up by .3 percent, core CPI went up only .2 percent, producer prices went down .1 percent. Yet the airwaves have been all filled with talk that the Fed may raise rates. Why? Because of Mr. Greenspan's hair trigger.

I would like to now go through some of Alan Greenspan's actions in the past concerning interest rates, that might explain the perceptions of the bond and stock markets.

First I want to talk briefly about a constant called NAIRU. I referred to it earlier, the nonaccelerating inflation rate of unemployment. Under this concept, as unemployment falls below a certain point, bottlenecks occur because the country runs out of skilled employees. As a result, employers must begin to offer increased pay and greater benefits to attract employees. As a result of this, producers must raise their prices to keep pace with the increased costs of doing business. Thus, this leads to inflation.

This model argues that if monetary policy is structured in such a way as to keep unemployment below its natural level, runaway inflation will result at an accelerating rate that could be reversed by only painfully high levels of unemployment. The conventional wisdom held by Mr. Greenspan is that the current natural rate of unemployment is around 6 percent. I want to be as fair as I can. Mr. Greenspan said he has no specific rate in mind, that he just watches the details. But for a long time the word was that this NAIRU, if I can call it that, was at least 6 percent. Below that rate, we would see escalating inflation. But unemployment went below 6 percent about 20 months ago and there is still no impact. Now the accountants are saying that NAIRU is maybe 5.8 percent, or 5.5 percent.

There was an interesting article by Patrice Hill earlier this month in the June 4 Washington Times on that point. I just wanted to read a little bit from that article. This was in the Washington Times dated June 4, by Patrice Hill.

Is the Federal Reserve keeping unemployment unnecessarily high and preventing more than a million workers from finding jobs?

A number of analysts say yes, the Fed may be depriving workers because of a too-cautious belief that if it loosens the money tap and lets the unemployment rate fall below its current level of 5.4 percent, the would trigger wage and price inflation.

"The Fed is probably shortchanging the economy," said Maury Harris, chief economist with Paine Webber Inc. in New York

pointing to a succession of relatively inflation-free economic reports.

In the 1980's, inflation reared its ugly head when unemployment dropped to between 5.5 and 6 percent, so the Fed and many economists still see that level of unemployment as a "danger zone" where inflation lurks. They fear the demand for workers will start outstripping the number of people seeking work, driving up wages, the cost of business, and ultimately, fueling inflation.

But Fed critics in Congress and in economic circles note that unemployment has hovered in the 5.5 percent range for two years now, with little sign of a pickup in wage growth or inflation. In fact, "wage stagnation" is frequently singled out as a problem.

Mr. Harris and a growing number of prominent analysts say unemployment could drop still further—to between 4 percent and 5 percent—without triggering inflation. And that would make life better for a lot of people—a one-point drop in unemployment puts a little over a million back to work.

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

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

[From the Washington Times, June 4, 1996]

INFLATION-WARY FED COSTS JOBS, CRITICS SAY

(By Patrice Hill)

Is the Federal Reserve keeping unemployment unnecessarily high and preventing more than a million workers from finding jobs?

A number of analysts say yes, the Fed may be depriving workers because of a too-cautious belief that if it loosens the money tap and lets the unemployment rate fall below its current level of 5.4 percent, that would trigger wage and price inflation.

"The Fed is probably shortchanging the economy," said Maury Harris, chief economist with Paine Webber Inc. in New York, pointing to a succession of relatively inflation-free economic reports.

In the 1980s, inflation reared its ugly head when unemployment dropped to between 5.5 and 6 percent, so the Fed and many economists still see that level of unemployment as a "danger zone" where inflation lurks. They fear the demand for workers will start outstripping the number of people seeking work, driving up wages, the cost of business, and ultimately, fueling inflation.

But Fed critics in Congress and in economic circles note that unemployment has hovered in the 5.5 percent range for two years now, with little sign of a pickup in wage growth or inflation. In fact, "wage stagnation" is frequently singled out as a problem.

Mr. Harris and a growing number of prominent analysts say unemployment could drop still further—to between 4 percent and 5 percent—without triggering inflation. And that would make life better for a lot of people—a one-point drop in unemployment puts a little over a million back to work.

Their theory gives fuel to a handful of liberal senators who have been holding up Alan Greenspan's nomination to remain as Fed chairman, arguing that his unnecessarily high interest rate policies have held back growth and employment.

Mr. Harris said the Fed is just being cautious because "they don't want to take any chances of setting off inflation" after bringing it down to the lowest levels in decades.

He held out hope that as the Fed sees unemployment go down gradually without igniting price increases, it may be more con-

tent to sit on the sidelines and not raise short-term interest rates.

Mr. GREENSPAN, in appearances before Congress, insists that the Fed is open to higher growth and employment and is not targeting any specific unemployment rate such as 5.5 percent. But he defends the Fed's decision to dramatically raise interest rates in 1994 when unemployment fell below 6 percent, saying it was accompanied by a big pickup in commodity prices.

Some Fed members have been more straightforward about tying the central bank's actions to the level of unemployment.

"The unemployment rate is about as low as you can expect it to go without a worry of inflation," said Cathy Minehan, the president of the Federal Reserve Bank of Boston, last week, while admitting that inflation, as measured by the Consumer Price Index, remains well-behaved.

San Francisco reserve bank President Robert T. Parry has told reporters that he believes the unemployment rate below which inflation becomes a problem—in technical jargon known as the "non-accelerating inflation rate of unemployment"—is around 5.75 percent. He says the economy is already operating in the inflation "danger zone."

"It would surprise me if '96 and '97 didn't show some pickup" in inflation, he said last week. "It would probably be wrong to think that the lack of influence of wage pressures will continue indefinitely."

While many economists agree with the Fed, some say it has not fully taken into account two factors that have increased the economy's employment potential: the aging of Baby Boom workers and the stiff, worldwide competition in trade that has unfolded since the end of the Cold War.

Mr. Harris and Ed Yardeni, chief economist with C.J. Lawrence Inc. in New York, say the unprecedented trade competition has held down prices and wages, while the aging of the baby boom has brought more experience to the work force and is driving down the unemployment rate.

When the large baby boom generation was young and less skilled in the 1970s and 1980s, they had a harder time finding jobs, causing the unemployment rate to drift higher. But now, the reverse may be happening, the analysts say.

Mr. Harris points to the low, 4.5 percent unemployment rate in the Midwest manufacturing belt—accompanied by low, 2.7 percent wage inflation—as evidence that unemployment nationwide could drop further without setting off a wage-price inflation spiral.

Mr. Yardeni notes that unemployment dropped as low as 4 percent in the 1960s without inflation. The same thing could happen in the 1990s, but for different reasons, he said.

"The world has changed. The end of the Cold War is a major shock" that has brought with it a flood of trade and cheap imported goods, but along with it the fierce competition that has kept a lid on prices and wages, he said.

