

management policy as they are asking the rest of the country to be. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The bill clerk proceeded to call the roll.

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 President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER (Mr. FRIST). Without objection, it is so ordered.

### FLAG DAY

Mr. BYRD. Mr. President, it was 219 years ago today that the Continental Congress formally designated June 14 as Flag Day. So, today, we recognize this anniversary of Flag Day, going back to the time when, as I say, the Continental Congress formally designated the Stars and Stripes as the flag of our country. We honor the symbol of the Nation when we honor the flag.

In these days of new-fashioned values and new-fangled technology, we most often forget the old-fashioned patriotism that made this country great.

We are a vast nation and we glibly speak of our form of government as a democracy. It would be impossible for a government of a nation that is so sprawling as is the United States of America to be a democracy in the raw and purest sense. This is a republic, a republic. We pride ourselves on our democratic processes but we loosely, very loosely talk of ours as a democracy. It is a republic. And there is a difference.

We are a vast nation, becoming more and more diverse in population, language and custom with each passing year, and we would do well to remember often and salute one of our greatest unifying standards, the Stars and Stripes, the American flag.

I have not heard anyone speak of this as Flag Day on the floor today. There may have been someone who has addressed the subject already. I would be very pleased to find that to have been the case. I hope that everyone will display our flag throughout the weekend and remember all that flag means, remember all that it has meant to generations of Americans who have fought and bled and died so that the rest of us can enjoy freedom.

Freedom, unfortunately, cannot be entirely inherited by a nation or a people, any more than children can fully inherit knowledge and courage from their parents. Each generation must learn to understand and to rededicate itself to the pursuit of freedom. That is one reason why Flag Day is so important—why all of our national holidays should be emphasized. We must, most certainly, halt in our confident strides toward the future and take a long and

serious look at the core of our beliefs. When we show to our neighbors and our friends that we believe in America—that we are active citizens and proud of the fact that we have been so blessed—we perpetuate our core principles and solidify our unity as a nation.

So, today I would hope that we would be a little old-fashioned, and rededicate ourselves to freedom and to the glorious red, white and blue that, no matter how sophisticated we all may think we have become, should always make our hearts pound and put that lump in our throats as that flag goes by.

No, we have become too new-fashioned, sophisticated, forgetting that when we came into this world we came emptyhanded and when we leave this world we will leave it emptyhanded.

Alexander conquered the then-known world, but he left it emptyhanded. There is the story that he was buried in a coffin with his hands hanging outside the coffin to demonstrate that one leaves the world, no matter how much of it he has conquered, how successful he has been, how prosperous he was blessed to become—when he leaves the world he leaves it emptyhanded.

So, with all of our thin veneer of sophistication, it might be well to pause and reflect upon the fact that when we leave this world we will leave it emptyhanded. And it is good, sometimes, for Senators to remember that when they leave this Chamber for the last time they will be remembered for about 10 days. I have been around here a long time. I have seen men and women come and go, great in their prime, they thought—and others thought—but soon forgotten.

So I like to do things the old-fashioned way and I like to remember the flag in the old-fashioned way. So let us, today, rededicate ourselves to an appreciation for and a respect for the Stars and Stripes.

When Americans look at their flag, if they stop and think, they see all that is dear to their hearts about America. They think of the heroes who shed their blood for our country. They think of Nathan Hale, who was executed as a spy in the year 1776, who regretted that he had only one life to give to his country.

They think of John Paul Jones; of James Lawrence, who said, "Don't give up the ship."

They think of Francis Marion the "Swamp Fox," Nathanael Greene, George Washington at Valley Forge.

They think of all those men and women down through the array of decades who gave everything, gave their lives, who sacrificed for our country. When they see that flag, oh, it is just a piece of cloth, a bunting, but it is far more. It represents the history of this Republic. It is older than the Republic itself: Flag Day, dating back, as I say, to the year 1777, 10 years before the Constitution was written, which established this Republic.

They think of all that is good and noble and great about this country when they see that flag. They should think of it. It should remind us of this country's glorious history, of the good deeds that America has performed, of how she has shared her wealth, her treasure, her blood that others might have freedom.

And wherever they may travel, whatever ocean or sea they may cross, the sight of that symbol—the red, the white, the blue—our flag, brings to the heart the thoughts of home.

That flag is the symbol of all of the dreams that we have had and that we may have about America. Let us remember it on this Flag Day—the symbol of America the Beautiful.

Henry Van Dyke said it best in his poem: "America for Me":

'Tis fine to see the Old World, and travel up and down,

Among the famous palaces and cities of renown,

To admire the crumbly castles and the statues of the kings,—

But now I think I've had enough of antiquated things.

So it's home again, and home again, America for me!

My heart is turning home again, and there I long to be

In the land of youth and freedom beyond the ocean bars,

Where the air is full of sunlight and the flag is full of stars.

Oh, London is a man's town, there's power in the air;

And Paris is a woman's town, with flowers in her hair;

And it's sweet to dream in Venice, and it's great to study Rome;

But when it comes to living, there is no place like home.

I like the German fir-woods, in green battalions drilled;

I like the gardens of Versailles with flashing fountains filled;

But, oh, to take your hand, my dear, and ramble for a day

In the friendly western woodland where Nature has her way!

I know that Europe's wonderful, yet something seems to lack!

The Past is too much with her, and the people looking back.

But the glory of the Present is to make the Future free,—

We love our land for what she is and what she is to be.

Oh, it's home again, and home again, America for me!

I want a ship that's westward bound to plough the rolling sea,

To the blessed land of Room Enough beyond the ocean bars,

Where the air is full of sunlight and the flag is full of stars.

Mr. President, I yield the floor and suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant legislative 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.

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

The Senate continued with the consideration of the nomination.

Mr. HARKIN. Mr. President, let me begin by commending my good friend, the Senator from Nevada, Senator REID, for his diligence and hard work in examining the Federal Reserve's operations. Senator REID has worked with the GAO to look into the Federal Reserve's business practices.

Some startling examinations have been uncovered because of the efforts of Senator REID and Senator DORGAN. I must say the information that they have uncovered is startling. I urge my colleagues to carefully review all that the Senator from Nevada has said today, both regarding the nomination before us and the logic of considering future legislation that might go to these questions.

Massive management lapses appear to be going on—accounting errors, excessive costs of operation, a multibillion dollar slush fund and other oversights. There are many, many important questions that Senators REID and DORGAN have uncovered, with the GAO's help. They are to be commended for asking the GAO for this investigation.

As I said the other day, Mr. President, the Federal Reserve is not a separate branch of Government like the executive branch or the judiciary. But even so, we have the power of the purse strings. Even if the executive branch squanders money, and things like that, we look at it. We have hearings. We look into that and we take action.

We should also do that with the Federal Reserve. I will not stand here and say that all of the items uncovered by the GAO are something that requires us to take a certain action right now. But certainly they warrant further investigation. I hope that we will fulfill our obligations to follow through on those GAO reports. We will be having more to say about that next week, to look at the operations of the Federal Reserve and perhaps make some changes in the law on how the Federal Reserve operates.

Again, I repeat, the Federal Reserve System is a creature of Congress. It exists only because Congress enacted a law to erect a Federal Reserve System. Obviously, Congress has the right, the power, the duty and the obligation to change and alter that law to fit different times and circumstances or to make the Federal Reserve, I believe, more accountable to the American people.

So I just want to commend Senator REID for his diligent work in this area.

Mr. President, I rise on the second day of debate on the nomination of Alan Greenspan as Chairman of the Federal Reserve Board. As I have said many times, this is a critically important nomination that deserves the Sen-

ate's full consideration. The Federal Reserve Chairman is widely recognized to be the single most important economic decision maker in the country—let me repeat that—the single most important decision maker, in terms of our economy, more important than the President, more important than 535 Members of Congress.

It is the obligation and the duty of this body to thoroughly review and debate the record and policies of any nominee to this vital post.

We started this 3-day debate yesterday. At that time, I outlined my concerns about the record of Alan Greenspan, both as Chairman of the Council of Economic Advisers in the 1970's and as Chairman of the Federal Reserve from 1987 to the present time.

As I said yesterday, this is not about personalities. It is about policies. It is about laying the facts on the table and taking an objective view of the Greenspan record. This debate is not really about one man; it is about a much larger issue that touches the lives of every American family.

Yes, there are a lot of complicated economic terms and intricate statistics and charts that we have talked about and that we will talk about some more. But we should not get lost in the complexities.

Perhaps one of the reasons we do not debate more often than we do economic policy and Federal Reserve policies and nominations that come to the Board, and their views, is because economics is, as they say, the dismal science. Sometimes it is hard to cut through all of the data and charts and the statistics.

But, again, when you strip it all away, strip away the complexities, it boils down really to this. When you get to the heart of it, what we are really talking about is very simple, fundamental things. We are talking about real people, individuals and their families, trying to make a payment on their house, or trying to buy a house, trying to buy a new car, families trying to work with their bank to get the funds to put in next year's crop, if they are farmers, or maybe to get a loan to operate their small business for next year.

That is what this debate is about. It is about wages, about how much will our working people make in the next year? It is about families. That is why we are having this debate. That is why I insisted on this debate. This debate is about raising the living standards and real wages of hard-working Americans. That, I believe, stands as our primary economic challenge.

