costs. This is a simple request. It is a request to the Vice President of the United States to see to it that the United States keeps its obligations, obligations which to this point have been disgracefully ignored.

I am certain the Vice President has sufficient authority and importance in the administration that his views on this case, if they are made known forcibly and well, will be acted upon. I hope very much he will do exactly that and help us, at least for a modest degree of compensation for what was an extremely unhappy experience in the community as a whole and among our law enforcement officials.

EXHIBIT 1

U.S. SENATE,
Washington, DC, February 1, 2000.

Hon. AL GORE,
The White House,
Washington, DC.

DEAR MR. VICE PRESIDENT: Last spring, the administration selected the City of Seattle from a list of 40 entries to be the honorary host site for the largest trade meeting ever held on U.S. soil, the World trade Organization Ministerial. While the outcome of the event was not what we might have liked, hosting the Ministerial imposed a severe financial burden on the City of Seattle and surrounding communities.

Recognizing that the city and other involved jurisdictions would need assistance and support for security, members of the Washington State Delegation in the House and Senate supported language in the Fiscal Year 2000 Commerce, Justice, State and Judiciary Appropriations bill to provide $5 million to be used for costs related to the WTO Ministerial in Seattle. Just as the trade event was set to convene and the first foreign dignitaries were arriving in Seattle, this language and allocation became law.

Unfortunately, at the same time that foreign and U.S. Trade representatives were convening in Seattle for the initiation of a new round of trade agreements, so too did tens of thousands of protestors, including many who had every intent of disrupting the Ministerial. While I have expressed reservations about how the City of Seattle chose to deal with the onslaught of protesters, I believe that the enacted financial assistance is not only required, but overdue.

To make matters worse, as Seattle continues the task of mending its wounds, the U.S. State Department has refused to release one nickel of the aforementioned allocation. Seattle, its residents and law enforcement still feel the sting of the black eye endured during the week of the WTO.

Preliminary estimates suggest that local taxpayers spent more than $12 million for security expenses related to the WTO, and the Washington State Patrol suggests that at least $2.3 million was absorbed for overtime security expenses. To expect local communities to absorb such security costs for a major international event is unjustified.

As you visit Seattle this week to curry favor with our voters, I will not chastise you, as I have done in the past, for not speaking out on key issues facing the Northwest. Instead, I ask you to assist our community by placing a call to your colleague, Secretary of State Madeleine Albright and demand that the funds prescribed in the FY2000 CJSJ Appropriations bill be released to Seattle.

Thank you in advance for your assistance.

Sincerely,

SLADE GORTON,
U.S. Senator.

EXECUTIVE SESSION

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

The PRESIDING OFFICER. Under the previous order, the Senate will now go into executive session and proceed to the nomination of Alan Greenspan, of New York, which the clerk will report.

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

The PRESIDING OFFICER. The distinguished Senator from Texas is recognized.

Mr. GRAMM. Mr. President, we have an unusual time agreement where we have 4 hours 50 minutes. I have asked, as chairman of the committee, to have 45 minutes under my control to make the case for Chairman Greenspan, the President's nominee.

I have a very small number of people who wish to speak. Senator SARBANES, as ranking member, has made a similar request for 45 minutes. I think the normal procedure would be to run off time proportionately among those who have asked for time. But since Senator SARBANES and I have such a small amount of time, and many other Members who aren't members of the committee have more time reserved than we do, I would like to begin, so that there will be no dispute, no misunderstanding, by asking unanimous consent that the time be charged proportionately to the two sides. The minority side has 4 hours 5 minutes. The majority side has 45 minutes. I ask unanimous consent that the time be charged proportionately.

The PRESIDING OFFICER. Is there objection?

Without objection, it is so ordered.

Mr. GRAMM. Secondly, let me say that when we do have the minority side represented on the floor, I am going to seek to amend that to protect the time of the distinguished ranking member of the committee, Senator SARBANES, and to protect my time. I urge those who have reserved up to an hour each in some cases to come to the floor and speak.

With that, I yield the floor and reserve the remainder of my time.

The PRESIDING OFFICER. The Senator from Maryland is recognized.

Mr. SARBANES. Mr. President, parliamentary inquiry: What is the pending business before the Senate?

The PRESIDING OFFICER. The pending business is the nomination of Alan Greenspan.

Mr. SARBANES. I thank the Chair.

Mr. President, I rise in support of the nomination of Alan Greenspan to be Chairman of the Federal Reserve Board. As I mentioned in the Banking Committee when we held the hearing on the nomination of Alan Greenspan to a fourth term as Chairman of the Federal Reserve Board, one of the distinctive aspects of the Federal Reserve Board as an institution has been its remarkable stability of leadership.

Since 1934, when President Franklin Roosevelt appointed Marriner Eccles to be Federal Reserve Board Chairman until today—a period of over 65 years—there have been only seven Federal Reserve Board Chairmen; only seven. Among them are some of the outstanding economic leaders of our country. Marriner Eccles himself served 14 years as Chairman of the Federal Reserve. William McChesney Martin served 19 years. Arthur Burns and Paul Volcker each served 8 years.

If Chairman Greenspan is confirmed—I am assuming, I think reasonably so, that would be the case—and serves the full length of his fourth term, as I expect he will, he will be the second longest serving Chairman of the Federal Reserve Board. I think it is fair to say, in looking at his tenure as Chairman, that he will take his place among those other outstanding public servants who have provided exceptional economic leadership to our country.

Earlier this week, the U.S. economy achieved the longest expansion in its history with 107 months of continuous growth. We have achieved high levels of growth that have brought us the lowest levels of unemployment in 30 years, and all of this has been accomplished with the lowest levels of inflation in 30 years.

We have had a very virtuous economy in terms of low unemployment and low inflation. The expansion has now gone on long enough that its benefits have begun to be felt by the hardest to employ workers in our economy. Many companies now have instituted training programs which, of course, is all to the good. It enables us to improve the skills and the abilities of our workforce. It enables us to draw people into the workforce who heretofore have not been a part of it. A strongly vibrant economy is important to the success of any Welfare-to-Work initiative. One of the reasons that Welfare to Work has shown some of the results which it has shown is because it has taken place in the context of an economy moving towards or at full employment.

The performance of the economy has defied the conventional wisdom once held by some in the economic profession that there was some arbitrary rate of unemployment below which the economy could not go without triggering inflation.

Credit for this achievement should be shared. President Clinton and former Treasury Secretaries Bentsen and Rubin deserve credit for their disciplined leadership on fiscal policy which has eliminated our budget deficit and moved us into budget surpluses. The Congress also should share in that credit for maintaining fiscal discipline which has enabled us to come out of a deficit budget situation into a surplus budget situation, although I would add as a word of caution that I think we need to be extremely careful and prudent now in the steps we take.

These surpluses about which so many people are talking in terms of what are they going to do with them are projected surpluses. They are not surpluses in hand and they depend very much on the continued healthy performance of the economy. I think it is imperative that we not go to excesses, whether on the spending side or the tax-cutting side, which would knock this economic engine off the track.

In addition—obviously highly relevant to the subject before us—Chairman Greenspan deserves credit for complementing the tight fiscal policy of the administration and the Congress with a monetary policy that has allowed our economy to grow. In doing so, he focused on the evidence before him and was not bound by arbitrary assumptions about the limits of our economy's ability to grow without triggering inflation.

I think the Chairman has been very pragmatic as he has made his judgments. I think he has been very much driven by the facts of the situation and has not come at it with these ideological presuppositions into which he then tries to bend the facts but has taken the facts, evaluated them, and made his judgments.

I am reminded of the fact that some years back within the Federal Reserve System there was a regional bank president who asserted that if the economy started growing and drove the unemployment rate down or looked as though it was going to be below 6.7 percent unemployment, then inflation would virtually automatically start to rise and, therefore, the Fed had the responsibility—the Open Market Committee—as the economy was growing in this direction to start curtailing the economy, of slowing it down by raising the interest rates because unless they did that, a strongly growing economy would bring the unemployment rate down below 6.7 percent. And that was the magic point at which the inflation rate would start going up.

Fortunately, the Chairman, Chairman Greenspan, and a majority of his colleagues, never bought into this theory. Now we see the fact we have brought unemployment down to just over 4 percent, and we have no significant inflation problem before us.

There is a lot of credit that can go around. I mean, when you have success, everyone has fostered it. But I am quite happy certainly to allocate a portion of that to the Chairman and the policies of the Federal Reserve Board.

I have disagreed with Chairman Greenspan in the past about monetary policy, and may well disagree with him again in the future. I have been very much oriented to growth and jobs. I have always been deeply concerned about these so-called preemptive strikes against inflation where you slow growth and job production without any visible sign of inflation—simply some sort of anticipation of it. I have always argued that we ought to let the economy run for a while and see what it produces. The recent experience, of course, has been very encouraging because we brought unemployment down very significantly and have not triggered an inflation problem.

All in all, though, I think it is more than fair to say that Alan Greenspan has been a skillful and dedicated Chairman of the Federal Reserve Board and merits confirmation for another term.

I urge my colleagues in the Senate to join in supporting this nomination of Alan Greenspan to another 4-year term as Chairman of the Federal Reserve Board.

Mr. President, I yield 5 minutes to the able Senator from New York, and not only a member but a very strongly contributing member of our committee.

The PRESIDING OFFICER. The Senator from New York.

Mr. SCHUMER. Mr. President, I thank the Senator from Maryland, not only for the generous yielding of time but for his thoughtful remarks—as always. I think the name ''SARBANES'' and the word ''thoughtful'' are almost attached in this body, and with good reason.

I rise today in full support of the nomination of Alan Greenspan. I do it for a whole variety of reasons. Before I get into those reasons, I am holding something in my hand. Senator GRAMM's staff gave us the application of a man of such gravity and success and magnitude, it is kind of funny to hold an application where he lists his schooling. Even on the last page, there is a section that says ''qualifications,'' why he would be a good Chairman of the Federal Reserve. But he begins by saying, ''I have been an economist for almost half a century.'' One does not have to read this application, fortunately, to know of Chairman Greenspan's merit to be renominated as Chairman of the Federal Reserve.

First, I am proud personally, and I know the other representatives of my State are proud, because Alan Greenspan is one of New York's contributions to the national economy. He is a true New Yorker, born in the Bronx, attended George Washington High School, got his B.S., M.A., and Ph.D. from NYU. When you think about it, the two men who have had their hand on the economic tiller for a large part of the past decade, Bob Rubin and Alan Greenspan, are both New Yorkers. We are proud of our contribution. We have always been proud, in New York, that we send men and women around the country in so many different fields who make real contributions to America. Sometimes America does not recognize it as much as we would want, but it is true. I think there can be no one we can be more proud of, at least in the last decade, than Alan Greenspan.

Alan Greenspan is the perfect man for the job. He is thoughtful. I regularly eat breakfast with him at the Fed. I will never forget the first time we had breakfast together. I really didn't know him that well. He had been Chairman of the Fed for maybe 3 or 4 months.

I said, ''Mr. Chairman, how do you like the job?''

He said, ''I love it.''

''What do you like best about it?''

His eyes lit up. He rubbed his hands together, and he said, ''The data.''

That, I think, is at the root of Alan Greenspan's great success as Chairman of the Fed—his knowledge. He knows the economy. He is a careful man. Those of us who have sat in the Banking Committee, both in the Senate and the House, as I did before I was lucky enough to become a Senator, know he is a careful thinker—almost too careful sometimes, when we ask questions. But that is his job, not to reveal too much. At the root of his merit for the position is the fact that he believes knowledge should guide his decisions, the data should guide his decisions.

He has also been a very careful Chairman of the Fed, and that is a job where care is important. I was always opposed to some of the people in my party who wanted to tie the hands of the Fed or subject the Fed to more popular whim because, frankly, monetary policy is one of those areas of policy that should have some distance from the popular whim. That is because monetary policy takes a while; it takes a while to formulate, and then it takes a while to have its effect once it is implemented. To have it subject to the political vicissitudes and whims to too great an extent would be a tragedy and would make no sense for this country.

In fact, I always marvel at the genius of our Founding Fathers in setting up the structure of merit. But one of the great additions that was made was made in 1912 or 1913 when the Federal Reserve System was finally established. Over the years, we have seen the merit to that system. Yes, there is some popular control, but there is also some distance. I think Chairman Greenspan understands that very well.

There is a third reason I think he makes such a fine Chairman.

I ask unanimous consent I be given 3 additional minutes.

Mr. SARBANES. Yes.

The PRESIDING OFFICER. The Senator is recognized for 3 additional minutes.

Mr. SCHUMER. Not only his thought and care but his solid and sound judgment. The Chairman told me, and he said it repeatedly, he always had a slight lean towards combating inflation. It was not an ideological lean, as opposed to stimulating the economy or combating inflation. But he always said, once you let the genie out of the bottle, it is very hard to get it back. So he erred on the side of caution in terms of letting the economy overheat. My goodness, has that served us well during his 12 years as Chairman.

His steadiness, his intelligence, his judgment, his thoughtful care, his knowledge, all add up to the fact that this is a wonderful day, not only for him—and I hope he will be approved unanimously by this body. This should not be a nomination where ideology—I think he is a Republican, actually. I think he served in the Council of Economic Advisers under, I guess it was President Ford. It is not one where ideology or party should play but, rather, the good of America.