David Wyss, economist with DRI/McGraw-Hill Inc. in Boston, defended the Fed and dismissed as "wishful thinking" the theory that unemployment could go much lower without inflation.

Some one-time factors have been aiding employers in holding jobs costs down, he said, including a recent dramatic drop in health care inflation, and recessions in Europe and Japan that have held down worldwide demand and prices for raw materials. Those helpful developments could soon subside, he said.

Mr. HARKIN. I just want to read one other part of that article. Ms. Hill said that:

Mr. Greenspan, in appearances before Congress, insists that the Fed is open to higher growth and employment and is not targeting any specific unemployment rate such as 5.5 percent. But he defends the Fed's decision to dramatically raise interest rates in 1994 when unemployment fell below 6 percent, saying it was accompanied by a big pickup in commodity prices.

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While many economists agree with the Fed, some say it has not fully taken into account two factors that have increased the economy's employment potential: the aging of Baby Boom workers and the stiff, worldwide competition in trade that has unfolded since the end of the Cold War.

She quotes Mr. Ed Yardeni, chief economist with C.J. Lawrence, Inc., in New York who said:

Mr. Yardeni notes that unemployment dropped as low as 4 percent in the 1960s without inflation. The same thing could happen in the 1990s, but for different reasons, he said.

So, again, I said at the outset of my comments, I think Mr. Greenspan's economic perceptions are locked in the 1960's and 1970's. And the world has changed dramatically since that point in time.

So, let us say—let us assume that the floor on unemployment is not 5.5 percent. Let us just say it is 5 percent, half a percent lower. The National Bureau of Economic Research, a distinguished group that is recognized as the arbiter of when recessions begin and end, recently published a working paper which might explain part of the problem. It is entitled, "How Precise are Estimates of the Natural Rate of Unemployment," NAIRU.

To explain this point I would like to use the hypothetical example of a political poll, which we are kind of all familiar with. For example, if a poll says that 60 percent of the American people believe  $x$ , it basically means that 60 percent plus or minus a certain percentage actually believe  $x$ . NAIRU, nonaccelerating inflation rate of unemployment, and other economic statistics, work the same way. So I was surprised to learn that the range of NAIRU is plus or minus 2.6 percent of unemployment. That means that when NAIRU is assumed to be 6.2 percent in 1990, the natural rate of unemployment is actually somewhere between 5.1 percent and 7.7 percent.

I would like to point out that each one-tenth of one point of unemployment represents about 132,000 people who do not have a job, many of whom have families. What this means is that a Federal Reserve decision to tighten credit through higher interest rates to slow the economy down does a couple of things that impact Americans. Some become unemployed, more than would otherwise have become unemployed. Every tenth of a percent almost equals more than the entire working age population of the capital city of Iowa, Des Moines.

Second, it keeps the cost of wages down. That is the real goal. Increased unemployment is an indirect goal, al-

though it is not stated that way, but what they are really after is keeping wages from rising to prevent inflation. We must keep in mind, however, that employees' hourly wages have fallen in 1995 dollars from \$12.85 in 1978 to \$11.46 per hour in 1995, a drop of 11 percent. And while that is happening, our productivity is going up. Not as much as it should. But productivity is, in fact, going up in our country at a time when wages are going down.

So now we are told we have to keep tight reins on the economy or it will overheat and damage the economy. At what point will the economy overheat and damage our economy? Should we really be worried if unemployment comes down to 5 percent, 4.8, 4.6 or maybe even 4.5 percent? Is there really any fear that that will cause inflation?

There are many who do not believe so, and I happen to be one of those. I believe we can reduce the rate of unemployment in this country, provide for more jobs and better wages without increasing inflation.

I guess the concern I have with Mr. Greenspan is he always seems to come down on one side of this debate, stopping inflation at any cost, and will not let the economy grow as it should.

Mr. President, I said when I started my comments that I would at some point go over Mr. Greenspan's history, and I do want to do that, but I see in the Chamber the Senator from North Dakota, who has been a great leader in this effort to get a more reasonable balance at the Fed, who has been an eloquent spokesman for a more balanced policy and for lower rates of interest and for a growth in our economy. I see the Senator is present on the floor.

At the conclusion of his remarks, or perhaps tomorrow, when we are in session tomorrow, I wish to trace for the record and for Senators and for the public Mr. Greenspan's record from the time that he was Chairman—well, I may even go back further when he was one of Ayn Rand's disciples in New York. I may even go back to that. But I want to trace his history from the time he was chairman of the Council of Economic Advisers through his private years, when he was private and he was stating what the economy would do, and to show also through this period of time as Chairman of the Fed how, quite frankly, Mr. Greenspan just simply has been wrong.

I say that with no malice. I just say that is the record. I wish to trace that record in some detail in the hours and days that follow. I, again, see my colleague and again, as I say, one of the great spokesmen for a better balance at the Fed and for more growth in our economy and one of the great fighters for small businesses and our farmers present on the floor.

I yield whatever time he might consume.

THE PRESIDING OFFICER. The Senator from North Dakota.

MR. DORGAN. Mr. President, I thank very much the Senator from Iowa. I

have listened to his comments. I know that he has taken some criticism for his position that there ought to be a debate about monetary policy here on the floor of the Senate. But I admire the fact that he will not back down. There are big economic interests out there who want to say to the Senator from Iowa, "Back away from this, back down or else."

The Senator from Iowa has one of those stubborn streaks that says if something is right and it ought to be done, he is going to make sure it is done. I say to him I appreciate the fact he stood strong and said, "We demand an opportunity to debate on the floor of this Senate," something that is as important to every family and to our economy as this subject is.

A century and a half ago, from barbershops to barrooms in this country, people would talk about interest rate policy and monetary policy. It was enormously important. In fact, if you study the two centuries of economic or financial history of this country, you find that there has always been a constant wrestling match between those who produce and those who finance production. Sometimes you go for a decade or two and the financiers have the upper hand. Then it switches and the producers have the upper hand. But always this tension and this wrestling back and forth for economic power.

In 1913, we created something called the Federal Reserve Board. It was promised at the point of its creation not to become a central bank accountable to no one. It was promised that would not happen. Of course, what has happened at the end of this century is it is a strong central bank accountable to no one, serving its interests as it sees its interests in dealing with monetary policy and interest rates with respect to the American economy.

I thought it would be helpful just to begin this discussion to put up on a poster board the Federal Reserve Board. Almost no one ever sees these folks. They are undoubtedly wonderful people. I have only met a few of them.

This is Alan Greenspan, appointed in 1987. He has been in and out of the Federal Reserve System in the field of economics and doing consulting work, and so on, for many years.