But 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. But the Federal Reserve, led by Mr. Greenspan, 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 at the door, but when it did not even threaten. In 1994, in the midst of seven straight interest-rate increases, Chairman Greenspan himself acknowledged there was little evidence of rising inflation.

Mr. President, the decisions of a Fed Chairman affect every pocketbook and every family budget in America. The decisions of this Chairman have cost American families lost income, lost opportunities.

The essential fundamental question I believe boils down to this: Why will Alan Greenspan not give working families a raise? That is really what it boils down to. 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 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 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 Mr. Greenspan. There is what I call a common thread 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 up to today, Mr. Greenspan has consistently shown the same two tendencies: First, he often misjudges the signs of an oncoming recession; second, he does not act decisively enough to pull the economy out of the recession because of his fear of inflation. The bottom line is that Chairman Greenspan has a long history of focusing solely on inflation to such an extent that all focus on expanding our economy has been lost.

The mindset today is that 2 percent growth is acceptable, the economy cannot grow any faster, maybe 2.5 percent at the maximum, but we cannot have the 3 percent growth of the 1970's or the 4 percent growth of the 1960's. That is the mindset. I ask, why? What is wrong with America? Is productivity going up? Are people working harder than ever? We are getting new products on the markets, the information revolution has hit us all over this country. We have all kinds of new inventions and devices, labor saving devices, not to mention pharmaceuticals and drugs to help make our lives better. We have the information revolution, computers, even in education—all of this lending

itself to a robust America, ready to go. That is the America I see out there, an America that wants to work, that wants to grow, that wants to give families a better deal, that wants to raise the wages of our working families, yes, that wants to reduce unemployment. That is the America that is out there.

If this harness is kept on by the strict monetary policies of the Federal Reserve, that inherent ability of America to grow will be stifled. Thus, I say that what is happening at the Fed is a disservice to all of America, to us in our generation and certainly to the next and future generations who require our economy to grow for their education, for their livelihood, and for their jobs in the next century and beyond.

Yesterday, I had an opportunity to explore in detail much of Mr. Greenspan's previous labor. I displayed a chart that showed Mr. Greenspan's record as Chairman as compared to others. It is dubious, at best. I went back to the Fed Chairman Mr. McCabe from 1948 to 1951, William McChesney Martin, Mr. Burns, Mr. Miller, Mr. Volcker and now Mr. Greenspan. I pointed out our real growth in the country during their terms. You see 6.1 percent, 3.6 percent, 3.3 percent, 4.5 percent; and it is lower under Volcker, 2.5 percent, and under Greenspan, 2.2 percent. Looking at Mr. Volcker, he came in facing a 13.2 inflation rate before he started, and he cut it in half during his term. In bringing that down, we had a low growth rate, but still, it was 2.5 percent. Look at Mr. Greenspan, inflation before he came in was 4.1 percent, lower than almost at any time in any of these previous tenures. He has only reduced inflation to 3.2 percent—about 25 percent. Mr. Volcker cut it in half. Look at Mr. Greenspan's growth rate—2.2 percent.

Using a comparison analysis, Mr. Greenspan's stewardship at the Fed is lacking, compared to those who came before him. That 2.2 percent growth rate is abysmal when you look at the growth rates under previous Chairmen. If he had high inflation rate and then cut it in half, maybe you could accept low growth. But I find it difficult to accept this low of a growth rate with minimal reductions in inflation—4.1 percent to 3.2 percent. Look at how Greenspan compares to the past.

I said yesterday, people say, "Well, our economy has matured. We cannot grow like we did in the 1950's or 1960's or 1970's. We cannot grow at that rate anymore." The recent efforts of the Federal Reserve have reminded me of the invention of the wheel. The people who invented the wheel they probably said, "We have the wheel. We do not need anything else." I bet they were happy with the wheel, and they thought that was the best thing, and they thought they did not need anything else.

Those who say that America's economy has matured and we cannot grow at this rate I believe are saying the

same thing. It reminds me of the person who once said, maybe the head of the Patent Office said, "Everything that can be invented has been invented. There will not be any new inventions." That was about 80 or 90 years ago. Well, our economy can grow a lot faster. That is why we are having this debate. We can bring more people into the labor force.

In addition, I also discussed yesterday Mr. Greenspan's misguided and ill-advised policy recommendations to President Ford that deepened our country's recession in the mid-1970's. The record shows Mr. Greenspan cost jobs and further weakened our economy. I also discussed Mr. Greenspan's forecasting record as a private economist in the early 1980's. As I pointed out yesterday, he was wrong on inflation. He was wrong on interest rates. He was wrong on bond issues. Then chairman of the Banking Committee, Senator Riegle, pointed out in Mr. Greenspan's 1987 confirmation hearings:

You had an opportunity to be a forecaster with Greenspan and O'Neil. As you know, you put your forecast to a direct test in the private sector. The fact is that the firm only survived a few years.

And according to a *Forbes* article of April 20, 1987, in 1985, his full first full year of business, O'Neil and Greenspan turned in one of the least impressive records of all pension funds advisers.

In 1990, Mr. Greenspan was again way off in his economic forecasts, as I pointed that out yesterday. On October 2, 1990, at an Open Market Committee hearing meeting, Mr. Greenspan had this to say is from the minutes of that meeting.

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 put down more and more, but the economy has not yet slipped into a recession.

Now, that was in October 1990.

I want to note that the recession began in July 1990—a month before Iraq invaded Kuwait. Yet, in October, Mr. Greenspan was still saying it is not raining out. I want to note that Mr. Greenspan's forecast improved after that. On December 18, 1990, Mr. Greenspan said confidently, "At some point, we are going to come out of this." So between October 2 and December 18, Mr. Greenspan found out it really was raining, but it was much too late. He said, "At some point, we are going to come out of this." He was right. The recession officially ended in March 1991. So, Mr. President, that is the record. Those are the facts.

Today, I want to focus on a few more important aspects of the Greenspan record. I will zero in on the Greenspan rate increases of 1990 and 1994. First of all, I think I am going to refer to this

now, and then I will come back to it later. Many times, I talk to people and say, "Do you know that, in 1 year, from February 1994 to February 1995, Mr. Greenspan had seven rate increases in the Federal funds rate? He raised those interest rates 100 percent." People look at me like I came from another planet. They say, "No, of course not, nobody raises interest rates 100 percent." I said, "Yes, he did."

Mr. President, here are the figures. In February 1994, the Federal funds rate was 3 percent; in February 1995, 6 percent. Well, that is 100 percent. It is a doubling any way you look at it. That was in 1 year, from February 1994 to February 1995. From February 1995 until today—we are talking about almost 16 months—what has happened? Interest rates have only come down three-quarters of a point, to 5.25. That is still way higher than they were in February 1994. This is what is causing the stagnation in America and what is causing wages to be stagnant. This is what is causing the slow growth in our economy.

I want to spend a little more time, also, discussing unemployment, something called the nonaccelerating inflationary rate of unemployment, or NAIRU. Perhaps this is one of the reasons nobody wants to debate economic policy. You get these kinds of terms—NAIRU.

Let us discuss NAIRU and see if we can strip away all the fancy talk and see what it is all about. Let us begin with the words of Robert Eisner, a former president of the American Economics Association, when he said, "Neither the fiscal stimulus of structural budget deficits, nor the monetary stimulus directed at reducing unemployment in the United States have yet caused permanently accelerating inflation, or much inflation at all."

I am going to repeat that. "Neither the fiscal stimulus of structural budget deficits, nor the monetary stimulus directed at reducing unemployment in the United States have yet caused permanently accelerating inflation, or much inflation at all. Most of the inflation of the postwar period has come from supply shocks—chiefly, the great run-up of petroleum prices in the 1970's and early 1980's."

Now, we talked about this nonaccelerating inflation rate of unemployment. That means that, well, if you bring unemployment down too far, then employers will have to bid up the wages. By bidding up the wages, that will cause price increases because they have to pay higher wages, and that causes a round of inflation. Many economists simply do not agree with that. That is what Mr. Eisner is saying. He is saying, nothing that monetary policy has done to reduce unemployment has permanently caused accelerating inflation. I believe Mr. Eisner is right. But that fear of inflation is the driving force of the Federal Reserve today, and, particularly, Mr. Greenspan.

He has become "Mr. Chairman Slow Growth," "Chairman Stagnant Wages," and "Chairman Unemployment Is Good for America." Mr. Greenspan has an economic philosophy that simply does not focus on the problems of average people. We are seeing an interesting pattern at the moment. The 30-year bond, and many other interest rates, have been rising for several weeks, and many bond market leaders have been wringing their hands about the possibility of rising inflation. But the economy, at this moment, does not give much indication of accelerating inflation.

Our economy can be much more vibrant without the threat of inflation. It can expand. Unlike Chairman Greenspan, I do not see that as a bad thing to be stopped. Our economy ought to expand and grow, and unemployment ought to come down and, yes, wages ought to go up.

Some people talk about a 4-percent growth for the quarter that we are in right now. Well, it initially came out that we had a 2.8 percent growth for the first quarter of this year. All the articles said that was incredible, booming growth, 2.8-percent. It was later revised to 2.3 percent. I do not think that is booming growth at all. I am told most economists see growth in the second half of the year at a far slower pace.