So it is my honor to cast my vote for a great New Yorker, a great American, a great Chairman of the Federal Reserve, and someone who is truly a national treasure. I will be proud to vote for Alan Greenspan.

I thank the Chair and yield the remainder of my time.

The PRESIDING OFFICER. The Senator from Vermont.

Mr. LEAHY. Mr. President, how much time is reserved?

The PRESIDING OFFICER. The Senator from Vermont has 19 and one-half minutes.

Mr. LEAHY. I thank the Chair.

Mr. President, the economy is now entering its 107th month of expansion. That is almost 9 years out of the 25 years I have had the pleasure to serve in this Chamber. Not since the 1960s has the economy experienced such an extended period of growth.

A number of Senators have spoken on the floor today to commend Alan Greenspan for his foresight and his quick hand in raising interest rates to keep inflation in check. The actions of Alan Greenspan and the Fed have certainly contributed to our unprecedented growth—growth that has also been sustained by the sound fiscal policies of President Clinton and Congress. I would remind the Congress, that we can also do our part to help the economy by continuing to pay down our national debt.

Today the Fed is meeting again to consider another possible rate hike. The American economy was certainly on fire during the fourth quarter of 1999. Mr. Greenspan and the Fed have hesitated little in hiking rates to nip inflation in the bud. Last year, the Fed raised interest rates three times by a quarter point each—three times over the short span of 6 months. Such vigilance has been one important part of maintaining the unprecedented growth of our economy.

While it might be blasphemy among macroeconomic economists, I would like to take a moment to urge members of the Federal Open Market Committee to consider the disproportionate effect that these hikes have on low and middle income families. As the Fed mulls rate policy as we speak, I would urge Mr. Greenspan to be doubly sure about raising rates when such hikes, while keeping the economy strong to the benefit of wealthy Americans, may also be tying the hands of low and middle income Americans.

Each time the Fed raises interest rates, average Americans are hit by an immediate increase in mortgage costs, car payments, and credit card rates. These payments are a disproportionate burden on lower and middle income Americans.

For the past week we have been debating a reform of our country's bankruptcy laws. During the course of debate, we have talked at length about the rise in credit card debt. By December of 1999, Americans racked up nearly $589 billion in revolving credit debt. This burden is carried primarily by low and middle income families. An increase in interest rates is likely to pinch these individuals and make it more difficult to pay off their debt and save for the future.

I have been contacted by Vermonters who say they are struggling to pay off their debt and save money to buy homes. These Vermonters face a major setback each time the Fed makes the decision to increase interest rates. In its meeting today and in the future, I urge the Federal Reserve to consider the effect of raising rates on these individuals.

With all the praising being done of Chairman Greenspan today, I wish to note there are a number of Vermonters who contacted me who feel quite a bit differently. Nobody doubts a strong economy, an expansive economy. I think much of the credit, frankly, goes to those who, in 1993, were willing to face down the naysayers and take the first step to have a real balanced budget in the Congress. It sent a signal to the financial markets that for the first time, certainly in my lifetime, the Congress was serious about balancing the budget.

During the 1980s we had seen all the lip service paid and the sloganeering about balancing the budget, while during the 1980s we tripled the national debt and ran the biggest deficits of any nation in the history of the world.

In 1993 I heard many voices, actually on the other side of the aisle, saying if we cast these votes to bring about balancing the budget, it would bring about economic collapse. It would bring about staggering unemployment. It would bring about runaway inflation. And it would bring about huge deficits. It did just the opposite. The unemployment rate has dropped, inflation came to a standstill, the economy boomed, the deficits disappeared, and now we have a budget surplus. Many Members of Congress were courageous enough to cast the real votes that might do that—as compared to simply the sloganeering and doing nothing—and many of them lost their place in the House and Senate for doing it, even though they made a better country for all of us and for our children.

I note that because I believe that vote was as significant a part of bringing about the credibility necessary for a strong economy as anything we have done. The expansion of the information technology industries, high tech, and so forth, also were part of it and a steadying influence by Chairman Greenspan and the Fed.

But this idea that one person controls this economy by himself is something that even some who sit here in the Senate cannot say with a straight face. As many Vermonters have told me, when they see interest rates being raised over and over and over again at a time when there is no inflation, when the economy has more and more people coming into the workforce—because every time you have a merger, thousands of people are laid off. They go and seek jobs in other parts of the labor market. We see all these things and question why interest rates go up. The interest rates going up apparently have given a great benefit to the wealthiest of Americans but has done very little for the average man and woman, certainly in my State.

In my State, we have seen oil prices and heating oil costs go up substantially this winter, and now the Fed is about to tell everybody: We are going to raise your interest rates again; we are going to raise your mortgages rates again; we are going to raise the interest rates on your credit cards again. If you are a small business, we are going to raise your costs of doing business again.

I am not sure what is gained by these interest rate hikes. It puts a very heavy burden on those families where the husband and wife are both working and trying to pay the kids' tuition, pay the bills, and pay the mortgage. It certainly puts a heavy burden on small businesses in my State.

It will help some bankers, absolutely. It will help credit card companies, absolutely. It will help some of the wealthiest, absolutely. And maybe there is a plan in here that by helping all of them, some day it may help the people who keep the country going and pay the bills. Possibly.

I share the skepticism of those Vermonters, and I hope when this vote is cast, which I assume will be overwhelming for the reconfirmation of Chairman Greenspan, that he will not take this as some kind of an accolade that nobody disagrees with what he has done; that he will understand there are those who actually have to pay their mortgages, those who do not have millions of dollars, those who do not have six-figure incomes and are hurt by these interest rate hikes; that they are the ones who see no inflation and probably have been laid off from jobs because of mergers and are out seeking another job and are now hit with an extra whammy of paying more for their mortgages, their credit cards, for the things they need.

Some of the thoughts of the Fed that the boom will not continue, that inflation was around the corner has not been proven, and I do not think the steps they are taking are right. That is one person's opinion. Obviously, it is very much a minority opinion but certainly an opinion that is felt strongly by the average man and woman who are earning a weekly salary and paying the bills.

I hope the Fed will look at some of the data they have available to them and understand there are other ways of combating inflation than simply raising interest rates and that the country will realize there are a lot of very courageous people who voted for a balanced budget in 1993. Rather than simply talking about it, all those courageous people who lost their places in Congress for doing that are also the ones who deserve an enormous amount of credit today for the huge economy we have underway.

Mr. President, how much time does the Senator from Vermont have remaining?

The PRESIDING OFFICER. The Senator has 11½ minutes remaining.

Mr. LEAHY. Mr. President, I ask unanimous consent that the time I have remaining be turned over to the Senator from Maryland for such use as he may wish to make of it.

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

Mr. SARBANES. Mr. President, what is the time situation now?

The PRESIDING OFFICER. The time situation is as follows: The Senator from Maryland controls 38½ minutes; the Senator from Texas controls 42 minutes; the Senator from Minnesota, Mr. WELLSTONE, controls 58 minutes; the Senator from Iowa, Mr. HARKIN, controls 58 minutes; the Senator from Nevada, Mr. REID, controls 29 minutes; and the Senator from North Dakota, Mr. DORGAN, controls 29 minutes.

Mr. SARBANES. I simply make the observation for those Members of the Senate who wish to be heard on this nomination that this is an opportune time, and that includes members of the committee and others who will seek either Senator GRAMM or myself to yield time to them in order to speak. There are other Members who have been actually allocated time specifically. Of course, we presume they will be coming to the floor in order to use that time.

I put an inquiry to the Chair: I understand that if no one speaks, the time will be charged proportionately to all those to whom time has been allocated?

The PRESIDING OFFICER. The Senator is correct.

Mr. SARBANES. Mr. President, I cease and allow that circumstance to prevail.

The PRESIDING OFFICER. Time will be charged proportionately to those who have time reserved.

The PRESIDING OFFICER. The Senator from Nevada is recognized.

Mr. REID. Mr. President, we are experiencing the longest economic expansion in the history of this country. As of the end of January, we underwent 107 consecutive months of economic growth. Much of this can be attributed to the economic policies of Federal Reserve Chairman Alan Greenspan.

In the midst of this unprecedented prosperity, it's easy to say, let's not change anything. Let's not rock the boat. Things are great, why rain on the parade? Why even ask tough questions that might upset the delicate and fine-tuned mechanism of the economy?

But I think that we have to ask those questions.

Today the Senate is considering the President's nomination of Mr. Greenspan to his fourth consecutive four-year term as Chairman of the Federal Reserve Board of Governors. In my opinion, if we are to confirm him to serve in that post again, we should not do so simply to reward him for the good that he has accomplished over the last few years—we should only do so because we think that he is the best person for the job for the next four years.

In making that decision, we have to take a hard look at everything that has happened under Chairman Greenspan's watch—the bad as well as the good.

We are considering him not only for his views on the economy, but for his ability as a manager, as the head of the largest, most powerful institutions in the world.

Viewing his record as a whole, Mr. President, I am not convinced that Chairman Greenspan is the best man to guide the Fed for the next four years. I intend to vote against his confirmation.

Let me make this clear: I rise today not to criticize Alan Greenspan as a person, or to criticize his economic policies. Chairman Greenspan is a fine man, who has worked hard for this Nation. The results of Chairman Greenspan's monetary policies over the last 10 years speak for themselves, in rather eloquent terms.

The Federal Reserve is one of the most powerful institutions in the world. It makes decisions that fundamentally change our economy, and the world economy.

It is also, as columnist Jack Anderson wrote, a secret government of unaccountable, unelected bankers and bureaucrats that has long resisted Congressional oversight, and that is completely exempt from the Congressional budgeting process.

For the past six years, Senator DORGAN and I have worked to try to achieve greater accountability over the Federal Reserve. Last year, we added an amendment to the Financial Services Modernization Bill that would have required a consolidated yearly audit covering the operations of each Federal Reserve Bank, the Federal Reserve Board of Governors and the Federal Reserve System.

Our amendment was all about accountability in the day-to-day operations of the Fed. It did not seek to interfere with monetary policy. That is an area that should be kept separate, for good reason. Our amendment sought to open the doors of a taxpayer-financed institution which has been closed to Congressional oversight or review for more than 80 years.

Unfortunately, our amendment was stripped down in conference. That happened in part because the Federal Reserve strongly opposed any kind of audit or oversight.

In 1993, Senator DORGAN and I asked the GAO conduct a review of the Fed's operation and practices. The review found a number of disturbing revelations about the way the Federal Reserve does its business, including evidence of serious mismanagement at the highest levels.

Significantly, many of the incidents of waste and mismanagement have increased since 1988, the year Mr. Greenspan first became Chairman.

(1) The Report found numerous and significant weaknesses in the Fed's planning, budgeting, oversight, and audit processes that have resulted in unnecessary waste in the Fed's operating costs.

(A) The Fed's operating policies and practices do not include cost-minimizing that are commonplace in private-sector entities and even other government agencies.

(B) Overall Federal Reserve operating expenses increased from $1.36 billion in 1988, to $1 billion in 1994:

A 50 percent increase that was more than twice the rate of inflation during that same time period;

The increase in operating expenses also exceeded the rate of increase in the Fed's revenues; and

It also far exceed the 17-percent increase in overall federal discretionary spending.

(C) The report concluded that, among other things, the Federal Reserve could reduce its personnel benefits and travel-related reimbursements without affecting its operation:

The employee benefits paid by the Fed for even low-level employees were called ''generous'' compared to other government agencies and comparable financial institutions; and

Travel reimbursement policies among the various Reserve banks varied widely

(D) The report found that the Fed's Interdistrict Transportation Service has been engaging in questionable practices such as the implementation of non-competitive contracts, gifts of payments for missing backup and grounded aircraft to non-performing contractors, and a disturbing pattern of indifference to fraud, waste and abuse.

(2) The Board's internal oversight mechanisms were called ''fragmented, inefficient, and lacking in independence.''

(A) Operating costs vary among Reserve banks because the Federal Reserve has not established consistent policies.

(B) Several Reserve banks used contracting and procurement policies that violated written government policies, and which resulted in favoring some sources over others—raising questions of conflicts of interest, favoritism, and whether the Federal Reserve is receiving the best services and most favorable prices.

(C) The Los Angeles branch alone documented over $121 million in bookkeeping errors in a single month.

(3) The Fed maintains a reserve account of $5.2 billion dollars which could be re-directed into the Federal Treasury. That fund is intended to protect the Fed against unexpected losses.

But the Fed has recorded substantial net profits for 84 straight years, and the fund has never been used since it was created in 1913. Nonetheless, the size of that fund has increased nearly 150 percent in only the last ten years, rising from $2.1 billion in 1988 to $5.2 billion in 1998.

Most important, the report raised serious questions about Mr. Greenspan's ability to manage the Fed in a time of rapid economic change.

The Report concluded that numerous technological, political, and marketplace developments could profoundly affect the Fed's mission and operation in the years to come, and which require the Fed's careful attention and leadership.

(A) Increased competition from private institutions and a shift to electronic banking could significantly reduce the Fed's revenues, particularly in areas such as check-clearing. The Fed has not taken sufficient steps to compensate for these shrinking revenue sources.

(B) A major consolidation in the banking industry is going on that could significantly affect the Fed's oversight and review activities.

Changes in the number and location of bank-holding companies the Fed oversees could require adjustments in Fed staffing at the various Reserve banks.