Let me say at the start, we are talking about confirming Alan Greenspan, Chairman of the Fed, for another term. I admire him, and I respect him. However, I fundamentally disagree with him about monetary policy and about his stewardship at the Fed. He knows I disagree with him, because we have had these discussions back and forth when I was on the Joint Economic Committee, when I was on the Ways and Means Committee in the House and in other venues. But because I disagree with him on interest rate policy, no one ought to interpret that to mean that I do not admire him. I do. I just think he is wrong.

How? Alan Greenspan is the person who heads the Federal Reserve Board.

He believes that America's unemployment really should not drop below 5½ percent because that would cause us a lot of trouble. He also thinks that economic growth should really not go much above 2 or 2½ percent, because that would cause us trouble. He believes largely in a high-interest-rate, slow-economic-growth policy.

It does not take great creativity to pursue a slow-growth economic policy. My Uncle Joe could do that. If I said, Look, our goal is to slow the American economy down, my Uncle Joe could slow it down, and he does not have a Ph.D. in economics. He has no experience at the Fed, but my uncle Joe could slow the economy down.

My point is, the current Federal Reserve Board strategy, stemming from the Chairman, is a strategy that says, "Let's keep economic growth rates in this country slow," because they believe that that represents the right balance in dealing with the kind of issues they ought to deal with, the twin economic goals of stable prices and full employment.

The goal of price stability now is the overriding goal of the Fed, and the Fed will probably say, "Well, we have cut inflation 5 years in a row, inflation is down and it continues to come down. Look at what a wonderful job we've done." And I say to them, my uncle Joe could have done that as well. Bringing inflation down was not your success. The global economy has reduced the rate of inflation. You don't see wages in America increasing; you see wages coming down.

Why? Because two-thirds of the American work force are now competing with 2 to 3 billion other people halfway around the world, some of whom will work for 10 cents, 20 cents and a half dollar an hour. This global work force has put downward pressure on American wages. And as a result, too many families now are working for fewer wages or fewer dollars than they used to earn in the same job.

So inflation is coming down, wages are coming down, and the Fed will say, "Gee, look at what a great job we've done." I do not know that they ought to claim credit for lowering inflation when the global economy is what has resulted in lower wage rates in America.

But I will say this: While they have been about whatever job it is they are doing, America has sustained a rate of economic growth that is simply anemic. This economy has the capacity of producing economic growth and new jobs and new opportunities at a much greater rate than now exists.

Why does it not? Because, in my judgment, the Chairman and the current Federal Reserve Board see themselves as a set of human brake pads whose job it is to slow down the American economy.

Let me read something from the National Association of Manufacturers. I sometimes agree and sometimes disagree with them. Jerry Jasinowski,

who is the president of the NAM and a friend of mine, an awfully good thinker and author, writes the following, along with Dana Mead, who is chairman and chief executive officer of Tenneco. They coauthored a guest editorial in Investors' Business Daily. Let me read what he says:

Whether it's balancing the budget, raising worker compensation or paying for tax cuts or social and environmental programs, the answer to most of our difficult problems is higher economic growth. Raising economic growth by a mere one-half of a percentage point would generate nearly \$200 billion in increased tax revenue over the next 8 years. Personal disposable income would be \$180 billion higher in 2003 than 1995, which brings us to one of the great mysteries of the late 20th century: Why is the world's most competitive economy restricting itself to economic growth rates—

Or he says "anemic growth rates"—of 2 percent to 2.5 percent?

That is the key question posed by the president of the National Association of Manufacturers. "Why is the world's most competitive economy restricting itself to anemic growth rates of 2 percent to 2.5 percent?"

The answer, he says:

The Federal Reserve Board. They all seem to buy—not only the Fed, but the CBO, OMB, and the forecasters—the prevailing wisdom that higher growth rates will trigger inflation. That recalls Mark Twain's observation about the cat who once sat on a hot stove. He'll never sit on a hot stove again, but he'll never sit on a cold one either.

This from a producer, the National Association of Manufacturers, and the chief executive officer of Tenneco, asking the question, why should we be content, as the most competitive economy in the world, with 2 to 2½ percent rates of economic growth? We are content with that, or at least some are content with that, because that is what the Federal Reserve Board determines our economic growth rate will be.

That is what the Federal Reserve Board has managed to do. They make interest rate decisions in secret. They do it in a closed room with the door shut, and with no debate that the American public can become a part of. There is no public discussion that represents any form of democratic notion at all. They do it in private.

This is the dinosaur of public policy institutions. It is the only one left that is highly secretive, and does all of its business in secret. In fact, here are the Fed's Board of Governors.

Then you have the presidents of the regional Reserve banks. They participate on a rotating basis, I believe five at a time. They join the Board of Governors in what is called an Open Market Committee. They decide what the interest rates will be. They vote in a closed room with the door closed. You and I are not a part of it. The American people are not a part of it. They vote.

Who do the bank presidents report to? Who are they accountable to? Well, they come from the regional Fed banks, and they are accountable to their boards of directors. They are ac-

countable to the boards of directors. Who are the boards of directors of these regional Fed banks? Bankers. So these folks come to Washington, DC, and in the Open Market Committee vote on interest rate policies. They have neither been appointed nor confirmed by Congress. There is no people's involvement or people's input here. They owe their job to their boards of directors, which are bankers.

Now, what interests are they going to represent when they are in this closed room with the Board of Governors voting on interest rate issues? The interest of the money center banks, I think.

The point I am making here is, this represents the closed system by which monetary policy is dealt with in this country. It is not democratic. It is not open. There are many imperfections in this system today.

Would I suggest we get rid of it? No, I do not suggest that. I suggest we make some substantial changes. Do I believe we should give monetary policy to the Congress? No, I do not believe that either. Should monetary policy be part of the normal politics of this country? No; it is too important for that as well.

But should it be closed off, isolated, insulated, and away from the view or input of the American people? Of course not. This is a dinosaur, one of the last remaining dinosaurs in our country. Change needs to occur with respect to the workings of the Federal Reserve Board. A little fresh air and a few rays of light creeping through the doors of the Federal Reserve Board would be good for this Board and good for this country.

But that is not the issue. The Federal Reserve Board reform issue is not the issue today. Today's issue is the nomination of Chairman Greenspan for another term as Chairman of the Federal Reserve Board.

About 2 weeks ago, there was a story in the Washington Post. They were talking about the political campaign that is now going on in this country—President Clinton and Senator Dole—and they were talking about the proposals for tax cuts that are ricocheting around and the proposition that Senator Dole may or may not propose some across-the-board tax cuts.

I thought it was interesting that the former CBO Director, Robert Reischauer, said something that relates to this discussion today. He said:

Whether or not the suppleaders think cutting taxes will make the economy grow faster does not really matter, said former CBO Director Robert Reischauer, now of the Brookings Institution. The Fed Chairman, Alan Greenspan, thinks the economy can't grow faster than 2.2 percent a year without triggering inflation. It is not going to happen.