I am going to paint with the same brush both the administration and the Federal Reserve. I believe the administration is accepting too low a growth rate, a bit over 2 percent. I believe that has been fostered and bolstered by the Federal Reserve, which also sees growth at around 2 percent.

Here we are, Mr. President, 348,000 jobs were created last month when half a million started to look for work, showing that our work force can indeed grow. As you said, we are straining. It is out there. People want to work. Productivity is going up. We want to get out there and work. But despite this kind of good economic news—that is, that more people are looking for work and that our economy is going to grow a little bit—we continue to hear the drumbeat of gloom and doom from the Federal Reserve and from the barons of the bond market.

Now, again, I suppose that maybe Mr. Greenspan himself, and his supporters, would say he does not have a choice. If the Federal Reserve does not raise interest rates, then the bond market will see that the Federal Reserve lacks the will to fight inflation, they will dump bonds and flee the market, and long-term interest rates will skyrocket. That is what they say. A lot of bond traders repeat that refrain. But I point out that they repeat that refrain because of the actions taken by Mr. Greenspan over the last several years.

Mr. President, I believe that a balanced Federal Reserve policy would not see a long-term climb in bond rates—that is, if we had a balanced policy. If that was reiterated and distinctly

spelled out, I do not think we would see a long-term climb in bond rates. You get the long-term climb in bond rates because, if there is good news in the economy, the bond traders rush in to dump the bonds because they believe that Mr. Greenspan is going to slap on higher interest rates right away. That is what they believe, so they react accordingly.

I know this may sound kind of confusing, but when you get right down to it, it is really, again, very simple. It has to do with whether or not we will have a balanced policy of growth and low unemployment, alongside a policy of fighting inflation.

Let me read an article in the February 5 New York Times by Lewis Uchitelli. He is talking about the Federal Reserve that voted to raise interest rates when they did it for the seventh time in a year back in 1995. In keeping interest rates high, he talked about how this spured inflation. He goes on to say,

In this ritualistic dialog between the Fed and the bond market, which everyone pretends is not happening, the reason for the Fed's existence is sometimes overlooked. Aside from fighting inflation, the Fed's mission, specified by Congress, is to keep the economy growing and Americans employed. That goal can get lost in any dialog with the bond market, which puts slowing the economy to fight inflation ahead of putting the unemployed to work.

There you have it. You cannot say it any better than that. Yet, Congress has stipulated in law that the Federal Reserve is to also fight unemployment and to take that into account.

We have a bill in the Banking Committee that would take out of the law the provision that says the Fed should take into account unemployment in making its decisions and should only then look at inflation. Well, it is before committee, but I do not think it will get past the floor.

Mr. Greenspan has indicated support for that approach. He has indicated support for legislation that would take out of the law a requirement that the Fed look at unemployment in making its decisions. Well, again, I talk about his mindset and his philosophy—his economic philosophy. I do not believe anybody ought to be Chairman of the Federal Reserve who supports a policy of ignoring unemployment and only focusing on inflation in setting their policy.

I would like to read a short statement again from the business sector of our country, a statement by the National Association of Manufacturers. The first was on June 11, 1996. This is 5 days ago. This is from the National Association of Manufacturers:

The decline in producer prices, after several months of rapid increases, confirms that inflation is not a threat. The spike in wholesale prices during the first 5 months of 1996 was caused mainly by the relative price of energy. Excluding the volatile food and energy components, the core rate of inflation was consistently lower.

Some energy prices, such as gasoline, are now leveling off while others, such as heat-

ing oil, are declining. Energy prices should decline even more later in the year as Iraqi oil comes onto the market. This decline will put downward pressure on both the producer and consumer price indexes in coming months. For the year as a whole, producer prices should rise only about 2.8 percent.

These favorable inflation numbers mean that the Federal Reserve has no reason to raise interest rates at their July meeting. The Federal Reserve should hold rates where they are and reserve the option of lowering later in the year.

Yet, we have heard all kinds of hints and comments made by members of the Federal Reserve that, indeed, rates will go up in July.

A group called the Business Council, a group of chief executives of 100 of the largest corporations in our Nation, did a recent survey which is reported in the May 18 New York Times. Nearly half of them stated that it was harder to raise prices in their industry than it was 6 months ago. Only 9 percent said it was easier. So over half of them said it was harder to raise prices.

Almost all of the respondents urged the Federal Reserve to stimulate the economy by lowering rates. The article quoted John Walsh, the CEO of the General Electric Co., as saying: "We do not see industrial prices or labor pressures driving inflation upward."

Mr. Greenspan did not see the terrible recession and skyrocketing unemployment in late 1974 as he advocated fiscal restraint as President Ford's chief economic adviser. Mr. Greenspan did not see the recession in 1990. And what did Mr. Greenspan see? He saw inflation in some tea leaves in 1994 when he doubled the interest rates from 3 percent to 6 percent in one year. From February 1994 to February 1995, he doubled the interest rates. Low inflation. He so indicated that himself.

Is this the balanced kind of approach that we want from a Chairman of the Federal Reserve? I say no. We need someone who has more of a balanced approach. We need someone who will give the economy a chance to grow, who will give Americans a chance to increase their incomes so as to have a better life.

If inflation starts to rise, then, yes, it is responsible to raise rates and do it in a timely and effective manner. But America does not need a low growth Chairman of the Fed who slams his foot on the economic brakes because of some mirage of inflation that may take place in the future.

Mr. President, I wanted to revisit the topic of Mr. Greenspan's actions concerning the 1990 recession. I spoke about that yesterday. I spoke about it earlier, when in October 1990, as the minutes now reveal, because—again, I want to point this out. By law, the minutes of the Federal Open Market Committee are kept sealed for 5 years. I hope we can revisit that at some time. I do not believe they should be sealed for 5 years—maybe a year, but certainly not 5 years. But now, in looking at the minutes of the 1990 meeting of the FOMC, we find in October Mr.

Greenspan saying that—well, to paraphrase it: “We hear the thunder, we hear the lightning. People say there is thunder and lightning, but we stuck our hand out the window and it is not raining,” in response to whether or not we are in a recession.

The fact is, the recession started in July 1990. This is October 1990. Mr. Greenspan says we are not in a recession. It was not until December 1990 that Mr. Greenspan finally admitted, 6 months later, that we were in a recession.

So we had the recession of 1990. Mr. Greenspan finally recognized it. His response, “Well, sometime we will come out of it.” How does the recovery from that recession compare to the other recessions that we have had since the end of World War II? The Greenspan Fed was very late in moving to lower interest rates to create a more accommodating policy and lift us out of that recession, and that was harmful to the recovery.

This is a pretty busy chart. Again, maybe this is one of the reasons we do not engage in economic policy discussion around here more, because sometimes it does get confusing. But, again, it is really simple when you strip it away. What this chart shows is the percent decline in interest rates following the bottom of a recession. In other words, you get into a recession, you cut interest rates to stimulate the economy, and get out of the recession.

How fast do you cut the interest rates to get out of a recession? Here we see that, in the recessions of 1960, 1969, 1957, 1973, and 1981, we see dramatic drops in interest rates to get us out of those recessions. For example, in the 1957 recession interest rates declined by 50 percent in 5 months—5 months. Here is 1973. In 1960 there was a 50 percent decline in about 12 months; the same in 1981. In all these times we came out of a recession in a fairly short period of time. Why? Because the Fed Chairmen took action to stimulate the economy, get our people back to work, reduce unemployment, and get us out of the recession.

Let us look at the recession of 1990. That is this flat line over here. We do not get a 50 percent cut in interest rates until almost 34 months, almost 3 years after the depth of that recession. So, again, I have been comparing Mr. Greenspan's actions with those of other Fed Chairmen since World War II. I compared earlier GDP growth. Now I am comparing his actions recovering from a recession, compared to other times. It was too slow, too timid, too much of a struggle, to get out of that recession. It is too long a period of time. And what that means is that families are hurt, people are unemployed, and the economy starts building in a slower rate of growth than what we otherwise need. I believe that is also what is affecting us even yet today. So, you can see he was much too timid in reducing those interest rates.

Let me read an article by the Nobel laureate economist, Paul Samuelson,

who is a professor at MIT. It appeared in the September 1993 issue of “Challenge” magazine. It is titled “Leaning Against What Inflationary Wind?”

The U.S. economy is not on the verge of overheating at present. If and when the changes, it will be a good time to pump gently on the brakes. That time is not now.

Mr. Samuelson goes on to say:

After a dozen years of structural budget deficits and low private sector saving by U.S. families and corporations, economic history and economic science concur in the diagnosis that monetary policy rather than fiscal policy should be the major macroeconomic weapon for assuring a healthy 1993-96 recovery and for restoring the share of capital formation in the American economy.

I will repeat that. What Mr. Samuelson is saying is that monetary policy has to be the engine, rather than fiscal policy. Why? Because we have these huge budget deficits. There is little we can do. And we have years of low savings rates. We do not have that pool to draw on. So it has to be monetary policy.

Mr. Samuelson goes on to say.