To pay for these changes, the Fed's oversight staff could charge local banks a fee for their oversight activities, but choose not to, resulting in taxpayers paying the bill for those activities to the tune of $388 million a year.

The Fed's Reserve banks have not changed their geographic location since 1913, despite major shifts in population demographics and economics, raising question of whether the Fed's oversight functions are being performed effectively and equally around the country.

(C) Overall, increasing competition from private-sector suppliers of financial services, coupled with changes in technology and commerce, and increasing globalization of economic policy,'' present significant challenges to the Federal Reserve to rethink many aspects of its operations and raise important questions regarding the future role of the Reserve banks, their management structures, their locations''—and ''call for a careful re-examination of the Federal Reserve's mission, structure, and work processes.'' But it appears that no such re-examination has taken place in the five years since the report was issued.

The report concluded that if the Federal Reserve Board is to plan strategically for the future, so that it can continue to deliver services efficiently in a world that is changing rapidly and substantially, it will need the Board's ''sustained leadership.'' That sustained leadership appears to have been absent.

If this report had been made about a Cabinet Secretary, the Congress and the public would demand answers. If it were about the CEO of a private corporation his board would probably send him packing.

We live in a world of change.

Only a few years ago, nobody had heard of the Internet, and electronic commerce didn't exist.

Nobody bought stock on-line.

Only a few years ago, the European Economic Union was a pipe dream.

GATT and NAFTA didn't exist.

Japan's economy was the envy of the world, and the United States was thought to be in decline.

Nobody can predict what the world will be like years from now. But one thing we do know, is that if the Fed is to continue its ability to successfully manage our economy, change will be necessary. Not superficial tinkering, but fundamental, structural changes.

I do not believe that Mr. Greenspan is the right kind of manager to drive that change.

Let me read to you from the GAO report:

> The Federal Reserve must create the necessary self-discipline for the institution to adequately control its costs and respond effectively to future challenges. However, GAO found weaknesses in the planning and budgeting processes that are key mechanisms for accomplishing those goals . . . the Federal Reserve did not have an integrated, systemwide strategic plan that identified the emerging issues and challenges affecting the entire system and how to effectively address them.

In a climate of rapid change, that is a recipe for disaster.

For these reasons, I do not believe that Alan Greenspan is the right man for the job, and I intend to vote against his confirmation, and I urge my colleagues to do the same.

Mr. DORGAN. Mr. President, does the unanimous consent agreement include a time for me to speak?

The PRESIDING OFFICER. It does. The Senator has 24 minutes remaining.

Mr. DORGAN. Mr. President, I understand we are here on the floor of the Senate to talk about the renomination of Alan Greenspan as Chairman of the Federal Reserve Board. I want to start my presentation by saying it is not my intention to come to the floor of the Senate to persuade people Mr. Greenspan is not a good person or has not been a good public servant—I do not believe that. He is someone with great skill and great devotion to public service.

But I do come to say that I have profound differences with Mr. Greenspan over monetary policy issues and I believe his stewardship with the Federal Reserve Board, while widely hailed by many, falls short of what I think should have been done at the Fed during the same period. I would like to spend some time describing that.

As I begin this discussion, let me point out that just this afternoon the Federal Reserve Board has announced yet another interest rate hike. They have announced today that the Federal Open Market Committee is hiking short-term interest rates another one quarter of 1 percent.

What does that mean? A lot of people will not think much about the one quarter of 1 percent in terms of what it means to them. It means the Federal Reserve Board is imposing a tax on every single American with these interest rate hikes because they are worried about some new wave of inflation that does not exist in our country. I had some work done at the North Dakota State University by Dr. Won Koo in the Department of Agricultural Economics. I asked him to tell me what it means, just in terms of North Dakota, when the Federal Reserve Board has now on four occasions in a matter of 8 months raised interest rates by 1 percent. What does it mean when we have a 1-percent interest rate increase?

The additional average interest payments for North Dakota farmers will be nearly $23 million a year as a result of the actions of the Federal Reserve Board, or about $719 per farm annually.

A typical North Dakota household will see their interest charges go up by an additional $356 a year because of the four Fed interest rate hikes. The Federal Reserve Board is imposing a tax on every single American with these four rate hikes.

I will explain more later why I think the rate hikes are unjustifiable. But these rate hikes are unjustifiable because the Federal Reserve Board is searching for inflation that does not exist. Inflation has gone down, down, way down, all the while the Federal Reserve Board has insisted the fires of inflation are just around the corner. The Fed has been consistently wrong on that. And there seems to be almost no debate about it. It is OK if the Fed decides it wants to increase interest rates and effectively tax all the American people with higher interest rates.

Some of those who come to the floor of the Senate who are the most aggressive people in opposition to any kind of a tax increase, sit silently while the Federal Reserve Board says: We want to impose new costs on the American people in the form of mandated higher interest charges. That is rather curious to me. Why so silent when the Federal Reserve Board does this without justification, I might add.

Here is the Federal Reserve Board. And I do this to give the American people a sense of who makes monetary policy. We have a Board of Governors. There are two seats that are currently vacant. We are hoping maybe we can get someone appointed to the Federal Reserve Board who cares something about consumers and family farmers and others who will have to pay the higher interest charges. It is not likely to happen, but we are trying. None of the current Board members is from our part of the country. There have only been three Board members from the Upper Midwest appointed to the Board of Governors since it was created. We are hoping maybe somebody who might take one of these vacant seats will be somebody who knows how to make something, to produce something, who does something every day and will come here not representing the money center bankers' interests but representing the interests of consumers, family farmers, or Main Street businesses.

The Board of Governors and, the presidents of the regional Fed banks on a rotating basis, go in a room, shut the door, and in secret decide what kind of monetary policy they want to employ and whether they want to increase interest rates. The American people were not present in the room and I was not present in the room because we are excluded from these deliberations by the Federal Reserve Board.

These are the folks who went into that room: Roger W. Ferguson, Jr., Alan Greenspan, Edward Gramlich, Edward W. Kelley, Jr., Laurence Meyer; and then these folks from the Fed regional banks, the ones with the gold stars: Robert Perry, Jack Guynn, Mr. Broaddus, Mr. Jordan, and Mr. McDonough. They apparently think the American people's interest charges are not high and decided to raise it one-quarter of 1 percent, a total of 1 percent over the last four rate hikes. The question is why.

It is interesting, the Chairman of the Federal Reserve Board says he does this because there is a threat of new inflation in this country. Over the past 12 months, however, inflation has been well under control. The CPI has risen 2.7 percent in the last 12 months. In the last 3 months, the CPI has risen at an annual rate of 2.2 percent, and the core CPI—if you take out volatile food and energy prices, has risen 1.9 percent in the last 12 months, the lowest it's been since 1965.

In addition, Mr. Greenspan has come to the Capitol and said: We think the CPI overstates inflation by 1.5 percent. I do not think he is right about that, but if he is right, we have effectively no inflation in this country. If we have no inflation in this country, what on Earth are these folks doing in a secret meeting downtown, wearing suits and glasses and talking in bankerspeak, deciding to increase taxes in the form of a higher interest rate on every American? What are they doing? How do they justify that? Why do those in this Congress who wail so much about taxes sit silently while the Federal Reserve Board does this without justification? You tell me where the new fires of inflation exist.

Alan Greenspan for years came to counsel us on Capitol Hill. He said: We cannot countenance economic growth in this country more than 2.2 or 2.5 percent without risking substantial new waves of inflation—just can't do it. He was wrong. Again and again he was wrong. Economic growth has been well above 2.5 percent, and inflation has been way down, not up. Mr. Greenspan came to Congress and gave us the sage advice that if we saw unemployment fall below 6 percent, we risked new fires of inflation. He was wrong again and again. He was wrong.

Yet we hear people come to the floor to say he is the greatest American ever. He is a nice enough fellow. I have nothing against him personally. His policies, in my judgment, have imposed an added financial burden on the American people in the form of higher interest charges than is justifiable. I ask all of you who know these numbers, evaluate what have been the interest rates relative to inflation—that is, the real rate of interest—in the Greenspan years versus pre-Greenspan years. What is the real economic rent for money? What kinds of policies imposed by the Greenspan years at the Fed have resulted in what kinds of charges to the American people relative to what had been done before Mr. Greenspan came to the Fed?

I will tell you the answer. The answer is, interest rates on a real basis have been higher in the Greenspan years by about one-half of 1 percent than the pre-Greenspan years. Can you justify that? I do not think so. And Mr. Greenspan, leading this Fed—and make no mistake, he is in charge, it is his policy, no one would contest that—has said over the years: We must grow more slowly; we cannot support higher growth; we must shade on the area of having more people unemployed rather than fewer people unemployed, and because of the risks of having too few people out of work and too much economic growth, we must retain interest rates at a level that is higher than historically justified relative to the rate of inflation.

Some might come to the floor and be able to justify that in their own minds. I certainly cannot. I do not think the American people believe either that Mr. Greenspan's higher interest rates relate to this new economy that can grow faster with lower unemployment numbers than most economists ever thought available or doable.

Let's talk just about the numbers for a few minutes. I mentioned that the core rate of inflation is now 1.9 percent over the last 12 months, the lowest its been since 1965. I mentioned Mr. Greenspan thinks the CPI overstates the rate of inflation by a percent and a half. That means we have virtually no inflation. But today the Fed said we are worried about inflation, therefore we must increase interest rates once again. The Fed is wrong once again.

In 1999, the GDP grew at 4 percent; in 1998, 4.3 percent; in 1997, 4.5 percent. In other words, in the two previous years to 1999, we had higher rates of growth than in the last year, and yet the Fed today, by its interest rate increase, says our economy is growing too fast. Again, in my judgment, it is implausible. This Fed Chairman steers the Fed on monetary policy on the side of money center banks. I think monetary policy ought to be steered in a direction and on a course that relates to all of the needs and all of the interests of this economy and of the American people.

I talked a little about unemployment. In the past, the Fed has preached that the non-accelerating inflation rate of unemployment was 6 percent. In short, if the unemployment rate goes below 6 percent, consumer prices will go up. The Fed's reliance on this and other buggy-whip approaches to economic analysis have been terribly misdirected given the globalization and the galloping globalization of the workforce.

The unemployment rate has been below 6 percent for 64 consecutive months, over 5 years, without a peek at a new wave of inflation. Today, unemployment rates are at a 30-year low of 4.1 percent, and our economy is growing at a healthy rate without a shred of evidence that there is a new threat of inflation.

Some say Mr. Greenspan is increasing interest rates not so much because he is worried about inflation, although that is what he says, but because he wants to curb speculation in the stock market. He thinks there is something in the stock market; he said once ''irrational exuberance''—whatever that means to economists. I used to teach economics ever so briefly. Irrational exuberance, he says—it is interesting—irrational exuberance on the part of those who are engaging in transactions on Wall Street that are presumably market transactions, and presumably in a circumstance where the market works. It is interesting that Mr. Greenspan decides, because of this irrational exuberance, he wants to impose a penalty on all the American people through higher interest rates rather than deal with what I think may be the cause of this so-called irrational exuberance.

If Mr. Greenspan really wants to try to bust some of the bubble on Wall Street, maybe he ought not raise interest rates that cause direct and immediate harm to families and to producers, but maybe he ought to consider taking real steps to put limits on the use of ''margins'' by investors to buy stocks.

It is interesting, the amount borrowed by investors to buy equity securities is growing to levels of significant concern.

Last November, the margin amount increased by 13.2 percent in 1 month alone—the largest monthly increase since 1971. Perhaps Mr. Greenspan might want to put some limits on the use of margins; but, no, not Mr. Greenspan. He would sooner impose an added interest charge on all Americans.

Let me talk for a moment about what I think is the low watermark of the Fed in recent times. That is the issue of Long-Term Capital Management, the ill-fated hedge fund, because it relates not only to the management of the Fed, but it relates to what the Fed is interested in and relates to the Fed's, in my judgment, insensitivity of or, perhaps in a stronger sense, blindness to solve the risks that exist that they ought to be concerned about but are not.

Long-Term Capital Management.

Mr. President, how much of my time remains?

The PRESIDING OFFICER. Eleven minutes.

Mr. DORGAN. Mr. President, some while ago the Federal Reserve Board orchestrated a $3.6 billion bailout of something called Long-Term Capital Management, the highflying hedge fund, which I think calls into question the leadership at the Federal Reserve Board and calls into question what they think is important and what they are willing to ignore.

The federally insured banks were lenders and investors in this Long-Term Capital Management fund. The GAO, in its 1999 report, requested by myself and Congressman MARKEY, Senators HARKIN and REID, found that federal regulators failed to detect lapses in risk management by lenders, and others, that allowed Long-Term Capital Management to become large and excessively leveraged until after the crisis.

Mr. Greenspan testified that the intervention in the Long-Term Capital Management debacle was needed to prevent a crisis in the global financial markets. But then he appears just as quickly to dismiss the Fed role in the bailout as little more than a spectator providing office space.

What makes this more troublesome, to me, is that just days before the Federal officials visited Long-Term Capital Management in Connecticut to discuss its financial problems, Chairman Greenspan was testifying before the House Banking Committee that: ''Hedge funds were strongly regulated by those who lend the money.'' Of course, nothing could have been further from the truth, as was uncovered by the GAO's 1999 investigation of the Long-Term Capital Management's near collapse.

The independent report reveals that our Federal regulators, including the Fed, allowed this speculative hedge fund to load up with $1.4 trillion notional value in derivatives, which threatened to bring chaos in financial markets here and around the world.