No matter what anyone thinks about monetary policy issues here in the Congress or what they try to do with respect to fiscal policy issues, if Alan Greenspan does not believe the economy should grow faster than 2.2 percent, it is not going to happen, Mr.

Reischauer alleges. Of course, he is absolutely correct.

I will talk just a bit about what has happened in recent years. I will talk about the high interest rate policies now pursued by the Federal Reserve Board. I have a chart that shows the current Federal funds rate. That is the rate that the Federal Reserve Board sets by itself. It says, "Here is what our rate is going to be." And all other interest rates come off of this rate, with the exception of long-term rates, which are set by the market but are influenced by this.

But the fact is, all other interest rates—credit cards, business loans, the prime rate—all follow the Federal funds rate. Historically, the Federal funds rate has been 1.77 percent above the rate of inflation. In other words, the rent that is incorporated in the Federal funds rate above the rate of inflation is 1.77 percent. These are very short-term funds, as you know. Since Chairman Greenspan came to the Fed, the average has been 2.18 percent, and the current rate is 2.32 percent above inflation.

In other words, all other interest rates in this country that virtually everyone pays—consumers and business men and women and farmers and others—is now higher than it should be because the Federal Reserve Board is keeping the current Federal funds rates much higher than in the past.

Why are they doing that? Well, because I guess they fear, if they would cut the Federal funds rates, someone would believe they have given up their fight against inflation. Despite the fact that the Fed has said that they see no troubling signs of inflation over the horizon. They believe the long-term market in which you have a spikeup of long-term rates, or had a spikeup of long-term rates, the assessment by the market is wrong.

I asked the Fed, "If you believe that, if you believe there is not a credible long-term threat of inflation or a credible threat of inflation just over the horizon, why, then, are you deliberately keeping the Federal funds rates at a level that is historically a fair amount higher than it has been in the past and, therefore, causing every American to be taxed—yes, taxed—with an interest charge that they did not have any part in being able to debate or talk about or wonder about whether they should be paying?" It is a tax in the form of an interest charge extracted from every single American family, higher than it should be, because the Federal Reserve, sitting behind their closed doors, decides they want higher interest rates. Presumably they want higher interest rates because they want to continue to dampen the rate of economic growth.

If you said to Mr. Greenspan or many of the other members of the Fed, why can't we have more economic growth, which would produce more jobs at better pay and more expansion and more opportunity in our country? Why can-

not we do better than 2 or 2.5 percent? They would probably say to us, well, it is because of inflation. If we have higher economic growth, then we overheat the economy and get more inflation. "Look what we have done with inflation," they would say. "Look at what has happened in 5 years. Inflation has come down, down, down, down, down, all the way down to 2.5 percent." Because Alan Greenspan has said publicly he thinks the CPI overstates the rate of inflation by as much as 1 or 1.5 percent, one would conclude that in his mind inflation is somewhere around 1.5 percent or 1 percent in our country today.

So, they say, we cannot have a healthy rate of economic growth. We cannot have robust expansion of new jobs in our country because they are worried about inflation, despite the fact that inflation has come down for 5 straight years, not because of the Fed but because the global economy has put downward pressure on wages by and large, in my judgment. But that is what the Fed would say: No, we cannot have more robust economic growth because we are worried about inflation.

Well, I am worried about inflation as well. I think we ought to fight inflation. But I think the twin economic goals that we ought to be pursuing in monetary policy are not only stable prices, but also full employment, which means a robust growing economy. To focus on one exclusively, which I think is what is happening at the Fed, I think is unfair to the American people.

Let me provide a record of the economic performance of this country under this monetary policy scheme. I should say that not only monetary policy affects our economic performance; so does our fiscal policy. I am not one who wants to pat Congress on the back for its wonderful fiscal policy. I understand that we have also caused problems. But let us talk a little about what is happening with respect to the economy.

Real gross domestic product. Prior to the Greenspan years—I think it is about a 20-year period—the average was 3.4 percent of economic growth per year; Greenspan years, only 2.2 percent. This difference is substantial. This might look like a bar chart to most people. This looks like unemployment to many people. This looks like families without jobs. This looks like lost opportunity. This looks like lower income. This looks like kids coming out of college that cannot find work to some people. But this difference is substantial. A 3.4-percent average yearly rate of economic growth prior to Mr. Greenspan going to the Federal Reserve Board and 2.2 percent following, and since and during.

Income per capita; 2.5 percent to 1.3 percent. I should note this is not wages. Wages would look different than this. This is aggregate income per capita.

Payroll jobs; 2.4 to 1.7 percent.  
Productivity; 2.3 to 1.1 percent.

The record demonstrates a slow-growth economic policy that squeezes our economy and dampens our opportunity to produce the kinds of jobs and the kind of opportunity we should have in this country.

Another chart shows the consequences of this kind of strategy. The consequences of someone saying we should slow the rate of economic growth might not seem like very much today. The difference between 2.2 percent growth and 3.2 percent might not seem like very much next month or next year, but if you take a look in the outyears, what you have, the difference in these rates of growth of 2.3 percent annual rate of growth versus 3.3 percent, you will see that in the outyears, 20 years, you are talking about nearly \$3 trillion in additional economic opportunity and output. What is \$3 trillion converted to jobs, to hope, to a brighter future?

So while some people may think this is fairly irrelevant whether you have a 2.3 percent rate of economic growth or 3.3 percent, it is an equation that will determine our place in the world as an economic power.

To develop a strategy that says, "Let's get reasonable rates of economic growth out of our economy so our economy can grow and provide jobs and opportunity," that is not going to happen with respect to this Federal Reserve Board and its leadership.

I previously used a chart that showed the real Federal funds rate. I also have a chart that shows the difference in the real prime rate. The prime rate, the rate the very best customers of the lending institutions get their money at, shows pre-Greenspan, 3.09; current, 5.35; the average Greenspan is 4.63. Everyone borrowing at prime rate is paying a higher prime rate than they ought to because the Federal Reserve Board decides they want to slow the economy down by extracting from the economy a higher interest charge and slowing growth rates as a result.

I have spoken some about the Federal Reserve Board's policies, and especially the monetary policies with which I disagree. I expect some will substantially disagree with me. They will say, "We like the Fed as it is; 2.3 or 3.3 economic growth are irrelevant issues. We want to vote to confirm Mr. Greenspan." When this debate is over, I expect Mr. Greenspan will be confirmed and will likely be confirmed with a rather substantial vote. I do not intend to join in the vote in favor of confirmation. I will restate again, lest anyone think differently, it is not personal. I admire Mr. Greenspan and his public record. I disagree substantially with the policies he is pursuing at the Federal Reserve Board, and I believe President Clinton would have done better for this country by offering a candidate with a chairmanship of the Federal Reserve who would pursue more balanced policies, policies that do not so clearly benefit one part of the economy at the expense of the other, policies that do

not so clearly benefit the bigger banks at the expense of this country's productive capability and at the expense of this country's worries.