The last five years will go down in the textbooks of economic history as a period of disappointing performances by central banks. America's central bank, the Federal Reserve, began the decade of the 1980s with a stellar report card. Under Chairman Paul Volcker, from 1979 to 1982, remarkable progress was made in wringing out of our economy the double-digit stagflation that had built up in the 1970s. Then in 1982 and 1983, as I shall describe for its peculiar relevance today, the Fed fires up the American locomotive in a prudent way, leading the United States and the global economies into a needed expansion.

What Mr. Samuelson is saying, basically, is that—he says—he talks about the Bundesbank.

In particular, the revered Bundesbank has brought on unified Germany a serious recession that it never expected to occur. Outside of Germany, directly and indirectly, the bias of the Bundesbank toward preoccupation with inflation to the neglect of real growth and unemployment has led to a lasting slump for Common Market and other European countries. In the end, the dream of a Maastricht Treaty that would unify the European economy was dashed by Bundesbank intransigence. Unemployment rates in Spain, Italy, and Ireland soared. Waiting upon the German credit expansion that never came, Britain, Italy, and Spain were forced out of the European Monetary Union. Countries like France that accommodated the Bundesbank have been penalized by double-digit unemployment rates. Sweden, with its interest rate forced temporarily up to a 500 percent annual rate in order to have the Kroner look the Mark in the eye, is a spectacle no sage ever expected to see again in the modern world. . . .

Where an Italy or a Spain face genuine international constraints, Japan's wounds have been self-inflicted and gratuitous. And in wounding herself, Japan has also wounded the U.S. bilateral imbalance with Japan, contributing significantly to the puny 0.7 of 1 percent annual rate of American real GDP growth in the 1993 first quarter. Where it not for involuntary piling up of inventory accumulation, our final real GDP would actually have been declining in 1993's first quarter.

I did not mean to get bogged down in that, but really what he is talking

about is he is talking about what the Bundesbank did in Germany in terms of focusing only on inflation and ignoring what is happening with unemployment and growth. Then he goes on to say:

Alas, the Federal Reserve has shared in this central bank saga of acting too little and too late against macroweakness on Main Street, U.S.A. It can be said, soberly and with statistical significance, that the defeat of George Bush in 1992 and the Republican disappointments in the Senate and the House are the direct result of Federal Reserve misdiagnosis of the seriousness of the 1990-92 state of U.S. demand.

Again, Main Street, USA, has not, in town meetings, given the Federal Reserve such a mandate to do what they have done. Nor has a committee of the two Houses, nor a majority vote in either of the Houses. This is Mr. Samuelson:

I believe this to be important not as a matter of history or of general philosophy. It is important because the money market has every reason to believe—even without leaks to the press after Open Market Committee meetings—that this Federal Reserve (the only one we have) is only too prone to (1) engineer higher short-term interest rates, or (2) countenance such higher rates (a) at the first signs of a healthy real recovery—say, a 3.25 percent (annual) growth rate for two successive quarters, or (b) at the first signs of some acceleration of price-level indexes.

Mr. Samuelson, I think I said it correctly. Basically it is important, not as a matter of history or philosophy, it is important to America because the Federal Reserve is prone to, No. 1, engineer higher interest rates, or, No. 2, countenance such high interest rates at the first sign of a healthy recovery, if we go anywhere above—he said up to 3.25 percent, but it looks as if we go over 2.5 percent they are ready to slam on the brakes.

(Mr. MACK assumed the chair.)

Mr. HARKIN. Mr. President, the minority staff of the Joint Economic Committee prepared some charts that I think are illustrative of what has been wrong with Mr. Greenspan's leadership at the Federal Reserve.

The first chart simply shows the speed by which the Federal Reserve lowered rates. I already went over that chart. I am going to put that back up because it goes with these other charts.

Again, this first chart shows the speed at which the Federal Reserve reduces interest rates to get us out of recession. Going all the way back to 1957, the Fed acted very strongly to reduce interest rates. But in 1990, coming out of that recession, Chairman Greenspan did not act decisively and, thus, interest rates stayed abnormally high.

Here is another chart. Let's see how fast the economy recovered. This is sort of the flip side of that last chart. This shows the growth of payroll employment from the bottom of the recession compared to those previous years going back to World War II.

So here is the bottom of the recession; here is coming out of it. In the previous seven recessions, we see employment gaining rapidly. In fact, the

average of the past seven, in the first 2 years after the depth of a recession, we have employment gains of over 7-percent growth.

What happened after the 1990 recession? Here is Mr. Greenspan: We had no growth, no growth for almost 13, 14 months; negative growth. And then, finally, we came out a little bit, and after 24 months, we had about 1 percent growth in employment coming out of that recession. Again, my point being that Mr. Greenspan, first, did not recognize we were in a recession; second, when it became apparent we were in a recession, he acts too timidly to bring us out of that recession.

On the other hand, if inflation is threatening, the brakes are slammed on at the first sign of a hint of inflation, not real inflation, but the threat of inflation. But when it is jobs and unemployment, well, we can linger for a while. The result is a very dismal record in getting employment back up after a recession. One year after a recession—1 year after a recession—basically no jobs at all.

The third chart that I have shows another related fact, change in the unemployment rate. In the other seven recessions, we see considerable improvement in lowering unemployment, the proportion of the work force without jobs. That, unfortunately, was not the case for the 1990 recession.

On average, for the seven recessions prior to 1990, the unemployment rate dropped about 20 percent off the rate at the end of each recession, and we see that here. There was a tremendous reduction in unemployment in the last seven previous recessions.

What happened after the 1990 recession? Instead of going down, we went the wrong direction. Unemployment actually went up. It came down a little bit and leveled off after a couple of years, but still not back at even the rate at which unemployment was at the height, or I should say the depth, of the recession.

So we were going the wrong way. We had very little recovery at all. Again, we need to have a balanced policy that says, "My gosh, if we are going to recover from a recession, we have to reduce unemployment." We did in all the previous seven, but not in the one in 1990. Again, my point being that Mr. Greenspan acted too timidly and not in the right direction to get that unemployment down.

So now I return to where I started today, and that is the 1994-95 period. We have a recession. Mr. Greenspan does not act decisively enough. We linger with high unemployment, we linger with low growth, no new jobs added, and then we come in to 1993, 1994, 1995.

It has been almost axiomatically accepted around here and in America that if we lower the budget deficit, interest rates will come down. That is almost like a mantra that we all enunciate all the time: "If we can reach a balanced budget, interest rates will come down and that will save the

American people a lot of money." "Reduce that budget deficit and we'll get the interest rates down." Well, OK.

In 1993, the first year of the Clinton administration, bold action was taken to reduce the deficit. Now, you can argue about whether it was a tax increase and all that. We can get into that, and we can debate that, too. The fact is that the deficit started coming down. It started coming down—actually, I will even give President Bush credit—actually, the deficit started coming down in late 1992 and early 1993. Part of that had to do some with Bush and his policies; some of it had to do with the fact when Clinton came in, the President and the Congress started talking about a budget that would begin cutting the deficit. Based on that, we thought interest rates would come down.

The budget was passed that year and started to go into effect in October 1993. So in October 1993, the budget that we passed went into effect. The deficit started to accelerate down. In 2 years, the deficit was cut by over 40 percent in 2 years. It is now down—well, right now I can say compared to when Mr. Clinton came into office, the budget deficit is about 60 percent less. The budget deficit is coming down. You would think if the deficit is coming down, surely interest rates must come down, too. But after passing the budget of 1993, we kept our deficit coming down. Mr. Greenspan, in February of 1994, started raising interest rates seven times in one year, from 3 to 6 percent. As our deficit was coming down, Mr. Greenspan was raising our interest rates.

My point is that it is not axiomatic, it is not absolutely certain that if we reach a balanced budget we will have lower interest rates. We will have lower interest rates if, and only if, we have a Federal Reserve System, and a Chairman, that will respond to those actions and reduce those interest rates as the deficit comes down.

Obviously, there have to be other factors. When I say that even if we have a balanced budget and we have inflation that they should not raise interest rates—of course not, the Federal Reserve should respond to that. If we have inflation threatening, if inflation is there, yes, they have to put on the brakes.

I am just saying in this period of time, we had no inflation threatening, we had high rates of unemployment, underemployed people in America, low wage growth, wage stagnation, we had a reducing deficit and we had a Chairman of the Fed raising interest rates. Please, somebody explain that to me. It defies logic. It can only happen if the philosophy that Fed Chairman has is that if he sees a mirage in the distance of the threat of inflation, he must raise interest rates.

I believe that does our country a disservice because we have the capacity to grow in America. We have the capacity to grow. We have people who want to

work. As I said, 348,000 jobs were created last month; but 500,000 people went out and looked for a job. People want to go to work. Businesses want to expand. Just read the article from the National Association of Manufacturers. Businesses want to expand. They want to grow. But the policies of the Federal Reserve System is keeping that from happening.

To truly understand the Fed's 1994 seven consecutive rate increases, we have go back to the summer of 1993. Mr. Greenspan announced that he was abandoning the M2 indicator. I am not going to get into that. That is why we get into all these arcane economic terms. But he said he was abandoning the M2 indicator in favor of "real interest rates." Despite the fact that this M2 indicator fell short of its midpoint targets in 6 consecutive years, giving indications of a possible recession, Mr. Greenspan instead feared that long-term rates were too low in comparison to short-term interest rates.