While I am on this subject of unregulated hedge funds, which the Fed on a Sunday had to bail out by arranging bank loans, shortly after they said: Gee, there is no problem here with hedge funds.

Let me add that the subject of derivatives ought to have some attention by not only our committees but by the Fed and other banking regulators, as well. There is something around $33 trillion notional value derivatives by banks in this country, and we have banks whose deposits are insured by the Federal Government, doing proprietary trading on derivatives on their own accounts.

They could just as well put a craps table in the lobby of a bank. They could just as well put a roulette wheel in the lobby of a bank. A bank, with federally insured deposits, trading on its proprietary accounts in derivatives, and nobody seems to care. But someday, some way, someone will care because this is going to go the way of Long-Term Capital Management, unless there is adequate supervision. When those cards collapse, that collapse is going to be significant.

We need, in my judgment, strong management. We need assertive oversight by our committees. We need strong, aggressive oversight in the regulatory approaches by the Federal Reserve Board. Regrettably, that is not the case these days with respect to the Federal Reserve Board.

Since the chairman of the Banking Committee is here, I will say that I urge the committee to pay some attention. You probably already have. I am not suggesting you have not. I don't know what your agenda is. I hope very much the issue of derivatives and the issue of the regulation of hedge funds, or at least the concern about what hedge funds are doing in light of Long-Term Capital Management scandal, is something that is part of the agenda of the Banking Committee in this Congress.

I have described, at the start of my presentation, it is not my intention, nor would I expect it to be the intention of the Senator from Iowa, Mr. HARKIN, or others, to come to the floor to say that the Chairman of the Federal Reserve Board is a bad person. I do not believe that. I met him. I like him. I think he is a good public servant. I think he has given a great deal to this country.

He and I simply have fundamental differences on monetary policy. He has run monetary policy with a tight fist, believing a certain way, and those beliefs include that we could not allow more growth. We had to have slower growth in order to avoid inflation. We had to have more people unemployed in order to avoid inflation. He was wrong on both counts, wrong consistently.

My point is, I think it is time—and I have told this to the President—I think it is time for new blood at the Federal Reserve Board.

I say to the Senator from Iowa, who has come to the floor, look at this Board. I, from time to time, as a public service—because the Fed is so closed and so secretive; it is the last dinosaur on the American landscape in public policy—I bring pictures to the floor to show people what the Fed looks like. Here is who they are. Here is where they graduated from. Here is what their degrees are. Put a gray suit on all these folks, and they all look the same, talk the same, and think the same. That is why this policy is a homogenized policy that does not provoke any debate in this country about monetary policy.

A century ago they used to debate monetary policy in bars and barbershops. I thought that was healthy. Fifty years ago and 40 years ago, when McChesney Martin was running the Federal Reserve Board up here, he was going to raise interest rates by one quarter of 1 percent, and Lyndon Johnson got him down to the ranch in the Perdinales in Texas and darn near broke his shoulders he was squeezing him so tight.

The point is, it was front page headlines around the country because McChesney Martin was going to have the Fed raise interest rates by a quarter of 1 percent. The President got so upset he even called McChesney Martin down to the ranch. The Fed did not have to respond to Lyndon Johnson, but my point is, back then interest rate policy was a matter of public concern, of public debate. These days, these folks go in that well-paneled room and shut the door, and it is all done in secret. Then they open the door and say: Guess what we have done for you. There are too many people working. We are growing too fast, so therefore we have increased a tax on all the American people by increasing interest rates once again.

Four successive interest rate increases—1 full percent. Again, let me say that the average North Dakota household, which pays $356 a year more in interest rate charges—that is a new tax on the American consumer in my State and around the country.

Mr. HARKIN. That is true.

Mr. DORGAN. It was not a tax debated on the floor of the Senate. If we had that debate, my friend from Texas, Senator GRAMM, the distinguished chairman of the Banking Committee, would be on the floor, I guarantee you, because when we debate taxes he is on the floor. He is a passionate combatant in those debates. But we cannot have that debate on the floor of the Senate because the Federal Reserve Board does not have a debate in public. It does it in secret.

What I am saying is, I think the Federal Reserve Board process needs to be more open. I know the response and the rejoinder to that will be: Well, the Senator wants to make the Federal Reserve Board process politics on the floor of the Senate. That is not my point. My point is, I think there ought to be, leading into this process somehow, some interests of the American people. It does not exist at the moment.

It is my intention to not support this renomination. I expect this renomination will carry with a very large vote in the Senate, but it will not carry with my vote because I believe monetary policy ought to change in this country. I do not believe our country is growing too fast. I do not believe too few people are unemployed. I do not share that view, that is too often shared in the bowels of the Federal Reserve Board. I would like someday for us to have a monetary policy that represents the entire interests of our country, not just the interests of money center banks.

Mr. HARKIN. Will the Senator yield for a question?

Mr. DORGAN. I am happy to yield.

Mr. HARKIN. I thank the Senator for his statement on the floor, pointing out that what this interest rate increase is is a tax on hard-working Americans, a very insidious kind of tax, too. It is going to have other repercussions.

The question I have to ask of the Senator is this: The Senator talked about the Federal Reserve Board meeting in secret and not knowing what is going on. I don't want to make it political either. No one wants to make it political. But I think we do have a right to know why they make the decisions they make.

It is my understanding that the transcripts of the meetings of the Fed are kept secret for 5 years, if I am not mistaken. It may be a shorter period. I stand to be corrected. We don't know for years why they made the decisions they made. What is so secretive about this?

Even if they do meet in secret, it seems to me that within 1 month or 3 months or 6 months we ought to at least have the transcript so we would know what was the discussion that went into why the Board raised interest rates a quarter of a point today; what the discussions were last year that caused them to raise interest rates three times. Keep in mind, the Fed has raised interest rates four times in a 1 year period. A little nick here, a little nick there, pretty soon you are bleeding pretty badly. Four times in a 1 year period. What were the reasons for it? We don't know because they meet in secret. Again, it is my understanding—I stand to be corrected—that the transcripts are kept secret for 5 years.

Again, the Senator from North Dakota has pointed this out many times, the Federal Reserve was not created by the Constitution of the United States. The Federal Reserve was created by legislation. It is a creature of Congress created by legislation. It seems to me we have a right and a responsibility to have a better understanding not only of how the Fed operates but why they make the decisions they do. I ask the Senator that question, about opening up the transcripts so we know why they make those decisions.

Mr. DORGAN. I don't know what length of time they keep the transcript private. However, the Federal Reserve Board is enormously private. I have said it is the last dinosaur. A little sunlight would be a great disinfectant for monetary policy.

The PRESIDING OFFICER. The time of the Senator from North Dakota has expired.

Mr. DORGAN. Mr. President, I ask unanimous consent for 1 additional minute.

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

Mr. DORGAN. There is so little known about the Federal Reserve Board that when Senator REID and I had a GAO report done recently, they said that the Federal Reserve Board has stashed away now close to $6.4 billion—then I believe it was $3.7 billion—in a kind of a rainy day fund. The rainy day fund was described by the Fed as a surplus fund that was to be used in the event they needed it if they suffered a loss.

This is an institution that makes money. This is an institution that has never had a loss, will never have a loss, and stashes away a cash reserve in the event that it has a rainy day. The GAO report, of course, was very critical of the management of the Fed on a wide range of things. But I will not put it in the RECORD.

The PRESIDING OFFICER. The Senator's additional minute has expired.

The Senator from Texas.

Mr. GRAMM. Mr. President, I thank Senator HARKIN. It is my understanding that since the distinguished Senator from Missouri wanted to speak only 3 or so minutes, that he had agreed that after I speak—and I should speak only 5 or 10 minutes—the Senator from Missouri could speak 3 or 4 minutes before Senator HARKIN takes the floor. I think he has an hour. I thank him for that.

I hope people are watching this debate. Our dear colleague from North Dakota does an excellent job of presenting his point of view. It is not a point of view I agree with, but it is a point of view that obviously he believes and he presents very effectively, as does Senator HARKIN.

For people who believe that there are no differences among Members, that parties don't make any difference, that Democrats and Republicans are identical, I hope they are listening to this debate because we are getting to the very heart of the fundamental differences that separate us and, in separating us, serve the country. In the process, we have an opportunity to present competing visions. Then every 2 years, on the first Tuesday after the first Monday of November, people decide whose vision they want to follow.

I think this debate is very informative and very important. I have asked for a fairly short amount of time. I think the minority side has 4 hours 5 minutes. I have asked that our side have 45 minutes because I think our case is a very strong one, and we don't think we have to be repetitive to make it.

As I look down the list of Americans who have served as Chairmen of the Board of the Federal Reserve Board, it reads like a Who's Who in economics and banking: Paul Volcker, Arthur Burns, William McChesney Martin. These are Americans who have provided distinguished service to our country. But as I look at the record of Alan Greenspan, I can stand on the floor of the Senate and say, without any fear of contradiction, that Alan Greenspan's record is the finest record that has ever been established by a Chairman of the Board of Governors of the Federal Reserve Board since we created the Federal Reserve and it began operating in 1913.

I go further in saying that whether we are talking about Nicholas Biddle at the Second Bank of the United States or about monetary policy conducted by the Treasury or about any central banker in any monetary center anywhere on the planet, I believe a strong case can be made that Alan Greenspan is the greatest central banker in the history of the world.

Why do I say these things? Let the record speak for itself in terms of what has happened under Alan Greenspan's leadership. First, how many people have been appointed to the highest appointed position in the land by Ronald Reagan, George Bush, and Bill Clinton? Is there any other person who has been appointed to a high position of public trust by those three men? The answer is no. And why have three successive Administrations appointed Alan Greenspan to be Chairman of the Board of Governors of the Federal Reserve Board? Because he is the best central banker we have ever had.

As we all debate this issue and have our opportunity to second-guess Alan Greenspan, let me talk about the record. The day Alan Greenspan became Chairman of the Board of Governors of the Federal Reserve Board in 1987, long-term interest rates were 8.98 percent. Today they are 6.42 percent. As a result, millions of Americans who did not have the opportunity to build and buy their own homes the day Alan Greenspan became Chairman of the Federal Reserve Board, now have that opportunity, and they are seizing it in record numbers.

The day Alan Greenspan became Chairman of the Board of Governors of the Federal Reserve Board, the Dow Jones Industrial Average stood at 1,938.83. Today the Dow stands at over 11,000. In other words, the equity value of the broad cross-section measure of the fundamental industry in America has risen during the period that Alan Greenspan has been Chairman of the Board of Governors of the Federal Reserve Board by nearly 500 percent.

Today, schoolteachers, firemen, insurance salesmen, and coaches find that the value of their 401(k)s and their IRAs have skyrocketed, and as a result, their financial security has grown. They approach retirement in a better position than anyone could have ever expected. And that wealth is widely distributed. More Americans own part of the equity value of America than ever before in history. Indeed, we have come the closest of any society in history of fulfilling the Marxist dream of workers owning the means of production—only we have done it the real way, not with the government stealing it and claiming that workers own it; workers really do own it.

The unemployment rate the day Alan Greenspan became Chairman of the Board of Governors of the Federal Reserve Board stood at 5.7 percent. Today, it is 4.1 percent—the lowest level in 30 years. In fact, when you look at the array of social programs in the economy and their impact on the incentive of people to take jobs, when you look at the environment in which that 4.1 percent exists, I doubt if there has ever been a day in American history where the unemployment rate was effectively lower than it is today. The wonderful thing about this growth in employment is that it is not just the same people who are always getting jobs. A Congressman's daughter and the son of the bank president get jobs—good times and bad times.

What is wonderful about the golden economic age in which we are living is that employment among minorities is growing faster than employment in the economy as a whole. We have had an explosion in the number of women who have gone into business and succeeded, and the benefits of this economic growth are being more widely shared today than any economic growth that we have ever achieved.

The rate of inflation on the day Alan Greenspan became Chairman of the Board of Governors of the Federal Reserve Board was 4.5 percent, and we were grateful. Today, the inflation rate is just 2.7 percent. As one of our colleagues already noted, if we could account for quality differences, if we could take into account the quality differences in a new Suburban versus a Suburban 10 years ago, or the quality difference in a Sony television as compared to 10 years ago, that inflation rate would be virtually zero.

Just as Alan Greenspan was beginning his service as chairman of the Federal Reserve Board in 1987, we had a stock market drop of 500 points. That was a time when 500 points were real and represented a dramatic drop in equity values. Some argued that the Government had to intervene; too many people are investing in the equity market; we have to have dramatic reforms. But under the stable leadership of Alan Greenspan, and several other members of the Working Group that was put together at that time, we basically set about to strengthen the system in terms of liquidity and transparency, and Government kept its cold, dead hand off the equity market, and we have seen in the 1990s what the result has been.

At the end of the 1980s, we experienced the S&L collapse, the greatest financial crisis during my period of service in Congress. It cost $100 billion to fix. It could have been avoided had we put up money earlier and acted earlier, as President Reagan urged. But under the leadership of Alan Greenspan, while nobody knew it at the time, we instituted a procedure of closing troubled thrifts and selling off assets, which the whole world looks at as the standard of how you deal with a financial crisis.