I will speak for a couple of minutes about a GAO report that Senator REID and I requested be done about the Federal Reserve Board. It is another element that ought to be discussed with respect to a discussion, not only of the confirmation of Chairman Greenspan but the appointment of two other members of the Board of Governors at the Federal Reserve Board. We asked the GAO to do an evaluation of the Federal Reserve System largely because it sits out there apart from other Government institutions. It operates by itself and chooses how much money it wishes to spend, and takes the money from the interest charges it levies and makes its own judgments about how many people it wants to hire and how it wants to spend its money.

We have not really had any indepth audits of the Federal Reserve System. There is very little information about the Federal Reserve Board available to Congress. Senator REID and I asked for information to be made available through the General Accounting Office. We asked the GAO to do the audit. And it took them some 2 years to do it. It was interesting what we discovered.

The first thing we discovered was a cash stash, we call it, actually, a surplus account at the Federal Reserve Board. I suppose some were aware of it. I was not aware of the surplus account that had been accrued at the Federal Reserve Board. This Federal Reserve Board has put away nearly \$4 billion in a surplus account. They have done so in order, they say, to have it available to offset any losses they might incur. The Federal Reserve Board has been in existence for 80 years. In 79 years they have not ever had a loss. In 79 consecutive years they have always had a surplus, they have made money, had no loss, and there is no expectation in the next 79 years that the Federal Reserve Board would have a loss.

Yet they have captured some \$3.7 billion—not million, billion—and put it into an account called a surplus reserve account. It has grown more recently because they want to offset against any losses they might have. An agency that has never had a loss and is never going to have a loss squirrels away \$3.7 billion as a hedge against loss? That seems incredible to me.

We have a big debt with big deficits. We have a lot of needs. We are in a situation in this country where the Federal Reserve Board has counseled, appropriately so, everyone, including the rest of the Government, to tighten their belt, and the Federal Reserve Board, behind closed doors, decided to overeat. We should tighten our belt; they want to expand.

I have a picture of a building that the Fed had built. Here is the outside of the building, a beautiful building. I would not suggest they build an ugly building. It is a beautiful building built

in Dallas, TX. Next, I want to show you the lobby of the building, because one of the things the GAO pointed out was that this Dallas Federal Reserve Bank, they purchased more land than they needed for it. The original square footage approved for the lobby area was exceeded by 250 percent. I thought the picture was interesting because they were going to build a bank with a lobby that had 7,800 square feet. If you can see this picture, we ended up with a lobby with 27,000 square feet. This is a giant lobby with all these wonderful windows and shiny marble, and this tiny little desk, two tiny chairs and a coffee table that could fit into a trailer, even if it was not a double wide. They put it in a 27,000 square foot lobby in a building they built suggesting they would have a lobby of 7,000 feet. The GAO says—I guess the taxpayer here ends up paying for a 27,000 square foot lobby. Who is accountable for that? Where does it come from? I do not want to spend a lot of time on the lobby in Dallas. I have never been there. I do not expect to go there. I wish them well. In the meantime, somebody had to pay the bill to build a 27,000 square foot lobby. Some wonder if that is a useful approach to using taxpayers' money.

Perhaps we could talk about the cumulative percentage increase in Federal Reserve expenses that the GAO found. The GAO is fairly critical of the Federal Reserve Board, saying at a time when the rest of the Government is told, "Tighten your belt," the blue line on this chart suggests their operating expenses far exceed the Federal discretionary spending. If you included some entitlement spending here with health care costs that are automatically increasing, you have a different chart. This is a chart the GAO made. They point out in the areas where there is discretionary spending decisions that are made, while the rest of the Government is told to tighten their belt, the Fed is substantially increasing its spending.

The next chart shows again, while the rest of the Government is being asked to tighten its belt, benefits per employee of the Federal Reserve Board in a 6-year period increased 91 percent. Benefits per employee increased 91 percent in a 6-year period, at a time when others are being told, "You should tighten your belt."

The GAO report raises a series of questions about the stewardship and the management of the Fed. We intend to address some of those questions through legislation. I think it is useful for the Congress to read it and to evaluate it and have a discussion about it when we are discussing the confirmation of Mr. Greenspan, the other nominees and discussing the Federal Reserve Board generally.

I have more to say, and there is more time to say it at a later time. I will be happy to yield the floor. I will be back on the floor at a later point and finish my statement. I yield the floor, and I suggest the absence of a quorum.

The PRESIDING OFFICER (Mr. ABRAHAM). The clerk will call the roll.

The bill clerk proceeded to call the roll.

Mr. HARKIN. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

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

Mr. HARKIN. Mr. President, I thank my colleague from North Dakota for his eloquent remarks a few moments ago in regard to the pending nomination of Mr. Alan Greenspan to continue as Chairman of the Federal Reserve Board, a position he has now held for 8 years. The nomination is for another 4 years.

When I turned over the floor to Mr. DORGAN I had said at the time that I wanted to begin a process of going through Mr. Greenspan's history and I thought I might do it somewhat sequentially and then tomorrow I will pick up on a little bit more of his background regarding his early years. Because, not that I want to go back into ancient history, but I think you can see a pattern here throughout his entire adult lifetime of, quite frankly, being wrong on the economy and misjudging what is taking place.

Again, it is my observation that, when you find people who are consistently wrong in a certain area, more often than not it happens because, I think, that person is more closely linked with an ideology or a certain philosophy, and therefore cannot accept facts as they really are, but they tend to be molded into an ideology, they tend to be molded into a conceptual framework and it impacts their view of the actual or real facts or real world as it might be.

I think Mr. Greenspan's focus on getting as close to zero inflation as possible has molded his economic thinking, forecasting views, observations, prognostications, in such a way that they do not really comport with what is happening. Thus, the seemingly endless string of errors that he has made since the earliest times.

I quoted earlier from the Investors Business Daily about some of those items. I will now go over a few more, before I yield the floor for the day. But let us start here with the time when Mr. Greenspan was the head of the Council of Economic Advisers for President Ford.

President Ford introduced his whip inflation now, plan. I remember the little buttons, the "WIN" buttons: whip inflation now. He took a lot of his advice and consultation from Alan Greenspan. Let me say Jerry Ter Horst, Jerry Ford's press secretary, said this about Mr. Greenspan and the WIN plan, whip inflation now, and I am quoting Mr. Ter Horst, who was President Ford's press secretary.

To be blunt about it, the President has lost confidence in their ability, [meaning the economic advisers' ability] to predict the future. He feels he has received inaccurate advice and, having been burned politically and



publicly because of it, Ford has adopted a "show me" attitude toward his economic counselors while listening more seriously to the advocates of direct Federal action to overcome the country's economic crisis. This fall, when he fashioned the anti-inflation package he presented Congress following his series of economic summit meetings, Ford relied heavily on the forecasts of his consultants, including economic council chairman Alan Greenspan. They assured him that rising prices and production costs were the prime enemy of a healthy America. He was advised that, while a recession lurked distantly on the horizon, it was not an imminent prospect that would confront him immediately.