As Mr. Greenspan noted in his September 1, 1993, testimony, short-term rates were nearly zero, and long-term rates were much higher. According to Mr. Greenspan, "This configuration indicates to market participants that short-term real rates will have to rise as the headwinds diminish if substantial inflationary imbalances are to be avoided." That was his testimony before the House Subcommittee on Economic Growth and Credit Formation, September 1, 1993.

OK. So for 1993, the Fed predicted a GNP rise of 2.5 percent and 2.5 to 3.25 percent for 1994. Despite the low projected growth rates and the fact that 8 million people were unemployed and another 4 million were involuntarily employed part time, Mr. Greenspan feared inflationary pressures because of this discrepancy between short-term and long-term rates.

According to Prof. James Galbraith, this was the only justification for rate increases in 1994 and 1995. According to Mr. Galbraith, three points in Greenspan's February 22, 1994, Humphrey-Hawkins written testimony, made 3 weeks after Mr. Greenspan initiated the first of seven rate increases, clearly show that the Fed could not have raised rates on inflation-fighting policy grounds alone.

No. 1, Mr. Greenspan said, "On the inflation front, the deterioration evident in some indicators in the first half of 1993 proved transitory." No. 2, there was no clear evidence that expansion in 1993 was excessive and was going to carry over to 1994. This is Mr. Greenspan's testimony. No. 3, inflation had been falling, as Mr. Greenspan himself even noted.

I am going into this because it has been said that this increase by Mr. Greenspan in interest rates and keeping them high—it has only come down a quarter of a point since February 1995—is because of the threat of inflation. But in Mr. Greenspan's own words and in his written testimony, he basically says there was not inflation.

No. 1, Mr. Greenspan said, "On the inflation front, the deterioration evident in some indicators in the first half of 1993 proved transitory"—transitory, not long term.

But for the year as a whole, 1993, the Consumer Price Index rose 2.75 percent, the smallest increase since the big drop in oil prices, since 1986. Broader inflation measures covering purchases by businesses as well as consumers rose even less. Again, these were transitory, not permanent, developments.

The second point, there was no clear evidence that expansion in 1993 was excessive and was going to carry over to 1994.

Again, Mr. Greenspan's own testimony: "Nonetheless, markets appear to be concerned that a strengthening economy is sowing the seeds of an acceleration of prices later this year by rapidly eliminating the remaining slack in resource utilization." However, he went on to say, "But it is too early to judge the degree of the underlying economic strength in the early months of 1994."

Wait a minute. Mr. Greenspan, in his testimony, says, " \* \* \* markets appear to be concerned that a strengthening economy is sowing the seeds of an acceleration of prices later this year." However, he says, "But it is too early to judge the degree of the underlying economic strength in the early months of 1994."

In February 1994, he starts raising interest rates, when he says "it is too early" to judge it. That is why I say, Mr. Greenspan raises interest rates, slams on the economic brakes, not when inflation is threatening, but when, in the distant horizon, he sees a mirage of possible inflation. That does a disservice to our country.

Many of the indicators at that time gave little evidence of rising inflation.

An editorial in the March 14, 1994 *Business Week*, made it clear that Mr. Greenspan had gone too far in his rate increases.

Since Greenspan raised short-term interest rates by 25 basis points . . .

That was the first of seven increases—

Long bonds rates have risen nearly twice as much, jumping to about 6.8%. Instead of soothing the savage beasts at the bond market, the Greenspan move appears to have induced a frenzy.

What has gone wrong, and how can it be fixed? It's tempting to say—

This is the article from *Business Week* I am quoting here—

It's tempting to say that Greenspan's preemptive strike against inflationary expectations was wrong from the start.

Worse, Greenspan added to confusion in the markets by admitting that the conventional monetary measures were no longer reliable and that he was turning to more exotic measures, including that "arcane metal," gold.

What is going on here? *Business Week* says, "Not so," in terms of his preemptive strike against inflationary expectations, because they are saying there was not any inflation.

What really spooked the markets was his subsequent confession that he believed monetary policy had been too loose, too long.

Monetary policy had been too loose for too long.

The markets inferred that Greenspan's strike was only the first in a series of attacks against inflation. Market players around the world concluded that the Fed would push interest rates much higher in the months ahead.

*Business Week* was right on the mark, because in the weeks and months ahead, that is exactly what Mr. Greenspan did. This, again, is according to *Business Week*. This is not my judgment. *Business Week*, in their editorial said, what spooked the markets was not really a preemptive strike against inflation since there was little threat of inflation.

Let us go back to these charts.

Mr. Greenspan, according to *Business Week*, says that he thought that monetary policy had been too loose for too long.

This is 1993.

Here is the recession, as I pointed out, of 1990, which he did not see until we were 6 months into it. Then, as Fed Chairman, he has a responsibility to try to get us out of that recession by lowering interest rates.

As I pointed out, this is what happened in the previous seven recessions. In each of these instances, interest rates came down as much as 50 percent in 5 months, 50 percent in 12 months.

Mr. Greenspan did not reduce interest rates 50 percent until 30 months out—about 31 months out, to be correct about it. That takes us up to about 1993, I guess. Yet he says the monetary policy was "too loose for too long," and thus starts tightening up and raising interest rates.

"*Business Week*" was right, in March 1994. They expected him to keep raising it, and, quite frankly, he did.

"Worse," they go on, "Greenspan added to confusion in the markets by admitting that the conventional monetary measures were no longer reliable and that he was turning to more exotic measures," of the economy, "including that 'arcane metal,' gold."

Mr. President, last year in testimony before the Banking Committee in response to a question by Senator SARBANES, Mr. Greenspan admitted that, yes, he would be in favor of returning to the gold standard. Now, he admitted that he would probably be the only vote on the Federal Reserve to do that, but that was his philosophy.

Perhaps we ought to have debate about that. I wonder how many Senators here would like to have a vote on returning to the gold standard. How many votes do you think that would get here on the Senate floor? I do not know if we would get any. I do not know if anybody really feels we ought to return to the gold standard. Maybe that was OK in the past, but we live in a different world. This is a global economy. We have turned away from using the gold standard as a basis. I am just

saying the Fed Chairman's philosophy is locked into that. He admitted it as recently as 1 year ago.

There was little justification for the rate increases. The economy quickly reacted in a predictably negative way. Instead of nipping inflation to help the markets, the seven rate increases threw the market into a tailspin. Perhaps one of the most telling indicators was that unemployment for years preceding 1994 was above the assumed NAIRU. Here we come again to the non accelerating inflation rate of unemployment that I talked about earlier, that the Fed seems to be looking at. Prior to 1994, this was above the widely-assumed limit of 6 percent. In 1991 unemployment was 6.7 percent, in 1992 it was 7.4 percent, and in 1993 unemployment was 6.8 percent. Yet somehow he says we have to raise interest rates.

The third and final point about why the 1994 rate increases were unnecessary was this: The threat of inflation had been falling. To say again, the threat had actually been falling. Again, here is Mr. Greenspan in his February, 1995 Humphrey-Hawkins testimony:

Fiscal and monetary policy are important among those forces and have contributed to the decline in inflation expectations in recent years along with decreases in long-term interest rates. The actions taken last year to reduce the Federal budget deficit have been instrumental in this regard.

That was a very interesting statement by Mr. Greenspan last year.

There are two points that need to be made here. First, I do not necessarily disagree with him about discarding M2 as an indicator in favor of real interest rates. What we do have a concern about is M-2 showed that the money supply was shrinking and the economy might be slowing. Instead of focusing on other indicators that might show a slowing of the economy, Mr. Greenspan grasped on to real interest rates. The discrepancy between short and long-term rates was evident and could be clearly used as a justification for raising rates. That is what he said.

Second, it should be clarified and reinforced that Mr. Greenspan and the Fed labeled the rate increases as a preemptive strike and not a reaction to accelerating inflation that would have clearly justified an increase in interest rates.

Let me read the July 10, 1995, article from "U.S. News & World Report" by Mortimer Zuckerman. In his July 10, 1995, editorial, he says:

Ouch! The squeeze is back. In May 101,000 jobs disappeared. The workweek for most Americans is falling while the number of people filing claims for unemployment is rising. Don't blame it on the business cycle: The current slump is the handiwork of the Federal Reserve Board, an institution that is signally failing the nation. The Fed raised short-term interest rates seven times in roughly a year, doubling their levels and whacking key rate-sensitive industries such as housing and autos. Boom, the robust expansion of '94 has turned into the stagnation of mid-'95.

Why, you may ask, did the Fed do this? It surely was not responding to inflation. Unit



labor costs, the basic fuel of inflation, grew by less than 1 percent last year (and actually fell by 2.3 percent in manufacturing). Inflation at the retail level has been running at 3 percent or less for three years, the best performance in three decades—and the experts, including Fed Chairman Alan Greenspan, believe even that is overstated by as much as a full percentage point because of statistical flaws.

Now, I'm reading from the U.S. News & World Report, July editorial, by Mortimer Zuckerman.

No, what the Fed had in mind was an attack on inflationary expectations—the notion that, if left unchecked, the economic buoyancy of late 1993 would surge into '94 and lead to rapidly increasing prices rather than to rapidly increasing jobs.