Have we forgotten the Mexican peso crisis? Have we forgotten the Asian economic crisis? Can you remember when it was conventional wisdom that the collapse in Asia was going to mean an economic downturn in America? I missed that downturn, and so did America. Under Alan Greenspan's leadership, we have set a course that helped Asia regain its footing. Korea, through reforms, has done it. Other countries will achieve greater stability when they reform. Have we forgotten the Russian economic collapse? Have we forgotten the Brazilian currency collapse?

In other words, Alan Greenspan's stewardship as chairman has not been uneventful. But the net result is that the American economy has stayed on track. It is easy for us to second-guess the policies of the Federal Reserve Board, but who thought Alan Greenspan would raise interest rates on the very day that we are considering his confirmation? If that is not a statement of confidence in him, I don't know what is, and I don't see any reason to be second-guessing Alan Greenspan's record.

If I have a concern today as we move toward this vote, it is what are we going to do when Alan Greenspan is gone. I hope there is someone out there who will be capable of matching this record. But I am not sure there is such a person, and it worries me. My grandmother used to say, ''The graveyard is full of indispensable men.'' Alan Greenspan is not going to have this job forever. But as long as he wants it, and I have a vote about whether he is going to get it, based on this record, I am going to vote to give him the opportunity to continue to serve.

Let me conclude with a final remark, and then I will turn it over to my colleague. Our founders were afraid of men on white horses. They tried to write a system so that it didn't make any difference how elections turned out. They tried to make it so that it didn't matter who was appointed to various positions because they knew that people were fallible. They tried to write a system that was relatively infallible. And so when someone achieves a record like this, while you can't give Alan Greenspan all the credit—I think a lot of the credit goes back to Ronald Reagan and the reforms that we undertook then, and I am willing to give some credit to Bill Clinton and some to Congress. But if you were going to pick anybody who is currently holding a position of public trust and ask who has had more to do with the success we have had in this last decade—the last 12 years, really—of unparalleled economic achievement, I think you would have to give the prize to Alan Greenspan.

So there are two sides to the story. I hope people will listen to these arguments. This is serious business when you are talking about the Chairman of the Board of Governors of the Federal Reserve Board. I hope they will listen to these arguments and that they will see that there are differences among Members, differences between the two parties. As long as there are people like Alan Greenspan who are willing to serve, I think America is in good shape. I am eager to see him have the opportunity to serve for another 4 years. I hope he is blessed with health that will allow him to continue in this job for a very long period of time.

With that, I yield the floor.

The PRESIDING OFFICER. The Senator from Missouri is recognized.

Mr. BOND. Mr. President, I thank the distinguished chairman of the Banking Committee for giving me the opportunity to make these remarks. I hope our colleagues are listening to his remarks. As a former economics professor, he has been able to bring to common terms, in understandable language, the message that is so important in economics.

I have stayed awake longer listening to his treatises on economics than I have on most of the ones I had in school. While the record is not perfect, at least it is better. We appreciate his kind words.

I also thank my colleague from Iowa for permitting me to make these remarks.

Mr. President, I rise to express my strong support for the nomination of Alan Greenspan for his fourth term as Chairman of the Board of Governors of the Federal Reserve System.

As has just been said, since Chairman Greenspan was originally appointed in 1987, his wise stewardship of the monetary policy of this country has in no small part contributed to the best economic times in our country's history.

Yesterday we reached a milestone of economic expansion. Our country has a record 107 consecutive months of economic growth. At no other time in our history have we experienced uninterrupted economic growth that has lasted this long. Moreover, it does not appear that this growth is slowing. Unemployment is at record lows. Consumer confidence is at record highs. Inflation, the unfortunate byproduct of expansion in the past, has been kept under control.

Some of our colleagues on the other side of the aisle have raised questions about the way Chairman Greenspan and the Federal Reserve have conducted their business. Make no mistake—it is an arcane science. Maybe it is an art. I am never sure whether it is an art or a science. Make no mistake about the fact that the Chairman of the Federal Reserve and the Board itself have tremendous power in this economy. It can cause inflation or it can foster low inflation. It can promote sound economic growth or it can cause a depression. As tough as that job is—and probably none of us here in this body would fully understand it—fortunately, we have a means of judging the success of the work that is done by the Chairman and by the Federal Reserve. In no place can I think of a better application for the admonition that you shall be judged by your works or, as we say at home in Missouri and in the country: Show me. Don't tell me what you are going to do; show me what you have done. Under that test, Alan Greenspan has received the highest marks.

When you look at what has happened, more people are working. More people can buy homes. More people can keep their jobs. And they can see that their savings are not eroded by inflation.

It was only about 20 years ago we saw inflation destroying savings and driving the price of homes out of reach of almost every American—a tremendous crisis—because monetary policy had gotten out of control. Today we see monetary policy under control; we see growth; we see opportunity. All American citizens stand to benefit from this growth, and I think they owe a debt of gratitude to the dedicated public service of Chairman Greenspan.

Many economists did not believe low unemployment and low inflation could exist for a significant period of time. Indeed, our colleagues on the other side of the aisle have cited the fact that even Chairman Greenspan has learned as he has gone along. As he stated in his remarks, he has seen that there is a new paradigm. There is a new operation in effect. Times have changed, and we are learning more about economics.

But as we learn more about them and how monetary policy affects our country, the Chairman's firm hand on the rudder of economic policy has been responsible for keeping us on the straight and steady course. He wisely steered America clear of the potential harm that may have resulted from the Asian financial crisis and, as the chairman of the Banking Committee said, the other crises back through the savings and loan debacle.

In addition, he has provided unwavering support for fiscally conservative budgetary policy and has been of enormous assistance to this body. He explained to us even recently, as he probably well needed to, the necessity of continuing to link sound monetary and sound fiscal policy. I believe if you translate what he said in his speech, it was: Don't blow the surplus on big spending programs. That is an important message for us.

As we look to the future, we see that the near-term economic future of this country looks promising. There are clearly—and we all recognize it—dangers to our prosperity that will likely arise, including inflation fears, increasing labor costs, dampening market problems, and structural problems in the economy. But Chairman Greenspan's thoughtful leadership over the last 12 years will serve us well in the coming years.

I am very proud to add my name in support of Alan Greenspan for another term as Chairman of the Federal Reserve. I congratulate and I thank President Clinton for nominating him because I think not only we as a country are grateful that he has agreed to accept a fourth term but we will all benefit from his service in that term.

I urge all of my colleagues to support his nomination.

I thank the Chair. I thank my colleague from Iowa.

Mr. HARKIN. Mr. President, how much time do I have remaining?

The PRESIDING OFFICER (Mr. VOINOVICH). Forty nine and one half minutes.

Mr. HARKIN. I would like to let my fellow Senators know I don't intend to take that much time.

Mr. President, I noted with some interest that the chairman of the committee, Senator GRAMM from Texas, when he started speaking a few moments ago said this debate we were having—and he mentioned the Senator from North Dakota, he mentioned this Senator—indicated the fundamental difference between the parties. I waited to see just exactly what he meant by that. I never heard an explanation.

But maybe this debate does show some fundamental differences. For example, we are for openness. We believe the Federal Reserve ought to meet in the open, that it shouldn't meet in private. We believe transcripts ought to be made available to the public sooner than they are. Of course, we believe in lower interest rates. We want open meetings and lower interest rates, and the other side wants private meetings and higher interest rates. Perhaps that is really the fundamental difference we are talking about. I say it only tongue in cheek. But it does, I think, really say what this is all about.

That is whether or not we are going to have some more accountability and openness in the Federal Reserve rather than what we have had in the past. Its decisions affect every American's life. It affects all of us. This recent interest rate increase today, as the Senator from North Dakota said, is a tax on all Americans. We are all going to pay for it. Some of us can afford to pay it a lot more easily than others. If you are a creditor, if you are part of the creditor class in America where your income exceeds your outgo, where you are able to save, where you have a lot of assets, and you are into investing and lending, higher interest rates may not be such a bad idea.

However, if you are in the lower income sector of our economy, you need to buy a new car to get to work and the old one has run out, you do not have enough money, you have to put some money down, pay for it on time, or roll your interest on your credit cards month to month, maybe you need to make your house payment, maybe your kids are in college, you need to make some college payments, and you are an individual making less than $30,000 a year as a family, this is a real tax. It is going to cost you more money. Yet we don't know what the debate was. We don't know the details of why they did this. We will not know for years.

I believe there is an important difference. The Open Market Committee just announced another quarter-point interest rate from 5.5 to 5.75 and an increase in the discount rate as well.

This makes four times in 1 year that we have had interest rate increases—four times, three times last year, and then once this month.

These increases hurt prospective homeowners. It is going to hurt the housing market. I want to say at the outset, we all want Americans to save more money. For modest-income Americans, the best savings program they have is owning their own homes. For modest-income Americans, when they are through with their working lives and they retire and they are on Social Security, the biggest asset they have, and in many cases the only asset they have, is the equity they have in their homes. So we want Americans to become homeowners.

This interest rate increase will hurt Americans hoping to own their own homes. It will decrease the number of Americans who can own their own homes and have that as their savings vehicle. It will hurt small businesses and manufacturing. My farmers, who are already hurting enough and who have to borrow every year to get their crops in, they are going to get hit again. Everyone will be hurt one way or another. Some will feel it more profoundly than others. The prime rate is moving up today from 8.5 percent to 8.75 percent. That means the real interest rate, not the nominal but the real interest rate, adjusted to inflation, is close to 6.55 percent.

Again, it is the real interest rate that you feel, not the nominal. For example, if interest rates were at, say, 10 percent, and inflation were at 8 percent, the real rate of interest would be 2 percent. If, however, interest rates are 8.75 percent, and inflation is only 2.2 percent, your real rate of interest is 6.55 percent. That hurts you more.

When our economy was flourishing in the 1960s with the highest growth rates we ever had, our real prime rates ran around 2 percent to 3 percent. In other words, the real interest rates were 2 to 3 percent. Today it is about 6.55 percent. Think about that.

Hopefully, the Fed will not be continuing this process because this hurts people, and there is no reason for it. That is really the essence of my remarks today. Mr. Greenspan and the Federal Reserve Board seemed to think they needed to make a preemptive strike on inflation before we see clear signs of inflation out there. This view, if aggressively acted upon, would place an absolute cap on our economy's ability to grow. It would destroy much of our potential for growth. That is a tragedy.

Back in 1996, I opposed the renomination of Mr. Greenspan along with a number of my colleagues—a small number. I said at the time, and I say again today, I have no personal animus toward Mr. Greenspan. I agree with those who said he has had a distinguished career in public service. I think he is a bright individual. Like I say, I have only met him, as I can remember, once in my entire lifetime, so I have no personal animosity toward him. I think he is an honorable individual, exceptionally smart—bright.

I did have one thing someone brought to my attention at one time. They said back in his youth he was a follower of Ayn Rand, and was with some little group with Ayn Rand in New York City. I said: Don't hold that against him. I said: If you can't test way-out theories, far-out kinds of philosophies when you are young, when are you ever going to test them? I assume Mr. Greenspan has moved on from his youthful days of following that way-out philosophy of Ayn Rand's and is now more mainstream and more centrist than that. But like I say, that is fine. I don't mind what people do in their youth. That is the time to test theories and philosophies, when you are young.

As the Senator from North Dakota said, I have no personal animosity toward Mr. Greenspan. I just have a problem with what I believe the philosophy is at the Fed. I don't think it just applies to Mr. Greenspan, It applies to a lot of people at the Federal Reserve Board.

In 1996, I opposed the renomination because I feared that he, along with others, had a history of jumping to raise interest rates and to choke off economic growth too soon, blocking the economy from growing at its potential and keeping millions of modest-income, middle-income Americans from benefiting from their hard work.

A former Chairman of the Fed, William McChesney Martin, once said it was the Fed's job to remove the punch bowl at the party. At some point that should be done. But doing it too early kills our chance for growth, for jobs. It effectively kills any chance for the maximum number of Americans to climb the ladder of opportunity.

Prior to 1996, Mr. Greenspan showed very little concern in that regard. He was focused on the possibility of accelerating inflation. He had, in the past, I believe—and again I say he and the others on the Fed—had damaged the economy by moving too quickly to raise rates and choking off our growth potential.

For some time, a lot of economists, not all but a lot of economists took the view that NAIRU, the nonaccelerating inflation rate of unemployment, was 5½ or 6 percent; in other words, that if unemployment went below 5½ or 6 percent for a period of time, then inflation would take off. Once it started to accelerate, it would be very hard to stop. So that view was once unemployment got down to that level for a period of time, one had to raise interest rates and stop unemployment from being too low.

At the same time, the orthodox view among a lot of economists about how fast could the economy grow over the long term was about 2.3 percent; somewhere between 2 and 2.5 percent.

I must again be very frank. That was the administration's estimate of the economy's potential for sustainable growth. That was in President Clinton's budget's economic assumptions for FY 97 and I opposed that. I said to the President and his economic advisers at the time: That is nonsense. You are following some of these economists who do not understand the new economy that is out there. They do not understand the new rate of productivity growth and what is causing it. They are still looking back. They are back in the eighties and not in the 1990s.

So it was not just the Fed at that time, it was also the administration of President Clinton and the CBO.

They saw it as a simple calculation. You take the increased expected productivity of the economy, estimated at 1.2 percent—again, very low—add the increase to the labor pool—about 1.1 percent—and you get a 2.3-percent rate of growth.