Well, what happened is just the opposite of what was happening—what Mr. Greenspan had predicted. Let us look here at the recession of 1974–1975. This is a question in an interview with U.S. News & World Report, November 4, 1974. Keep in mind the President introduced his plan in October.

Question. Are you prepared to say we are in a recession now?

Answer. I would say that as of September, the last month for which we have actual figures—the answer is no.

That is November 4. The fact is that GDP fell at a rate of 4.2 percent in the third quarter of 1974, it fell—not grew—fell 2.8 percent in the fourth quarter of 1974, and it fell 5.8 percent in the first quarter of 1975.

So, here we are, we have a GDP falling at these rates in the third quarter, which he had the figures then, and the fourth quarter in which he was in the middle of at this time. GDP is falling and he says no, we do not have a recession. There is no recession out there.

So, again, I think that is why President Ford lost confidence.

Let us look at unemployment. Mr. Greenspan was completely off in his estimates for the unemployment level for mid-1975. Instead of the 6.5 percent ceiling as he predicted, unemployment reached 9 percent in May 1975. It should be noted that when President Ford introduced his "Whip Inflation Now" in October 1974, the unemployment rate was 6 percent.

Here again, the same U.S. News & World Report interview, November 1974.

Question. Do you have a projection for unemployment for mid-1975?

Answer. I have several, and they all show an unemployment rate of more than 6 percent. It could be as high as 6.5 percent.

Reality: For December 1974, the next month, the unemployment rate reached 7.2 percent. For May 1975, the unemployment rate reached 9 percent. Again, Mr. Greenspan was off by more than a considerable amount.

In a March 16, 1975, editorial, the New York Times stated:

But the administration has consistently underestimated the force of the recession and the rise of unemployment. The first version of President Ford's economic program offered, after his time-wasting economic summits last fall, would have deepened the recession by going all out against inflation, just as inflation was starting to slacken and the recession worsen.

Again, who was advising the President to go all out against inflation?

Mr. Alan Greenspan. At a time when we were going into a recession—we already had the figures—at a time when unemployment was increasing dramatically, Mr. Greenspan says that we have to whip inflation—forget about unemployment—and we fell into a very bad recession.

This editorial went on to criticize the tight money policies and the lack of focus on unemployment of the Ford administration that lasted into 1975. Again, I will finish the quote from this article. It says:

But why should inflation be a threat to an economy functioning far below its full capacity? The administration's own economic assumptions, stated in his fiscal 1976 budget projections, are that unemployment will continue to hover around 8 percent for the next 3 years.

Mr. Greenspan says it is only going to be 6.5 percent, do not forget.

If the administration were to walk away from its own long-term forecast of unemployment, it cannot walk away from the existing joblessness, the worst in the postwar period, and the high probability that unemployment will increase over the next few months.

In fact, unemployment stayed high and did not get back down to 6 percent until May 1978. So, we had a long recessionary period there.

Summarizing the strategy of Greenspan and Ford, the economist Hobart Rowan noted:

Ford and Greenspan were willing to drag the Nation through a long period of recession and stagnation in which layoffs would mount, profits shrink and business expansion be postponed, all in the hope that austerity would cure the inflationary mess.

That is a quote from the Nation, by Hobart Rowan.

The concern about inflation over employment continued well into 1975 when the Ford administration was beginning its economic plans and predictions for 1976. Now we are past 1974; we are now into 1975.

Walter Heller, who was President Kennedy's chairman of Council of Economic Advisers, said:

The fear of inflation is still so dominant in Washington today that it is evidently destroying policymakers' faith in the recuperative powers of the American economy and blinding their sensitivity to the governing plight of the unemployed.

Transfixed by this fear, the White House and Federal Reserve authorities are greeting the earliest signs of modest recovery from the deepest of all postwar recessions as if prosperity was just around the corner. The hellfires of a new inflation are about to engulf us and let the devil take the hindmost the job beast.

President Ford justifies his veto of the emergency jobs bill last month in good part that economic recovery would be well along by the end of 1975, and much of the bill's impact would not be felt until 1976.

As we know, unemployment did not come back down again until 1978.

Those are a few of the things that Mr. Greenspan said during the recession of 1974–75. Inflation was at a high period and should have been of concern. But, Greenspan's focus was only on that point. It was not balanced.

Let us jump ahead to the recession of 1990–91. This is the transcript from the minutes of the Federal Open Market Committee, August 21, 1990. Earlier in the day, I said they keep these minutes sealed for 5 years. We now have these minutes from that August 21 meeting. Mr. Greenspan says:

I think there are several things we can stipulate with some degree of certainty; namely, that those who argue that we are already in a recession I think are reasonably certain to be wrong.

August 21, 1990.

The reality: The National Bureau of Economic Research, the official arbiter of when recessions begin and end, determined the recession began in July 1990.

In fact, Mr. Greenspan went on after that, later on—and I will get those minutes—when he went clear into November basically stating that there was really no recession at hand.

In his testimony at his confirmation hearings in 1987 before the Senate Banking Committee, Senator Riegle had the following exchange with Mr. Greenspan. This is Mr. Riegle:

Now, in the first place, when you were chairman of the Council of Economic Advisers during the Ford administration, the council had a dismal forecasting record. I have here a study by the Joint Economic Committee which showed in 3 years—1976, 1977, 1978—the forecasts of the agency which you headed, Mr. Greenspan, were wrong by the biggest margin of any in the 11 years 1976 through 1986. They tied the record for being wrong in 1978. They were almost as bad in 1977, and they were way off in 1976. That's on growth.

I am still quoting from Mr. Riegle's question.

When it comes to Treasury bill rate forecasting interest rates, there you broke all records for the entire period . . . when you estimated that you predicted that the Treasury bill rate in 1978 would be 4.4 percent. It actually was 9.8 percent. You were off by a huge margin.

In 1977, you predicted it would be 5.3 percent; it was 8.8 percent. Again, way off. 1976 wasn't quite as bad, but you were off then.

Again, Mr. Riegle, continuing on with his question, says:

Then we come to your forecast on inflation of the Consumer Price Index. There, again, Mr. Greenspan, you broke all records. 1978 was the worst forecasting year that you had. You estimated the rate of increase in the CPI would be 4.5 percent. It was 9.2 percent. And you were way off in 1977 and 1976.

What was Dr. Greenspan's response?

Well, if they're written down, those are the numbers.

As if it just did not matter. The source of this is testimony of Alan Greenspan before the Senate Banking Committee on July 21, 1987.

So, Mr. Greenspan's private record in the early 1980's was just as bad.