The economic buoyancy, this is the economic buoyancy that Mr. Zuckerman is talking about, not an economic boom, but at least we are talking about getting better. Too slow, but by 1993, 3 years out from the recession, we were finally starting to get a little bit better.

Mr. Zuckerman goes on:

Overlooked or simply ignored were several mitigating factors—that major corporations were still laying off tens of thousands of employees . . .

As I mentioned, the unemployment rate for 1993 was 7.4 percent. That was up from the year before. Again, another example of the Federal Reserve not fighting unemployment by failing to reducing interest rates after the last recession. Also overlooked was “that real wages for most Americans were declining, that a true world economy had radically altered the ways and means of production.”

Now, what was supposed to be a “soft landing” to slower growth is fast turning into something else. Real retail sales, the most important factor in our economy, dropped at an annual rate of 1.9 percent in the first two months of the second quarter. . . . Consumer confidence plunged a dramatic 9 percentage points in the past month. . . .

The latest Fed failure underlines its mismanagement of the monetary side of the economy over the past five years.

These are not my words. These are the words of Mr. Zuckerman, editor of “U.S. News & World Report.”

In the last decade of the 20th century, too little, too late, seems to be engraved in its institutional seal. In 1989, it sowed the seeds for the recession of 1990-91, then slowed the recovery by not easing up quickly enough.

Again, evidenced by that chart.

“Is the Fed flying blind?” Mr. Zuckerman asks.

You have to wonder. Its view is that the sustainable level of economic growth is 2.5 percent. But the notion that any growth rate above this level would cause an increase in the rate of inflation through shortages of labor, materials and manufacturing capacity, is questionable. The Fed underestimates the actual rise in manufacturing capacity put in place and overestimates the dangers of wage inflation given the historic shift in the balance of bargaining power between management and labor, the large number of people working part time or on temporary jobs and the continued corporate restructuring. Beyond that, economic globalization has provided the United States with additional capacity and cheap labor to expand production without price increases.

Mr. Zuckerman says:

We can have growth higher than 2.5 percent and an unemployment rate lower than 6 percent and still not have an inflationary surge. In the 1960's, after all, we had an unemployment rate of 4.8 percent with an average inflation of only 2.3 percent. The Fed should review its performance in the '60's and '80's. Five years into the expansion of the '60's, when growth seemed to stall, the Fed moved rapidly and cut interest rates by 2 full points, extending the expansion to a record nine years. The 1980's expansion turned into the second longest in postwar history, again because the Federal Reserve cut rates when it first spotted signs of economic weakness in 1984 and 1986.

That was under Chairman Volcker.

Mr. President, in sum, the rate increases in 1994 and 1995 can be interpreted as another example of Mr. Greenspan searching for excuses to raise rates as a justification to eliminate inflation.

Again, I am going to refer to this chart as often as I can. The American people ought to know this. In 1 year, February 1994 to February 1995, he doubled interest rates. Since February 1995, to this date—actually to June 1996—they have only come down 3 quarters of a point, with no inflation threatening.

The Associated Press story reported November 12, 1994:

Economists representing interests from labor unions to big corporations accused the U.S. Central Bank on Friday of pursuing an ill-advised monetary policy by fighting a phantom inflation threat to appease bond traders on Wall Street. Lawrence Chimerine—I am sorry if I mispronounced the name—the chief economist at the Economic Strategy Institute, a business-backed think tank in Washington, DC, said that long-term interest rates have risen faster since February of 1994 when the Federal Reserve started its increases than at any other time in U.S. history.

Any further ratcheting up of interest rates really runs the risk of overkill and a recession.

That was said on November 12, 1994. I believe there were two other rate increases after that period of time.

It should be noted that the Fed raised rates—I am sorry, it was 3 days after this story was written, and again in February 1995—two more times. In the aftermath of the rate increases, the Investors Business Daily had this to say about Mr. Greenspan's efforts. This is an editorial in Investors Business Daily, dated April 17, 1995:

If former Defense Secretary, Robert McNamara, can own up to his horrendous errors on Vietnam, why can't Federal Reserve Chairman Alan Greenspan end his misguided campaign against inflation?

The McNamara memoir published last week . . . is a stunning admission of failure. He confesses that his over-reliance on numbers and failure to understand the human consequences of his actions led to the tragedy we know today as Vietnam.

McNamara was one of the postwar “whiz kids” who thought they'd elevated management to a science. The former President of Ford Motor Company, he thought his number-crunching expertise, statistics, and arcane mathematical formulae were all he needed to “manage” a war.

Pride? Arrogance? Some failures can't be described with mere words. The bottom line

on that Vietnam “strategy” is some 58,000 names on a black wall in Washington, DC, and continued tyranny in Southeast Asia.

We were struck by McNamara's admission of error because his fascination with data is shared by Fed Chairman Greenspan—who is waging a long, costly and misguided war of his own. Like McNamara, Greenspan is arrogantly using his numbers expertise to fight the last war—the 1970's battle against inflation.

And just as McNamara's antiseptic “body counts” seemed to blind him to both the failure and the human costs of his plan for winning the war, Greenspan seems to miss the costs to the real economy—jobs, incomes, goods and services—of his campaign against phantom inflation.

We've heard all the arguments for continuing the battle: The U.S. is enjoying the best of all possible worlds, with rapid growth and low inflation. The Fed appears to have engineered a “soft landing”—

How many times we have heard that phrase?

in which the economy drops gently onto a long, slow glidepath of steady, noninflationary expansion.

We don't buy it.

I am still quoting from Investors Business Daily.

As the last recession showed, a soft landing can very easily turn into a crash landing, or a victory into a rout.

After seven interest rate hikes in a little over a year, the Fed is flirting with disaster. Businesses—as opposed to coupon-clippers—are plainly worried.

Monetary policy in this country is controlled by bond traders who live in high-rises and are completely out of touch with reality.

The words of a radical? Hardly. Jerry Jasinowski, the president of the National Association of Manufacturers, said that six months ago, before the last two rate hikes. Others in business echo his comments.

The signs of a slowdown are now widespread. Retail sales are weak, auto sales are declining, durable goods orders have rolled over, new-home sales have tanked, money supply is headed south and the index of leading economic indicators is signaling sluggish growth at best.

. . . As most economists know, it takes six months to two years for the full effects of a Fed tightening to be felt. The Fed's recent tightening binge—an unprecedented doubling of rates in just 13 months—probably won't finish hitting home until 1996.

Meanwhile, inflation remains nowhere to be seen—despite the constant fears of bond market vigilantes who believe jobs, prosperity and hyperinflation are somehow linked.

That was Investors Business Daily, and that was in 1995. Similar to 1974, when the WIN—the whip inflation now—policy helped inflation along by raising taxes on oil, the interest rate increases in 1994 may have made it more difficult to actually fight inflation in the future because they raised the price of obtaining a car loan, home mortgage, or a student loan. The 1994 increase failed on all counts, including even Mr. Greenspan's. According to the University of Denver economist, Randall Wray, “The Fed's policy shift after February 1994 was a resounding failure by Mr. Greenspan's own criteria. Long-term rates immediately rose. The Fed's action led to a run out at the long end of the market, causing an estimated \$1 trillion loss.” Thus, long-term rates



have been high because the market quite correctly feared other rate increases and not because of high expected inflation. Once these became reality, the bond market plummeted and stock prices experienced volatility because additional rate hikes were feared.

He went on to note that real economic growth for 1994 turned out to be less than the bottom of the Fed's predicted range. By the end of 1995, the economy was growing at a rate less than 1 percent. As data accumulated that the economy was slowing, the Fed reversed course and lowered short-term rates by one-quarter of 1 percent three times. Thus, we get down to 5.25 percent.

There is little evidence to suggest that small reductions would have any significant effect on the economy. However, the frequent interventions were sufficient to keep the markets guessing.

In late February of this year, Greenspan sent shock waves through the markets when he suggested that policy might tighten, but he was forced to immediately clarify his position by indicating that policy was likely to loosen. But there is more.

In a January 2, 1995, editorial in the *Washington Post*, Mr. Gerome Weinstein of Columbia University observed that six increases in interest rates in less than a year suggest that Mr. Greenspan has forgotten that the economy does not change course quickly or easily. An interest rate change can be expected to take about 18 months to work its way through the complexity of the economy before it has a lasting effect. Six increases in 11 months would suggest that Mr. Greenspan and the Fed are impatient.

Mr. President, why do I go through all of this? Why have I cited all of these economists—Mr. Zuckerman of *U.S. News & World Report*, Mr. Jasinowski of the National Association of Manufacturers, and a host of other writers? Why go into all of this? Because, as I have said many times, there is a common thread that ties Mr. Greenspan's actions together as we have seen again and again and again from his days as Chairman of the Council of Economic Advisers to the present.

Mr. Greenspan has consistently shown the same two tendencies. First, he misjudges the signs of an oncoming recession. Mr. Greenspan often comes to the correct economic conclusions, but way, way too late.

Chief economist David Jones stated that Greenspan is so preoccupied with arcane numbers, he tends to miss big trends. As a result, he often makes the right moves but at the wrong time. Timing is not his strong suit.

According to *U.S. News & World Report* editor Mortimer Zuckerman, Alan Greenspan and his board at the Federal Reserve make ladies who read tea leaves pretty hot. The Fed foresaw a dangerous boom in 1989, tightened in-

terest rates, and got a long recession instead.