Again, they said if economic growth exceeded 2.3 percent over time, or if unemployment fell below 6 percent, the alarm bells would have to go off. It was prudent to raise interest rates or we would be on the perilous path of accelerating inflation.

So in 1996, viewing that, I feared we would never get a chance to see what our economy was really capable of doing. That is why I opposed the renomination of Mr. Greenspan in 1996. I suggested in 1996, that the supporters of NAIRU were wrong, that it was an outdated concept. I said at the time we could have unemployment at 4.5 percent or less, and I said it was possible because of increased productivity due to the new technologies, because of the greater integration of the world economy, the new marketing techniques that are taking place in America and that NAIRU was wrong and ought to be thrown out the window.

I suggested in 1996 that we ought to give our economy a chance to do better or we would limit our economic growth and limit the ability of average Americans to see their incomes rise.

Mr. Greenspan indicated that he would not raise rates simply because of the NAIRU. That was a good statement, but again we had a history of these preemptive strikes, and I feared we would not let the economy reach its potential.

I believed Mr. Greenspan would be quick to see the specter of inflation behind some little statistic. I am here to say fortunately I was wrong about that. Mr. Greenspan and the Fed have allowed the economy to grow. Part of the reason was particular situations, such as the crash of the Asian economies, but I believe there was a willingness to let the economy grow and a new attitude that there were some new things happening in the economy.

I read a speech Mr. Greenspan gave in which he mused about the increase in productivity and how it did not seem to have any end, the use of computers and how they helped to control inventories. Quite frankly, there seemed to be a shift then at the Fed at that time.

The results have been very impressive. Gross domestic product has been increasing at an average rate of about 4.3 percent since Greenspan was last confirmed. Unemployment has gone down by over a percentage point. The portion of our population over 16 in the workforce is at or near a record high. Unemployment for minorities, teenagers, traditionally hard-to-employ groups are at record lows. Incomes for those at the middle are rising—not as much as I would like—and, to some extent, those at the bottom are rising.

What has happened is unemployment fell below 6 percent and inflation did not take off; economic growth was near 3 percent and inflation did not take off. And then unemployment came down to 5.5 percent and nothing happened. Then unemployment went below 4.5 percent. It has been under 4.5 percent for almost 2 years now. No inflation. We are seeing our GDP increase at over 4 percent on average per year, almost twice what people were saying a feasible sustainable rate of growth of 2.3 percent and there is no inflation and productivity continues to increase.

That was in the initial years. Then starting last year Mr. Greenspan seems to have shifted his view. The concern was not NAIRU. It was irrational exuberance in the stock market. Therefore, we had to put interest rates back up. Last year, there were three ticks up. Today there was another tick up; bringing us to a 1-percent increase in 1 year. It almost seems as Fed are looking for something out there. If it is not NAIRU, which has been discarded, then it is something else out there as to why we have to raise interest rates. There is something else out there lurking that is going to cause inflation to happen.

Is it irrational exuberance in the stock market. What this is going to mean is that, quite frankly, we are going to have more ticks up in the interest rate, enough till we see the rate of unemployment start to rise again.

I believe that would be a tragic mistake. People need to be employed. We still have people out there who need job training and skill upgrading. Can unemployment stay this low without causing accelerating inflation? Absolutely. The common wisdom is that we have a pool of low-skill workers still to be tapped. All they need is job training and skill upgrading, but they are there.

Robert Lerman, in an October 26, 1998, Washington Post article said:

> Differences between the groups entering and leaving the workforce explains the surprisingly high qualifications of newly employed adults. Older workers without a high school degree are retiring, replaced by younger, better educated workers. In the past 6 years, the population of college graduates aged 25 and over increased by about 20

percent, well above the 7 percent growth in total adult population. Meanwhile, the population of high school dropouts declined by nearly 3 million.

We are getting that higher skilled workforce, and they are more productive. The economy is also attracting people who were not considering work to come back into the work force.

The job market has been tight in most places. In Iowa, we have a low rate of unemployment, about 2.2 percent, and that is good. Are wages skyrocketing in Iowa because we have low unemployment? No. Are they rising modestly? Yes, and they should. With this booming economy and 4-percent growth in our GDP, wages ought to be going up.

As an aside, I find it more than passing strange that here we are in the second week back this year and we could move through the Banking Committee at almost light speed the renomination of a central banker, Mr. Greenspan, to be head of the Fed, but we cannot do it to raise the minimum wage. We cannot do anything to help low-income people get a better share of the economic growth of this country. Gosh, we could sure move fast to help the banking system out, but not to help modest-income Americans.

Many economists now come to conclude that NAIRU should not be used to predict a new wave of inflation. Quite frankly, I am happy it is dead. We had this irrational exuberance in the stock market. Now we have a new concept. As I said, if it is not NAIRU, then it is this irrational exuberance. The new concern is the wealth effect. Mr. President, have you heard about the wealth effect? Mr. Greenspan is talking about the wealth effect as a reason we should fear inflation and that we should have some preemptive strike. You have to have something, there has to be something out there. Chairman Volcker had the money supply. Now we have the wealth effect.

In a speech at the Economic Club in New York earlier this month, Chairman Greenspan noted the possible negative impacts of the wealth effect. He said that estimates of the wealth effect on the GDP has hovered around 1 percent of the GDP since late 1996. He then said, in part:

> . . . the impetus to spending by the wealth effect by its very nature clearly cannot persist indefinitely. In part, it adds to the demand for goods and services before the corresponding increase in output fully materializes. It is, in effect, increased purchasing from future income, financed currently by greater borrowing or reduced accumulation of assets.

There are always limits, aren't there? Economists were right not to clamp down on the economy until we see real signs of inflation. The Fed should stick with that view. Today's increase makes me believe the Fed will endanger the economy by not waiting for real signs of inflation, and now the wealth effect has become the latest reason, despite the fact inflation is nowhere in sight, except for the runup in oil prices caused, in large part, by OPEC's setting of limits on oil production. The Fed raising interest rates will have no effect on that. I think everyone agrees with that.

This wealth effect is estimated by some to add about 4 cents in extra spending per dollar of increased wealth. A prominent study by senior vice president Charles Steindel and economist Sydney Ludvigson, both with the New York Fed, concluded the wealth effect was likely to be between 3 and 4 cents per dollar in annual consumption. They also said it is impossible to predict how quickly the wealth effect will kick in. It can take years for consumer spending to reach a permanently higher level. They said:

> Forecasts of future consumption growth are not typically improved by taking changes in existing wealth into account.

So I guess what I am saying is the wealth effect—just like NAIRU, should not be the reason for raising interest rates, simply because of the fear that it will cause an inevitable cascade of economic effects leading to accelerating inflation.

As the Senator from North Dakota said earlier, I believe if the Fed wants a more targeted instrument to more carefully check some of the excesses in the stock market, they should look at margin requirements for buying stock on credit. But raising the interest rates is not going to do it without great harm to the economy as a whole.

So quite frankly, again, we see no signs of higher inflation. We have had inflation down from 3.3 percent in 1996 to 1.7 percent in 1997, and 1.6 percent in 1998, and in 1999 it jumped to 2.7 percent.

Is that a problem? It sounds like a problem until we take out food and energy. Without food and energy, the core inflation rate continues to improve on a December-to-December basis. In 1996 it was 2.6 percent, in 1997 it was 2.2 percent, in 1998 it was 2.4 percent, and in 1999 it dropped to 1.9 percent—when you take out food and energy.

So inflation is going down. Inflation is dropping. And the Fed is raising interest rates. Please, will some economist tell us what is going on here?

Again, inflation took a jump in December two-tenths of a percent. But, again, without food and energy. And energy—that was the culprit, not food—energy prices shot up 1.4 percent that month. Raising the interest rate is not going to cure that. I do not know of anyone who says it will.

Petroleum prices move with the OPEC cartel's production, not by the effects of interest rate increases. I will repeat that. We all understand petroleum prices move with the OPEC cartel's production and not by the effects of interest rate increases.

So again, I repeat, last year inflation actually went down on a December-to-December basis. Yet we had three increases in interest rates last year and another increase just today.

Why? What is happening out there? This is hitting our farmers. It is hitting our working families. It may not be hitting Senators and Congressmen making 130-some thousand dollars a year. It is not hitting people making money in the stock market. We have our share of megamillionaires in this body. It is not hurting us, not hurting them.

But you go out and talk to that husband and wife who are both working jobs, and they have a couple of kids at home, and they are making $40,000 a year, and they are trying to pay a mortgage on a house, trying to keep a car—maybe two cars; they need two for both of them with their jobs—and keeping their kids in clothes. This is a tax on them.

We have no signs of accelerating inflation. I believe we are going down the wrong path in raising interest rates.

I basically believe we ought to have the lowest possible reasonable interest rates at all times, and only when we see clear signs of inflation should we then begin the process of ratcheting up interest rates. We have had a period of quality growth and we should be doing all that we can to sustain it.

Again, I have a lot more I could say about this and what we ought to be doing. What we should be doing is keeping interest rates low. We ought to be taking the surpluses we have, not using them for a tax cut, which, again, would be the wrong thing to do at this time. That would do more to stimulate inflation than anything, having some tax cut that is going to stimulate and fuel even more demand out there.

What we ought to be doing is using the surplus we have now to buy down the national debt. This is where I do agree with Mr. Greenspan: Buy down the national debt. He is right in that regard. I do agree with him on that.

But we also need to use some of the surplus to invest in our children's education so they can partake of the new economies as they grow older. Every child in grade school today ought to have access to computers and to the Internet. Every teacher who teaches in grade school today ought to be fully trained in teaching the new kinds of skills using the new technologies.

We need to reeducate those already in our workforce with job training. We need to upgrade our infrastructure. There are $100 billion in needed repairs in our schools in America. I understand the President's budget was going to have $1.3 billion for that.

We need to improve our infrastructure. We need to improve our transportation infrastructure in this country. These are the things we ought to be doing. This would help to keep our GDP high, keep our workforce employed, keep unemployment low, and keep inflation down. It would not be a tax on working Americans like raising the interest rates that the Fed is doing right now.

Productivity is good. Productivity is increasing. We hope it will get back to where it was in the 1960s. Long term high productivity. A lot of people think we are more productive today than in the 1960s. From 1960 to 1970, our productivity increased by 31.8 percent. From 1990 to the year 2000, it increased 21 percent, although we are doing a lot better in the last half of the 90s. So we have a ways to go before we are as productive as in the 1960s. But I believe that will happen in the next decade if we have reasonable policies. In the next decade, I believe our productivity will continue at a high level and further increase and will closely approximate what we had in the 1960s.

I was chastised back in 1996 when I opposed the Greenspan nomination. I was on a couple talk shows, and people asked: What do you think the growth rate could be, the sustained growth rate? I said: At least 3.5 percent, 3 to 3.5 percent without any problem. I got hit by a few economists who said: Oh, HARKIN is way out on that one.

Since 1996 we have had—what?—4 percent and no inflation. So even I—as optimistic as I am about the American economy and the ability of our workforce—was a little underestimating the real rate of growth we could have.

I am just saying, in the next 10 years we can still maintain a 3- to 4-percent growth rate. I believe we can maintain an honest average of over a 3-percent growth in the next decade. It is not going to happen if this Federal Reserve continues to raise these interest rates. They are going to choke it off. And they are going to choke it off for no good reason whatsoever.

We can improve the quality of the lives of Americans, and we can invest in our future, and we can buy down the national debt. We can do all those wonderful things. But if the Fed persists in raising interest rates, it is going to choke off our rate of growth. All of the good we do here—in terms of keeping a surplus, in getting rid of the national debt, of investing in young people and in education—all that will be for naught because our rate of growth will be choked off. When that rate of growth is choked off, unemployment is going to go up.

The Fed talks about a soft landing. If you are flying well and the airplane is working and you have a lot of fuel and the sky is clear, why are you worried about a landing? Why are they talking about a landing? This economy, I believe, can grow at a 3-percent plus rate for the next decade. We will have a landing all right. If they keep raising interest rates, we will have a landing.

Let me close by saying I think there is a reverse side to the wealth effect. I coin the term the ''poor effect.'' Some economists believe that shrinking wealth has an even bigger effect on spending than growing wealth. If we push the economy into a dive, we will experience the poor effect again. Economist Mark Zandi suggests that declining wealth reduces spending by about 7 cents per dollar of wealth lost. So if the wealth effect is 3 to 4 cents a dollar, declining wealth reduces spending by 7 cents per dollar, almost twice as much. So any danger that is out there of accelerating inflation must be weighed against the possible result of slowing the economy and what I call the poor effect, not the wealth effect but the poor effect.

Rural Iowa, my State, experienced the poor effect in a deep agricultural recession in the mid-1980s. The value of land fell by more than 50 percent as our rural economy crumbled. I saw grown friends of mine cry in public, farmers lose their lands, and some of them took their own lives. Families fell apart; couples divorced. The economy of rural Iowa shrunk. Let's not jump too quickly to use the club of higher interest rates.

The Federal Reserve has two mandates in law. The Federal Reserve is not a creature of the Constitution of the United States. You won't find it in the Constitution anywhere. It is a creature of Congress. We legislatively created it. We gave it two mandates: to balance concerns about inflation on the one hand and to stimulate full employment on the other. Those goals were placed in the law in 1978.