After Ford's defeat in 1976, Greenspan returned to his economic consulting firm: Townsend, Greenspan. There he continued to make inaccurate predictions about which direction the economy was heading. In 1982, Mr. Greenspan's published economic forecasts said bond yields would fall one-

quarter of a percent from the previous year-end level. In fact, they fell 3½ percent. But the drop in inflation was only temporary, he argued, in 1983.

The Fed-Volcker-induced inflation calm, he insisted, was about to end. In fact, inflation stayed quite steady at 4 percent to the end of 1987 and the end of the Volcker regime at the Fed.

Also in 1983, Mr. Greenspan said:

Long-term interest rates would increase 20 basis points.

This proved to be his best forecast ever. Rates did rise, but by a full 1 percent, not the meager two-tenths of a percent that he predicted.

At the start of 1984, Mr. Greenspan forecast that for the next 3 years, bond yields would rise from 5 to 55 basis points. They actually dropped from 123 to 199 basis points. So even in his private years, when we look at his forecasts, they were way, way off.

Let us look at the rate increases in 1990. As Chairman of the Federal Reserve, Greenspan's forecasting abilities continued to leave much to be desired. Again, according to the June 9, 1995 Investors' Business Daily:

In February 1989, despite clear evidence of a slowdown, the Greenspan Fed pushed its benchmark interest rate higher, to 9.75 percent. The Federal Open Market Committee based its decision on staff advice that the recession was low, according to the minutes from that period. The Fed did not start easing rates again until June, too late to avoid a recession. In fact, transcripts indicate that the Fed was contemplating interest rate increases for much of the earlier part of 1990.

During the August 21, 1990 Federal Open Market Committee hearing, there was much discussion about the possibility that the U.S. economy had slipped into a recession. Backed up by his economists, Greenspan believed there was significant evidence that showed the economy was not in a recession; it was merely sluggish. And thus his quote here:

I think there are several things we can say with some degree of certainty; namely, that those who argue that we are already in a recession I think are reasonably certain to be wrong.

He goes on to say in the sense that we do have weekly data that suggests, as others have mentioned, that there was no evidence of deterioration in what was a very sluggish pattern. Yet, the recession started in July of 1990. Now, you might say this is a little early.

Two months later, at an October 2, 1990, Federal Open Market Committee hearing, Mr. Greenspan used a meteorological analogy to strengthen his argument that the U.S. economy had not slipped into recession. Mind you, we started the recession in July. We are now in October, about 3 months into the recession. And here is what Mr. Greenspan said:

I still think we're in a situation in which there are forecasts of thunderstorms, and everyone is saying, "Well, the thunder has occurred and the lightning has occurred and it's raining," but nobody has stuck his hand out the window. And the point is, it isn't

raining. The point is, as best I can judge, that the third quarter GNP figures in the green book are not phony. I think they are relatively hard numbers. They can get revised. They are being put down more and more, but the economy has not yet slipped into a recession.

The actual words of Mr. Greenspan, October 2, 1990. I will not get into the thunder and lightning and the rain and all that kind of stuff. What he was saying is, oh, there is all this talk about a recession but, he said, I have looked at the numbers and it is not there. We had been in a recession for 3 months. He was very wrong.

The economy actually went into a recession in July 1990, a month before Iraq invaded Kuwait, by the way. Not only did Mr. Greenspan miss the oncoming recession, he missed it when he was in the middle of it. And he did little to reverse its negative effects.

In testimony before the Senate Banking Committee he rejected measures to put Americans back to work by saying proposals by Democrats to stimulate economic growth by pumping more Federal money into public works programs were "risky" and "probably counterproductive." Instead, he denied the economy had gone flat and predicted a moderate 2.5 percent growth rate that year rising as high as 3 percent in 1993. The GDP only grew 2.2 percent in 1993.

Even Senator D'AMATO said at a July 1992 hearing:

I believe the Federal Reserve has acted in an almost timid manner. You, (Mr. Greenspan) don't know what's taking place on Main Street.

That is a quote of my colleague from New York, Senator D'AMATO. That was quoted in the Indianapolis Star, July 22, 1992.

I think that brings us to a period of time that I want to dwell on at some length tomorrow, that is, the period of 1994 into 1995. As I said earlier today, when I tell people that Mr. Greenspan raised interest rates 100 percent in one year, February 1994 to February 1995, people cannot believe it. They have never heard of such a thing.

Yet, here is what happened. The Federal funds rate in February 1994 was 3.05 percent. In May they went to 4.25; March they went to 3.5; April, 3.75; in May of 1994 to 4.25. So from February to May, that is one, two, three—that is four increases already. And in August another increase. November another increase. February another increase. By the time February of 1995 came around, the Federal funds rate was 6 percent, up from 3.05 percent 1 year earlier. A 100 percent increase in 1 year.

And again, why? Was there inflation? Even Mr. Greenspan during that period of time said he did not really see inflation. I will have those quotes and I will have those words.

But I just wanted to make the point here before I close—I see I have some other people on the floor who want to speak; probably about other items—that Mr. Greenspan was wrong when he

was head of the Council of Economic Advisers. He was wrong when he was in private business. Now as Chairman of the Fed, when we are in the midst of a recession, he says he does not see it happening. Then in 1994, with little threat of increasing inflation, he raises interest rates 100 percent. That hit working families hard. It slowed our economy down. I think it is a large part of some of the problems we have now with the stagnation in our wages.

Mr. Greenspan can have all kinds of reasons why he raised the interest rates. But the fact is, there was absolutely no inflation threatening at all at that period of time. I am going to have more to say tomorrow about 1994 and 1995. I will have the quotes from Mr. Greenspan when he basically said that he did not think there was any inflation threatening. But he went ahead and raised interest rates.

What has happened? You might say, OK, interest rates went up 100 percent. But that was February 1995. Since February 1995, throughout now, we have had not seen inflation increase. So have interest rates come back down? Three-quarters of a point. Three-quarters of a point.

In fact, the last time they came down, in January, I believe a quarter of a point, there was all this talk about how the Fed was now reducing interest rates. But the fact is, as Mort Zuckerman pointed this out in his editorial—I will read that tomorrow also—in U.S. News & World Report, pointing out that actually there was not a decrease in interest rates. It was an increase in interest rates. Why? Because during the previous period of time, inflation had fallen more than a quarter of a point. Inflation fell by more than a quarter of a point and interest rates only came down a quarter point. Real interest rates were still high. It was not a real reduction, a reduction in real interest rates.

We have had this 100 percent increase in interest rates, 1994 to 1995. Since that time Mr. Greenspan has only reduced interest rates three-quarters of a point. So I believe American working families, American workers, the middle class, the real middle class in America, is overburdened by too much debt and too high interest rates. It is sapping our economy and hurting our small businesses. It is hurting our productive sector, and it is hurting farming and manufacturing.