The second aspect of the common thread throughout Mr. Greenspan's adult life is that he does not act decisively enough to pull the economy out of recessions because of his inordinate fear of inflation.

Again, let us go back. Remember the 1974 whip inflation now plan, the WIN plan. As Chairman of the Council of Economic Advisers, Mr. Greenspan designed an economic plan that raised taxes, worked to limit consumption, and resulted in an unemployment rate of 9 percent. According to Mr. Zuckerman, the same held true in 1991. I quote:

Having rushed to that wrong conclusion—

The dangerous boom of 1989.

they dithered for so long in correcting it that we did not come out of the recession until 1991-1992. In 1994, when recovery was really starting to happen, they went back to their tea leaves and got in the ratchet reflection mode, again battling a phantom inflation, an inflation they admitted was not there. It was an expectation.

Editorial, August 7, 1995, *U.S. News & World Report*.

Again, what I talk about is the mirage on the horizon of possible inflation. In fact, Mr. Greenspan even seems to publicly ignore statistics that might indicate that he does not need to raise rates to fight inflation. For example, in his Humphrey-Hawkins testimony on February 27, 1995, Greenspan did not read the most optimistic portion of his prepared remarks. I want to comment on that.

There were prepared remarks that Mr. Greenspan had. But in his testimony of February 27, 1995, he kind of skipped over it. Here is what it said.

These developments do not suggest that the financial tender needed to support the ongoing inflation process is in place.

An amazing statement by Mr. Greenspan, someone who has just raised interest rates—doubled over a year, seven rate hikes. In February 1995, at the end of the last rate hike, he says in his written testimony that:

These developments do not suggest that the financial tender needed to support the ongoing inflation process is in place.

What is going on here, Mr. President? Mr. Greenspan, in his written testimony, says that it is not there, that the financial tender needed to support the ongoing inflation process is not there. We have high interest rates.

Again, I am referring to the crucial 1995 Humphrey-Hawkins testimony and Greenspan's rejection of the idea that the economy's potential for the sustained growth rate was much above the current level of about 2.5 percent.

Here again are Mr. Greenspan's own words.

But while most analysts have increased their estimates of America's long-term productivity growth, it is still too soon to judge whether that improvement is a few tenths of a percentage point annually or even more, perhaps moving us closer to the more vibrant pace that characterized the early post-

World War II period. It is fair to note, however, that the fact that labor and factory utilization rates have risen as much as they have in the past year or so does argue that the rate of increase in potential is appreciably below the 4 percent growth rate of 1994.

Again, that is his testimony before the Banking Committee of February 22, 1995.

So, Mr. President, a common thread is misjudging what is happening and then mishandling how to pull us out of the recession because of his absolute fear of inflation.

Mr. President, I think what we see here is a Fed Chairman whose economic philosophy—again, I say this with all due respect. I hold no personal animus at all toward Mr. Greenspan. People speak of him in highly glowing terms. I have had, as far as I know, only one meeting with him in my life in my office, when he was gracious enough to ask for a meeting. He came down to my office. Several of us met in our office with him, several Senators.

It was a fascinating discussion. We were just kind of getting into it when the bells rang and we had to go vote. But I believe our job as Senators is not to approve people, to put them into a position simply because they may be nice people or they have a lot of friends or they move in acceptable social circles.

Our job, I believe, especially in this important position, Chairman of the Federal Reserve Board, is to look at the record of the person who is nominated to fill that position. What has been that person's economic record? How accurate have they been in the past? What is their philosophy? And, especially, we must ask those questions if it is a person who has been Chairman of the Fed and seeks to be renewed in that position.

I think we, in this body, have been too prone to just rubberstamp those nominees who have come to us for positions on the Federal Reserve Board, and especially as Chairman.

I will admit, in all candor and frankness, that I voted for Mr. Greenspan, on one occasion, to be in the Fed. I will admit, in all candor, I did not look at the record all that much either. But this time, with what has happened in 1993, 1994, 1995, with the efforts of this administration to reduce the deficit and the efforts of this Congress, and I speak of both Republicans and Democrats, in biting the bullet—oh, we may have our differences on where to trim and what to cut, but I think basically Members of this Congress have worked hard to reduce the deficit. And I believe the administration has, too. More needs to be done.

The administration has acted courageously to reduce the size of the Federal Government. But if what we are rewarded with is the Chairman of the Fed keeping interest rates unduly high, keeping the economy from growing, then perhaps our work will be in vain.

We have the potential to grow in this country. Everyone that I know sees it

out there. It does not take an economist to go out on Main Street, to go in our businesses, to talk to working families, to know that that pent-up energy is there, that ability is there.

You can use the figures, and they are there. They show this: Our manufacturing sector is ready to go; small business is ready to move; our average working families are ready for a wage increase, which they need and can use, and which need not be inflationary. The size of the labor force can grow substantially in the future. But, I am sorry to say, the Chairman of the Fed is not allowing that to happen.

I yield the floor and suggest the absence of a quorum.

The PRESIDING OFFICER. 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 just have one more item I want to cover. It should not take me more than maybe 10 minutes, I hope, and then I will be finished with my statement for today. I know others wanted to know about that. I understand there are some problems. I want to be as accommodating as possible.

I want to cover, however, just briefly, for the record, the issue of NAIRU. I said earlier today I was going to get into that, and I want to talk about NAIRU, the nonaccelerating inflation rate of unemployment, and what it is and why it seems to have such a hold on us.

So what is NAIRU? Let me just read some comments, and I will get into NAIRU for a few minutes. Dana Mead, the chief executive of Tenneco and chairman of the National Association of Manufacturers, had it right when he said that "NAIRU is to economics what the Nehru jacket is to fashion—outdated."

Robert Eisner, professor emeritus at Northwest University, whom I quoted earlier today several times, argues that one can actually reduce inflation by keeping unemployment under its natural rate.

He developed this argument in an article entitled "Our NAIRU Limit." That was in the American Prospect magazine, spring of 1995. I thought I would quote a little of it to talk about NAIRU and what it is.

First of all, Mr. Eisner says, starting his article:

We mustn't have it too good. Too much growth—too little unemployment—is a bad thing. These are not the idle thoughts of economic nail-biters; they are the economic policy of the United States. After real growth of domestic product hit 4.5 percent in the last quarter of 1994 and unemployment dipped to 5.4 percent in December—

Guess what?

the Federal Reserve moved on February 1 to raise interest rates for the seventh time in

less than a year. Why? To slow a too rapid rate of growth and stop or reverse the fall in unemployment. Why do that? To fight inflation.

Ordinary people may wonder. . .

Hard nosed economic analysts and business leaders are also raising questions. They point to technological advances and downsizing in U.S. industry and suggest that productivity and output potential may well be rising more rapidly than the 2.5 percent long-term growth rate that Greenspan and others think marks the outer limit for economic growth. Furthermore, as people lose old, high-paying jobs and look desperately even for lower-paying employment—

We know how true that is—

there is slack in the labor force. Perhaps most important, increasing globalization and world competition may limit the ability of American firms to raise prices and workers to push for higher wages.

These heretical observations have so far failed to dent the dominant dogma haunting economic policy. The central tenet of that dogma is a concept familiarly known among economists as the NAIRU—the "nonaccelerating-inflation-rate of unemployment." While unknown to the general public, the NAIRU has become one of the most powerful influences on economic policy this century. My recent work, however, shows that even on the basis of a conventional model used to estimate the NAIRU, there is no basis for the conclusion that low unemployment rates threaten permanently accelerating inflation. And, according to an alternative model more consistent with the data, inflation might actually be lower at lower unemployment levels than we are experiencing today.

The basic proposition of the NAIRU is simple: Policymakers cannot use deficit spending or an increase in the money supply to reduce unemployment below some "equilibrium" rate, except at the cost of accelerating inflation.

The concept of the NAIRU, derived from Milton Friedman's notion of a "natural rate of unemployment," rejects the assumed trade-off between unemployment and inflation described by the Phillips curve, named after A.W. Phillips, an innovative economist from New Zealand.

Thus, according to the NAIRU, fiscal or monetary policies aimed at reducing unemployment would leave us like a dog chasing its tail. If policy were aimed at keeping total spending sufficiently high to keep unemployment below its "natural rate," inflation would rise more and more rapidly.

In this view, the only way to reduce unemployment, except possibly in the short run, is to change conditions affecting the supply of labor—for example, by cutting the minimum wage, reducing or eliminating unemployment benefits, or upgrading the skill of workers.

On the contrary, he says, that we ought to be trying to reduce unemployment, not only by supply-side measures, but by ensuring that the economy is not starved for adequate aggregate demand or productivity for increasing public investment.

NAIRU—Non-Accelerating Inflationary Rate of Unemployment, which we are shackled by it.

Later in his study, Eisner goes on to replicate CBO's August 1994 economic and budget outlook and comes to a very important conclusion. And I quote:

It takes still higher unemployment to break the back of inflation. But high enough unemployment does eventually turn inflation negative. . .