Prior to 1978, there was no specific mention of inflation at all in the law. It was not in any of the laws about the Fed going all the way back to its founding in 1913. By the Full Employment and Balanced Growth Act of 1978, the Congress, in the exercise of its constitutional power, said to the Fed: You have two functions now: check inflation and stimulate full employment. That law we passed in 1978 set a goal of 4-percent unemployment for those 16 and older, 3 percent for those over 19. We are near 4 percent now. Throughout the 1980s and 1990s, conservative economists laughed at those goals. They said they were ridiculous targets set by politicians. That is the law of the land, and it sure doesn't look so silly now.

I worry that the Fed has a hard time maintaining a balance between inflation and full employment concerns. They are only focused on the specter of inflation, and there is no inflation out there. As I said, new advances in our technology, in our computers, designing products at high speed, the rapid replacement of parts, tight controls on inventories at lower cost, reduces the inventory buildup, one of the classic causes of past recessions. Communications costs are dropping like a rock. Every day I get something in the mail that I can make long-distance calls cheaper than I did the day before. Now you can get computers individually tailored for retail customers under $1,000 from Gateway Computer. Amazing, a world economy, capital flowing around the world.

I know others want to speak. I see my good friend from Minnesota, who has been a great leader on this in the past, on the floor. I know he wants to speak. I took this time because, as I said, I don't want anyone to mistake that I have some personal animosity toward Mr. Greenspan. That is not so. I do have very deep-seated questions about the direction of the Fed, the fact they are raising interest rates without any inflation, and they are going to choke off this great growth we are having in this country with a series of interest rate increases. They are going to push up unemployment.

I will yield the floor with the final statement that we need to open up the Federal Reserve System's meetings. I don't want to make them political. It should not be political. We need to know why they are making the decisions they make. The decision they make on raising interest rates taxes every working American. How would they feel if we debated tax policy behind closed doors? I don't want to make it political, but I think it ought to be open. Secondly, I believe the Fed should pay more attention to unemployment and to growth and not just get so fixated on some specter of inflation that is not even out there.

I yield the floor.

The PRESIDING OFFICER. The Senator from Minnesota.

Mr. WELLSTONE. Mr. President, my colleague from Virginia is here. I have a fairly lengthy statement. I know our colleague from Virginia wants to speak. I wish to take a few minutes. I ask the Chair, are we going to vote tomorrow? Do we have a time limit today or not?

The PRESIDING OFFICER. We do have a time limit. The Senator has 49 minutes remaining.

Mr. WELLSTONE. If I take a few minutes now and then come back after the Senator from Virginia speaks, are we going to be in session for a while tonight speaking on this? Will I be able to do that?

The PRESIDING OFFICER. The Chair is not aware of any time limit.

Mr. WELLSTONE. I thank the Chair.

Mr. WARNER. I wonder, if I took but 3 minutes, would that convenience my colleague?

Mr. WELLSTONE. I have to leave anyway in a few minutes for a meeting with some farmers. Let me take a few minutes, and I will be done. Then I will be pleased to yield the floor and then come back later.

Mr. President, first of all, let me thank the Senator from Iowa for his comments. I think I can be brief because much of what he says I am in such strong agreement with.

Mr. President, tomorrow morning, do we have any time for debate before the vote?

The PRESIDING OFFICER. There are no orders that have been entered for tomorrow as of yet.

Mr. WELLSTONE. Is there a scheduled vote tomorrow at a particular time?

The PRESIDING OFFICER. Nothing has been ordered yet for tomorrow, so the Senator can assume there might be some time.

Mr. WELLSTONE. I ask unanimous consent that I may have 20 minutes to speak tomorrow morning.

Mr. WARNER. Reserving the right to object, I suggest that the manager of this nomination be consulted first. Can the Senator withhold that and as a matter of courtesy discuss it with the manager and leadership of the Senate? I think that would be an important consideration. At this time, with no discourtesy to my colleague, I register an objection.

The PRESIDING OFFICER. Objection is heard.

Mr. WELLSTONE. Mr. President, how much time do I have left?

The PRESIDING OFFICER. Forty-two minutes.

Mr. WELLSTONE. I yield the floor.

Mr. WARNER. Mr. President, I say with a great sense of humility that I have been privileged to be in public office for over 30 years. In the course of that time, I have had the privilege and wonderful opportunity to meet dozens and dozens of people who have held public office. I have listened to the very interesting comments of my colleagues with regard to the economy and interest rates and the like concerning the distinguished nominee, Mr. Greenspan. I simply go to a very simple but direct point with regard to this nomination; that is, dollars have a different meaning to people—savings, investments, and the like. But almost without exception they represent the efforts of hard work.

Therefore, when it comes time to preserve, invest, save, whatever you may do with those dollars—the man and woman primarily who have earned it—you want to know that the system, the value of that dollar, the protection of that dollar is there for your anticipated use and in many instances for the next generation. As to those people who are directly concerned with the regulatory process and decision process which vitally affects the value of the dollar and the protection of the investments, you want to know they are of unquestionable character.

I have known the nominee for many years and have had the privilege of working with him, playing golf and tennis with him. You get to know the totality of the man. This man is extraordinary. There will not be raised in the course of this debate, in my judgment, one single comment by any of my colleagues questioning this man's character. He is known by many in this community, he is known in this country, and he is known worldwide. The solidarity of his character and ethical standards is second to none. You may differ with him on some of his decisions, and that is understandable, but in terms of integrity, character, and ethics, he is beyond question. How fortunate we are that the President has selected this man to continue to serve this country and, indeed, the world because we are the world's leader in economics, national security, and in every other respect.

I am happy to add my few words and indicate my support that we are fortunate to have a person of his great character to step up once again and assume the arduous role and time-consuming lifestyle of this important post. But before we confer on him the advice and consent of the Senate and every other aspect, he is not infallible. As I said, I remember someone many years ago talking about Great Britain who said: You get to know a man—on the playing fields I think it was. He is not infallible. This man cannot keep a golf score. His partners constantly have to remind him. He cannot keep score in a tennis game. This is perplexing. I can bring witnesses to attest to this. But we have to overlook that minor matter as he deals with major figures, and we wish him luck with the anticipated action of this distinguished body.

I yield the floor.

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.

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

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

Mrs. HUTCHISON. Mr. President, I ask unanimous consent that I be able to use as much time under Senator GRAMM's time allotment as I may consume.

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

Mrs. HUTCHISON. Mr. President, I rise in support of Alan Greenspan's nomination as Chairman of the Federal Reserve Board. Many years from now, historians may look at the Clinton Presidency and say that the best decision he made in office was to keep Alan Greenspan at the helm of the Federal Reserve.

Alan Greenspan, the individual, is a man of unquestioned integrity and intellect. I have known him for over two decades. He is truly one of our finest public servants. He has served at the Federal Reserve since 1987, and a steady hand at the wheel he has been. When the economy could have been volatile with a less experienced person, having him there caused the seas to be more tranquil. As my colleague Senator GRAMM has said, he may be the finest central banker we have ever had in the United States or, for that matter, the world has ever known.

In fact, it is the example he has shown that has caused many other countries to realize the importance of having a central bank of transparency, of having someone who is not political at the helm of Federal Reserve policy. This example is going to strengthen many new democracies we are seeing in the world today, and his example will be the one they follow.

I find it curious that there are some in opposition to this nomination, and it is really ironic in light of yesterday's headlines that the economic expansion that began in 1991 is now the longest in American history. That did not happen by accident. It did not happen by luck. It happened because there was a steady hand at the wheel. That may not be the only reason we have had economic expansion. Our creativity, the spirit of entrepreneurship in our country, also has a part in that. But if we had someone who was trigger happy at the Fed, someone who would jump too quickly and too far, it could have caused a very different result. I am very pleased that the President has renominated Alan Greenspan.

There is an old saying: If it ''ain't'' broke, don't fix it. It seems to me some of the Senators I have heard on the floor today speaking in opposition to Alan Greenspan's renomination are fixing a Maytag. In fact, this ''ain't'' broke, and the last thing we need to do is tinker with something that is working very well.

America is enjoying an unprecedented economic expansion. Of course, Alan Greenspan's steady hand at the Federal Reserve Board has allowed our economy to flourish and not be crippled by high inflation or interest rates. It has not been an easy task. Every time the Federal Open Market Committee meets, the airwaves are full of people saying the Fed either made the right decision or the wrong decision, they should have done more, they should have done less. It is a careful balancing act, but I can think of no one I would be happier to have in charge than Dr. Greenspan.

He knows the power of his words. Many times I have been in the audience when he has spoken, and he is very careful not to overstep. He knows that what he says is going to affect the stock market, and he does not want to have such an impact. He himself jokes sometimes to audiences: If you think you understand what I am about to say, you have misunderstood.

He does not want to do something that is going to have a drastic impact, that will have a 1-day impact or a 2-day impact or a 1-week impact. What he wants is to have a steady, noninflationary atmosphere so we will not have interest rates that are too high, interest rates that are too low, an economy that is too hot, an economy that is not hot enough. He understands these issues because of his experience.

We do not know what our economic future holds, but this much we do know: Whatever economic ups or downs may confront us in the future, and particularly economic ups and downs of other countries which we cannot control, the person most capable of dealing with them is Alan Greenspan. With him in charge, we are much more likely to avoid economic pitfalls for our country.

I urge the Senate to approve his nomination. I am certain it will. From the speeches I have heard on the floor today, the overwhelming sentiment is going to be to confirm Alan Greenspan.

He has been at the Federal Reserve for 13 years. He has presided over the greatest economic expansion in the world, and most surely we will be in our strongest position to withstand whatever might hit us in the future if we have someone with his experience, his integrity, and his intellect at the head of the Federal Reserve Board.

I hope my colleagues will confirm him tomorrow and that it will be an overwhelming vote. The time has come for us to move on this important nomination.

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

The PRESIDING OFFICER. The clerk will call the roll.

The assistant bill clerk proceeded to call the roll.

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

The PRESIDING OFFICER (Mrs. HUTCHISON). Without objection, it is so ordered.

Mr. VOINOVICH. Madam President, I ask unanimous consent to speak as in morning business for up to 20 minutes.

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

(The remarks of Mr. VOINOVICH pertaining to the introduction of S.J. Res. 38 are located in today's RECORD under ''Statements on Introduced Bills and Joint Resolutions.'')

The PRESIDING OFFICER. The Senator from New York.

Mr. MOYNIHAN. Mr. President, as I did 4 years ago, I wish to record my emphatic and enthusiastic support for the nomination of the honorable Alan Greenspan to a fourth term as Chairman of the Board of Governors of the Federal Reserve System. He is a national treasure. He has served our Nation with principle and wisdom, and I shall attempt to show in these brief remarks, unprecedented success.

Let me cite four principal reasons—updated from four years ago—why he should again be confirmed by the Senate.

The economy is now in its 107th month of an expansion—the longest in American history—which shows no sign of ending.

The unemployment rate for December was 4.1 percent and has been below 5 percent for almost three years. Not too long ago, economists estimated that the NAIRU, as the acronym was for the nonaccelerating inflation rate of unemployment—what we might call full employment—was about 6 percent.

Next, inflation is in check. Measured by the CPI—which economists believe overstates inflation—consumer prices have increased by less than 3 percent per year for the past three years.

Finally, the misery index—the sum of the unemployment rate and the inflation rate—is about 7 percent, the lowest level in 30 years.

These outcomes are a tribute to Alan Greenspan's stewardship of our Nation's monetary policy for the past 13 years. But his wisdom and influence extend far beyond mere stewardship of monetary policy.

Last Wednesday, at his confirmation hearing before the Senate Committee on Banking, Housing, and Urban Affairs he had this to say in response to a question about the use of budget surpluses from Senator PHIL GRAMM, the Committee's Chairman, Dr. Greenspan said:

> . . . my first priority would be to allow as much of the surplus to flow through into a reduction in debt to the public. . . . From an economic point of view, that would be, by far, the best means of employing it.

And last month, in remarks before the Economic Club of New York, Chairman Greenspan demonstrated why he has been so successful. He understands—as perhaps few others in high level economic policy positions—how the economy works. One can only marvel at the clarity and insights he brought to bear as he explained to his audience the impact on productivity of just-in-time inventories, and reasons why the wealth effect from the increase in the stock market has sustained the current expansion, while at the same time containing ''the potential seeds of rising inflationary and financial pressures that could undermine the current expansion.'' Ever vigilant to these potential dangers explains why the FED, under Chairman Greenspan, today increased interest rates by one-quarter of a percentage point.

Based on his performance, Chairman Greenspan deserves to be reconfirmed. I have no doubt that the Senate will, in a near unanimous vote, concur.

I ask unanimous consent that remarks of Chairman Greenspan, at the Economic Club of New York be printed in the RECORD.

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

REMARKS BY ALAN GREENSPAN, CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, BEFORE THE ECONOMIC CLUB OF NEW YORK, JANUARY 13, 2000

We are within weeks of establishing a record for the longest economic expansion in this nation's history. The 106-month expansion of the 1960s, which was elongated by the Vietnam War, will be surpassed in February. Nonetheless, there remain few evident signs of geriatric strain that typically presage an imminent economic downturn.

Four or five years into this expansion, in the middle of the 1990s, it was unclear whether going forward, this cycle would differ significantly from the many others that have characterized post-World War II America. More recently, however, it has become increasingly difficult to deny that something profoundly different from the typical postwar business cycle has emerged. Not only is the expansion reaching record length, but it is doing so with far stronger-than-expected economic growth. Most remarkably, inflation has remained subdued in the face of labor markets tighter than any we have experienced in a generation. Analysts are struggling to create a credible conceptual framework to fit a pattern of interrelationships that has defied conventional wisdom based on our economy's history of the past half century.