As I said, it is hurting our working families. It is hurting the real middle-class America, not Congressman HEINEMAN's middle class, but the real middle class. The Congressman from North Carolina stated last year that he believed the real middle class were people who made between \$300,000 and \$700,000 a year. That is not the real middle class.

The real middle class is feeling really pinched these days. They are pinched by high interest rates that do not need to be there. They are only there because Mr. Greenspan, I believe, has an

inordinate, unhealthy fear of the specter of inflation. That has caused the kind of hair-trigger approach that they have at the Fed that any time there is even the specter on the horizon of inflation, they will move to increase interest rates, to the point now, that the bond markets react even before they do it because they think they are going to do it.

So I am going to discuss the 100 percent increase in interest rates, 1994 to 1995, why that happened, why at least I think it happened, and the fact that interest rates should have come back down to that previous level by now and could come down, not in one fell swoop, but could have over a period of time. That could have really strengthened our economy.

As I said, that is nothing personal. I agree with Mr. DORGAN. I have nothing personal against Mr. Greenspan. I assume he is a very bright, intelligent individual. But I believe that his policies, I believe that his mindset, are locked in the past. After all, this is an individual who as late as last year in committee on the record said that he did, indeed, believe in going back to the gold standard, he would support going back to the gold standard.

Well, I do not know how many economists believe that. But I think you get that kind of mindset that says, yes, he would like to be on the gold standard again. Well, that may have been a good thing at one time, but the world has moved, the economy has moved. We are in a little different situation today. I daresay anyone who believes that we ought to go back to the gold standard is the same kind of person who would have this inordinate attitude that we must keep relatively high interest rates no matter what, even if inflation is less than 2 percent.

I believe it does a disservice to our economy, it does a disservice to America, and it does a disservice to our next generation of young people coming along. We need to grow this economy. We can do all we want here in the Congress. Because of budget constraints, there is nothing we are going to do that could in any way affect the growth of our economy as much as lowering interest rates by the Fed could. That probably will not happen as long as we have Mr. Greenspan.

(The remarks of Mr. HARKIN pertaining to the introduction of S. 1876 are located in today's RECORD under "Statements on Introduced Bills and Joint Resolutions.")

#### BOSNIA

Mr. INHOFE. Mr. President, I have been very distressed, as many people have, over the recent developments in Bosnia, statements that have been made, attributed to a number of our high-ranking officials, including Secretary of Defense William Perry.

Many of us were quite outspoken in our opposition to sending troops into Bosnia back when the decision was

made by the President and his administration. I can remember having the resolution of disapproval that I had with Senator HUTCHISON. We only lost that by four votes. One of the selling points on the floor was this is going to be a mission that will be completed, successfully completed, and the troops will be out in a period of 12 months. None of us believed that at that time.

I can remember so well on October 17 of 1995, the Senator from New Mexico, Senator BINGAMAN, asked the question of Secretary Perry: "What do we contemplate as far as a remaining presence once the one-year period is up, or once the IFOR troop development is complete? Would we expect to see some residual NATO force remain?"

Secretary Perry responded:

"I expect that the security—that the function of external forces maintaining security will be accomplished by then . . . The IFOR, the NATO force which is responsible, an external force for maintaining security—we expect that function to be completed in one year and the forces to be completely removed."

Later in testimony before the Senate Armed Services Committee, he said: "The implementation force will complete its mission in a period not to exceed 12 months. We believe this will be more than adequate to accomplish the needed tasks that will allow the peace to be self-sustaining. As we did in Haiti, we anticipate the IFOR will go in heavy and, if successful—a key phrase—"would begin drawing down significantly far in advance of the final exit date," that exit date being 12 months.

We keep hearing how successful the operation is, so we assume, if successful, that condition has been met. He was talking about drawing down the forces far in advance of the 12-month period that he committed to.

I suggest the commitment was much stronger. I asked in that committee meeting: "Are you saying to this committee on the record that 12 months is it, and after 12 months we are out of there?"

I remember that distinctly because I asked the question of General Shalikashvili: "Can you tell me any time in military history when you had an exit strategy that is geared to time as opposed to events." That was October 17.

General Shalikashvili, the Chairman of the Joint Chiefs of Staff, also responded at that time to a question asked by Senator ROBB of Virginia. The response was: "From a military perspective," this is General Shalikashvili, Chairman of the Joint Chiefs of Staff, the top guy, "From a military perspective, as I evaluated the tasks we wished this force to accomplish, it was my judgment that in fact can be done in 12 months or less."

Right after that, Mr. President, I wanted to see for myself, and I spent some time and went over to Bosnia, went alone, and talked to a number of the commanders. Not a single U.S.

NATO or U.N. commander thought the peace in Bosnia could be achieved in anything close to 12 months. I thought I would talk to the people in the northeast sector, which is that sector assigned for our troops, our thousands of troops that would go over there and accomplish some mission that is still not real clear to me. I could not get there, only to find out that no American had been up there in the northeast sector.

I remember so well a very attractive British general by the name of Rupert Smith, who we will be hearing a lot from. He is quite a figure. He took pity on me after the second or third day and agreed to help me get up there. So we did, in a driving snowstorm, go up to the northeast sector, where we talked to those individuals up there with the United Nations.

The commander at that time, from Norway, was General Haukland, who said at that time when I said, "Can you assure us that our participation up in this northeast sector can be done and the mission accomplished and we can be out of here in 12 months," and they all started laughing. General Haukland used the analogy, he said, "Senator, it is like putting your hand in water and then leaving it there 12 months, and you take it out of there and everything is back the way it was, and you cannot tell your hand was there in the first place." He started talking about the responsibilities we would have to keep peace up there. At one time, when I said, "12 months," he said, "You mean 12 years."

"No, we mean 12 months."

It was a very distressing experience. When we came back, we had another Senate Armed Services Committee, and we repeated the questions to Secretary of Defense Bill Perry and General John Shalikashvili. Again, they were emphatic that it would be done. Of course, that is when we had the lengthy debate on the resolution.

I will read to you out of the CONGRESSIONAL RECORD from December 13 from this floor, right here, quoting myself:

But the administration cannot have it both ways. President Clinton cannot say that our vital interests are threatened in Bosnia and at the same time pledge that we will be out of Bosnia in a year. If two vital interests—European security and NATO alliance—are truly threatened in Bosnia, how can there be a one-year statute of limitations on our response? Since when are American vital interests only worth one year's commitment? . . . If there are vital interests at stake, the administration should be honest and tell the American people that we are committed to Bosnia for a longer period of time.

In the last few days, Tuesday's Washington Post: " \* \* \* A consensus is growing among senior NATO officials that a substantial NATO-led follow-on force will likely patrol Yugoslavia well into 1997, according to alliance officials in and Western diplomats."

Strong indications are that United States troops will stay in Bosnia for much longer than 1 year.

Finally, yesterday, the other shoe dropped, and Secretary Perry said,