The low-unemployment paths shown, however, offer quite a different picture. At 5.8 percent unemployment, contrary to Alan Greenspan's fears, there is no accelerating inflation. By the end of the century, inflation settles at about 4.4 percent. Strikingly, at lower unemployment rates, inflation is no higher. At 4.8 percent unemployment, the simulation shows inflation coming down to 3.6 percent. At 3.8 percent unemployment, inflation comes down to 2.9 percent. At 2.8 percent unemployment, inflation at the end of 1999 is down to 2.1 percent.

Eisner also argues the long-term rate of growth will increase with higher employment levels.

Over a longer period we should be educating and investing in human capital. . . . We should be bringing millions of workers who are essentially out of the labor force into the labor force. We can make them productive and get them off welfare. There is a lot of production that can take place because of that.

So, again, a completely contrary concept of what Mr. Greenspan is saying. Mr. Eisner, and others, through models that they have developed and simulations, show an alternative analysis—that through lower rates of unemployment—higher rates of full employment, you might say—that inflation actually comes down. Again, I believe there is so much pent-up energy and ability in the American work force that we can grow faster.

But regardless of future predictions of the effect of unemployment on inflation, it is clear, I believe, that the NAIRU is overestimated.

The 1996 economic report of the President stated that:

For over a year now the unemployment rate has fluctuated narrowly around 5.6 percent, yet the core rate of inflation has remained roughly stable rather than risen.

The economic report goes on to say:

This recent evidence strongly argues that the sustainable rate of unemployment has fallen below 6 percent, perhaps to the range of 5.5 to 5.7 percent. The Administration's forecast falls on the conservative end of this range by projecting the unemployment rate of 5.7 percent over the near term.

This same paragraph also states:

Wage inflation, as measured by the employment cost index, also remains stable.

It is entirely possible that the rate could be adjusted downward.

James Robinson, former CEO of American Express, echoes the words of Dana Mead.

Like that Nehru jacket, the NAIRU concept is outdated. In fact I would say that NAIRU is a jacket itself—it's like a strait-jacket on our economy.

This is what Mr. Robinson had to say:

That frame of reference for growth, called maximum sustainable capacity by economists, was largely developed in the 1950's, 1960's, and 1970's. Today, the parameters of growth are substantially expanded. The deeper integration and breadth of competition that has come to the global economy on only the past decade have opened the way to more robust growth even among the developed Nations. The Fed has been cautious to

a fault. It makes a tragic mistake by erring on the side of slow growth, denying Americans a more dynamic economy, diminishing living standards, and cutting off capital to emerging markets.

Prof. James Galbraith builds on this point when he argues:

In fact NAIRUvians—

I like that word.

NAIRUvians have never successfully predicted where the barrier would be hit.

That is a minimum level of unemployment.

The estimated NAIRU tracks actual unemployment.

Professor Galbraith says they do not know where that barrier is, that minimum level of unemployment. He says:

[Moreover] the estimated NAIRU tracks actual unemployment. When unemployment increases, conservative economists raise their NAIRU. When it decreases, they predict inflation, and if inflation doesn't occur, they cut their estimated NAIRU. There exists a long and not-very-reputable literature of such estimates.

For example, notable NAIRU supporter Paul Krugman:

Places present estimates of the NAIRU from about 5 to about 6.3 percent, with most estimates clustered between 5.5 and 6 percent.

Mr. President, I understand that the Senator from Florida wanted to get some housekeeping items done. I will yield to him whatever time he may consume for that.

The PRESIDING OFFICER (Mr. KYL). The Senator from Florida.

Mr. MACK. Mr. President, I inquire of the Senator from Iowa how long he intends to go beyond this point. The reason I inquire is because I do not want to inconvenience the Chair as well.

Mr. HARKIN. In the interest of comity—I understand that we have problems after 3:45. I will cut my comments short. I just want to finish one thing on NAIRU. It is now 3:40. I know that we have a problem here. I want to be accommodating. So I will just wrap up my remarks very shortly. In like 60 seconds I will yield to the Senator.

Mr. MACK. I thank the Senator.

Mr. HARKIN. Mr. President, I wanted to discuss NAIRU because I think it is very important, because I think it is acting as a straitjacket. I think that Mr. Greenspan and the economists at the Fed are looking at NAIRU and abusing it. And in so doing, they are abusing what I believe to be the capacity of our economy to grow. I believe there is an equal body of evidence and data to suggest that we can reduce unemployment and at the same time reduce inflation.

I believe it is worth the relatively small risk to go ahead and get these interest rates down, stimulate the economy. Let us have some growth. Why is it that we have to accept growth of 2 to 2.5 percent? That is like saying, "America, a C-average is fine." I believe America can do a B-plus, and A. We can do it without inflation. That is why I want to talk about NAIRU.

I will continue next Thursday on the Greenspan nomination. I will use my time at that time to finish my comments on NAIRU. I thank the Chair and I thank the Senator from Florida. I yield the floor.

The PRESIDING OFFICER. The Chair appreciates the courtesies of the Senator from Iowa.

The Senator from Florida.

Mr. MACK. I thank you, Mr. President. I too want to thank the Senator from Iowa for his consideration.

#### APPOINTMENT OF CONFEREES— H.R. 2977

Mr. MACK. Mr. President, I understand that the Chair has been authorized to appoint conferees to H.R. 2977.

The PRESIDING OFFICER appointed Mr. STEVENS, Mr. COHEN, Mr. GRASSLEY, Mr. GLENN, and Mr. LEVIN conferees on the part of the Senate.

#### SINGLE AUDIT ACT AMENDMENTS OF 1996

Mr. MACK. Mr. President, I ask unanimous consent that the Senate proceed to the immediate consideration of Calendar No. 401, S. 1579.

The PRESIDING OFFICER. The clerk will report.

The assistant legislative clerk read as follows:

A bill (S. 1579) to streamline and improve the effectiveness of chapter 75 of title 31, United States Code (commonly referred to as the "Single Audit Act").

The PRESIDING OFFICER. Is there objection to the immediate consideration of the bill?

There being no objection, the Senate proceeded to consider the bill, which had been reported from the Committee on Governmental Affairs, with amendments; as follows:

(The parts of the bill intended to be stricken are shown in boldface brackets and the parts of the bill intended to be inserted are shown in italic.)

S. 1579

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

#### SECTION 1. SHORT TITLE; PURPOSES.

(a) SHORT TITLE.—This Act may be cited as the "Single Audit Act Amendments of 1996".

(b) PURPOSES.—The purposes of this Act are to—

(1) promote sound financial management, including effective internal controls, with respect to Federal awards administered by non-Federal entities;

(2) establish uniform requirements for audits of Federal awards administered by non-Federal entities;

(3) promote the efficient and effective use of audit resources;

(4) reduce burdens on State and local governments, Indian tribes, and nonprofit organizations; and

(5) ensure that Federal departments and agencies, to the maximum extent practicable, rely upon and use audit work done pursuant to chapter 75 of title 31, United States Code (as amended by this Act).

#### SEC. 2. AMENDMENT TO TITLE 31, UNITED STATES CODE.

Chapter 75 of title 31, United States Code, is amended to read as follows:

#### "CHAPTER 75—REQUIREMENTS FOR SINGLE AUDITS

"Sec.

"7501. Definitions.

"7502. Audit requirements; exemptions.

"7503. Relation to other audit requirements.

"7504. Federal agency responsibilities and relations with non-Federal entities.

"7505. Regulations.

"7506. Monitoring responsibilities of the Comptroller General.

"7507. Effective date.

#### "§ 7501. Definitions

"(a) As used in this chapter, the term—

"(1) 'Comptroller General' means the Comptroller General of the United States;

"(2) 'Director' means the Director of the Office of Management and Budget;

"(3) 'Federal agency' has the same meaning as the term 'agency' in section 551(1) of title 5;

"(4) 'Federal awards' means Federal financial assistance and Federal cost-reimbursement contracts that non-Federal entities receive directly from Federal awarding agencies or indirectly from pass-through entities;

"(5) 'Federal financial assistance' means assistance that non-Federal entities receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, [donated surplus property,] food commodities, direct appropriations, or other assistance, but does not include amounts received as reimbursement for services rendered to individuals in accordance with guidance issued by the Director;

"(6) 'Federal program' means all Federal awards to a non-Federal entity assigned a single number in the Catalog of Federal Domestic Assistance or encompassed in a group of numbers or other category as defined by the Director;

"(7) 'generally accepted government auditing standards' means the government auditing standards issued by the Comptroller General;

"(8) 'independent auditor' means—

"(A) an external State or local government auditor who meets the independence standards included in generally accepted government auditing standards; or

"(B) a public accountant who meets such independence standards;

"(9) 'Indian tribe' means any Indian tribe, band, nation, or other organized group or community, including any Alaskan Native village or regional or village corporation (as defined in, or established under, the Alaskan Native Claims Settlement Act) that is recognized by the United States as eligible for the special programs and services provided by the United States to Indians because of their status as Indians;

"(10) 'internal controls' means a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

"(A) Effectiveness and efficiency of operations.

"(B) Reliability of financial reporting.

"(C) Compliance with applicable laws and regulations;

"(11) 'local government' means any unit of local government within a State, including a county, borough, municipality, city, town, township, parish, local public authority, special district, school district, intrastate district, council of governments, any other instrumentality of local government and, in accordance with guidelines issued by the Director, a group of local governments;

"(12) 'major program' means a Federal program identified in accordance with risk-based criteria prescribed by the Director