When we look back at the 1990s, from the perspective of say 2010, the nature of the forces currently in train will have presumably become clearer. We may conceivably conclude from that vantage point that, at the turn of the millennium, the American economy was experiencing a once-in-a-century acceleration of innovation, which propelled forward productivity, output, corporate profits, and stock prices at a pace not seen in generations, if ever.

Alternatively, that 2010 retrospective might well conclude that a good deal of what we are currently experiencing was just one of the many euphoric speculative bubbles that have dotted human history. And, of course, we cannot rule out that we may look back and conclude that elements from both scenarios have been in play in recent years.

On the one hand, the evidence of dramatic innovations—veritable shifts in the tectonic plates of technology—has moved far beyond mere conjecture. On the other, these extraordinary achievements continue to be bedeviled by concerns that the so-called New Economy is spurring imbalances that at some point will abruptly adjust, bringing the economic expansion, its euphoria, and wealth creation to a debilitating halt. This evening I should like to address some of the evidence and issues that pertain to these seemingly alternative scenarios.

What should be indisputable is that a number of new technologies that evolved largely from the cumulative innovations of the past half century have not begun to bring about awesome changes in the way goods and services are produced and, especially, in the way they are distributed to final users. Those innovations, particularly the Internet's rapid emergence from infancy, have spawned a ubiquity of startup firms, many of which claim to offer the chance to revolutionize and dominate large shares of the nation's production and distribution system. Capital markets, not comfortable dealing with discontinuous shifts in economic structure, are groping for sensible evaluations of these firms. The exceptional stock price volatility of most of the newer firms and, in the view of some, their outsized valuations, are indicative of the difficulties of divining from the many, the particular few of the newer technologies and operational models that will prevail in the decades ahead.

How did we arrive at such a fascinating and, to some, unsettling point in history? The process of innovations, of course, is never-ending. Yet the development of the transistor after World War II appears in retrospect to have initiated an especial wave of innovative synergies. It brought us the microprocessor, the computer, satellites, and the joining of laser and fiber-optic technologies. These, in turn, fostered by the 1990s an enormous new capacity to disseminate information. To be sure, innovation is not confined to information technologies. Impressive technical advances can be found in many corners of the economy.

But it is information technology that defines this special period. The reason is that information innovation lies at the root of productivity and economic growth. Its major contribution is to reduce the number of worker hours required to produce the nation's output. Yet, in the vibrant economic conditions that have accompanied this period of technical innovation, many more job opportunities have been created than have been lost. Indeed, our unemployment rate has fallen notably as technology has blossomed.

One result of the more-rapid pace of IT innovation has been a visible acceleration of the process of ''creative destruction,'' a shifting of capital from failing technologies into those technologies at the cutting edge. The process of capital reallocation across the economy has been assisted by a significant unbundling of risks in capital markets made possible by the development of innovative financial products, many of which themselves owe their viability to advances in IT.

Before this revolution in information availability, most twentieth-century business decisionmaking had been hampered by wide uncertainty. Owing to the paucity of timely knowledge of customers' needs and of the location of inventories and materials flowing throughout complex production systems, businesses, as many of you well remember, required substantial programmed redundancies to function effectively.

Doubling up on materials and people was essential as backup to the inevitable misjudgments of the real-time state of play in a company. Decisions were made from information that was hours, days, or even weeks old. Accordingly, production planning required costly inventory safety stocks and backup teams of people to respond to the unanticipated and the misjudged.

Large remnants of information void, of course, still persist, and forecasts of future events on which all business decisions ultimately depend are still unavoidably uncertain. But the remarkable surge in the availability of more timely information in recent years has enabled business management to remove large swaths of inventory safety stocks and worker redundancies.

Information access in real time—resulting, for example, from such processes as electronic data interface between the retail checkout counter and the factory floor or the satellite location of trucks—has fostered marked reductions in delivery lead times and the related workhours required for the production and delivery of all sorts of goods, from books to capital equipment.

The dramatic decline in the lead times for the delivery of capital equipment has made a particularly significant contribution to the favorable economic environment of the past decade. When lead times for equipment are long, the equipment must have multiple capabilities to deal with the plausible range of business needs likely to occur after these capital goods are delivered and installed.

With lead times foreshortened, many of the redundancies built into capital equipment to ensure that it could meet all plausible alternatives of a defined distant future could be sharply reduced. That means fewer goods and worker hours are caught up in activities that, while perceived as necessary insurance to sustain valued output, in the end produce nothing of value.

Those intermediate production and distribution activities, so essential when information and quality control were poor, are being reduced in scale and, in some cases, eliminated. These trends may well gather speed and force as the Internet alters relationships of businesses to their suppliers and their customers.

The process of innovation goes beyond the factory floor or distribution channels. Design times and costs have fallen dramatically as computer modeling has eliminated the need, for example, of the large staff of architectural specification-drafters previously required for building projects. Medical diagnoses are more thorough, accurate, and far faster, with access to heretofore unavailable information. Treatment is accordingly hastened, and hours of procedures eliminated.

Indeed, these developments emphasize the essence of information technology—the expansion of knowledge and its obverse, the reduction in uncertainty. As a consequence, risk premiums that were associated with all forms of business activities have declined.

Because the future is never entirely predictable, risk in any business action committed to the future—that is, virtually all business actions—can be reduced but never eliminated. Information technologies, by improving our real-time understanding of production processes and of the vagaries of consumer demand, are reducing the degree of uncertainty and, hence, risk.

In short, information technology raises output per hour in the total economy principally by reducing hours worked on activities needed to guard productive processes against the unknown and the unanticipated. Narrowing the uncertainties reduces the number of hours required to maintain any given level of production readiness.

In economic terms, we are reducing risk premiums and variances throughout the economic decision tree that drives the production of our goods and services. This has meant that employment of scarce resources to deal with heightened risk premiums has been reduced.

The relationship between businesses and consumers already is being changed by the expanding opportunities for e-commerce. The forces unleashed by the Internet are almost surely to be even more potent within and among businesses, where uncertainties are being reduced by improving the quantity, the reliability, and the timeliness of information. This is the case in many recent initiatives, especially among our more seasoned companies, to consolidate and rationalize their supply chains using the Internet.

Not all technologies, information or otherwise, however, increase productivity—that is, output per hour—by reducing the inputs necessary to produce existing products. Some new technologies bring about new goods and services with above average value added per workhour. The dramatic advances in biotechnology, for example, are significantly increasing a broad range of productivity-expanding efforts in areas from agriculture to medicine.

Indeed, in our dynamic labor markets, the resources made redundant by better information, as I indicated earlier, are being drawn to the newer activities and newer products, many never before contemplated or available. The personal computer, with ever-widening applications in homes and businesses, is one. So are the fax and the cell phone. The newer biotech innovations are most especially of this type, particularly the remarkable breadth of medical and pharmacological product development.

At the end of the day, however, the newer technologies obviously can increase outputs or reduce inputs and, hence, increase productivity only if they are embodied in capital investment. Capital investment here is defined in the broadest sense as any outlay that enhances future productive capabilities and, consequently, capital asset values.

But for capital investments to be made, the prospective rate of return on their implementation must exceed the cost of capital. Gains in productivity and capacity per real dollar invested clearly rose materially in the 1990s, while the increase in equity values, reflecting that higher earnings potential, reduced the cost of capital.

In particular, technological synergies appear to be engendering an ever-widening array of prospective new capital investments that offer profitable cost displacement. In a consolidated sense, reduced cost generally means reduced labor cost or, in productivity terms, fewer hours worked per unit of output. These increased real rates of return on investment and consequent improved productivity are clearly most evident among the relatively small segment of our economy that produces high-tech equipment. But the newer technologies are spreading to firms not conventionally thought of as high tech.[1]

It would be an exaggeration to imply that whenever a cost increase emerges on the horizon, there is a capital investment that is available to quell it. Yet the veritable explosion of high-tech equipment and software spending that has raised the growth of the capital stock dramatically over the past five years could hardly have occurred without a large increase in the pool of profitable projects becoming available to business planners. As rising productivity growth in the high-tech sector since 1995 has resulted in an acceleration of price declines for equipment embodying the newer technologies, investment in this equipment by firms in a wide variety of industries has expanded sharply.

Had high prospective returns on these capital projects not materialized, the current capital equipment investment boom—there is no better word—would have petered out long ago. In the event, overall equipment and capitalized software outlays as a percentage of GDP in nominal dollars have reached their highest level in post-World War II history.

To be sure, there is also a virtuous capital investment cycle at play here. A whole new set of profitable investments raises productivity, which for a time raises profits—spurring further investment and consumption. At the same time, faster productivity growth keeps a lid on unit costs and prices. Firms hesitate to raise prices for fear that their competitors will be able, with lower costs from new investments, to wrest market share from them.

Indeed, the increasing availability of labor-displacing equipment and software, at declining prices and improving delivery lead times, is arguably at the root of the loss of business pricing power in recent years. To be sure, other inflation-suppressing forces have been at work as well. Marked increases in available global capacity were engendered as a number of countries that were previously members of the autarchic Soviet bloc opened to the West, and as many emerging-market economies blossomed. Reductions in Cold War spending in the United States and around the world also released resources to more productive private purposes. In addition, deregulation that removed bottlenecks and hence increased supply response in many economies, especially ours, has been a formidable force suppressing price increases as well. Finally, the global economic crisis of 1997 and 1998 reduced the prices of energy and other key inputs into production and consumption, helping to hold down inflation for several years.

Of course, Europe and Japan have participated in this recent wave of invention and innovation and have full access to the newer technologies. However, they arguably have been slower to apply them. The relatively inflexible and, hence, more costly labor markets of these economies appear to be an important factor. The high rates of return offered by the newer technologies are largely the result of labor cost displacement, and because it is more costly to dismiss workers in Europe and Japan, the rate of return on the same equipment is correspondingly less there than the United States. Here, labor displacement is more readily countenanced both by law and by culture, facilitating the adoption of technology that raises standards of living over time.

There, of course, has been a substantial amount of labor-displacing investment in Europe to obviate expensive increased employment as their economies grow. But it is not clear to what extent such investment has been directed at reducing existing levels of employment. It should always be remembered that in economies where dismissing a worker is expensive, hiring one will also be perceived to be expensive.

An ability to reorganize production and distribution processes is essential to take advantage of newer technologies. Indeed, the combination of a marked surge in mergers and acquisitions, and especially the vast increase in strategic alliances, including

Footnotes at end of Remarks.

across borders, is dramatically altering business structures to conform to the imperatives of the newer technologies.[2]

We are seeing the gradual breaking down of competition-inhibiting institutions from the keiretsu and chaebol of East Asia, to the dirigisme of some of continental Europe. The increasingly evident advantages of applying the newer technologies is undermining much of the old political wisdom of protected stability. The clash between unfettered competitive technological advance and protectionism, both domestic and international, will doubtless engage our attention for many years into this new century. The turmoil in Seattle last month may be a harbinger of an intensified debate.

However one views the causes of our low inflation and strong growth, there can be little argument that the American economy as it stands at the beginning of a new century has never exhibited so remarkable a prosperity for at least the majority of Americans.

Nonetheless, this seemingly beneficial state of affairs is not without its own set of potential challenges. Productivity-driven supply growth has, by raising long-term profit expectations, engendered a huge gain in equity prices. Through the so-called ''wealth effect,'' these gains have tended to foster increases in aggregate demand beyond the increases in supply. It is this imbalance between growth of supply and growth of demand that contains the potential seeds of rising inflationary and financial pressures that could undermine the current expansion.

Higher productivity growth must show up as increases in real incomes of employees, as profit, or more generally as both. Unless the propensity to spend out of real income falls, private consumption and investment growth will rise, as indeed it must, since over time demand and supply must balance. (I leave the effect of fiscal policy for later.) If this was all that happened, accelerating productivity would be wholly benign and beneficial.

But in recent years, largely as a result of the appreciating values of ownership claims on the capital stock, themselves a consequence, at least in part, of accelerating productivity, the net worth of households has expanded dramatically, relative to income. This has spurred private consumption to rise even faster than the incomes engendered by the productivity-driven rise in output growth. Moreover, the fall in the cost of equity capital corresponding to higher share prices, coupled with enhanced potential rates of return, has spurred private capital investment. There is a wide range of estimates of how much added growth the rise in equity prices has engendered, but they center around 1 percentage point of the somewhat more than 4 percentage point annual growth rate of GDP since late 1996.

Such overall extra domestic demand can be met only with increased imports (net of exports) or with new domestic output produced by employing additional workers. The latter can come only from drawing down the pool of those seeking work or from increasing net immigration.

Thus, the impetus to spending from the wealth effect by its very nature clearly cannot persist indefinitely. In part, it adds to the demand for goods and services before the corresponding increase in output fully materializes. It is, in effect, increased purchasing from future income, financed currently by greater borrowing or reduced accumulation of assets.

If capital gains had no evident effect on consumption or investment, their existence would have no influence on output or employment either. Increased equity claims would merely match the increased market value of productive assets, affecting only balance sheets, not flows of goods and services, not supply or demand, and not labor markets.

But this is patently not the case. Increasing perceptions of wealth have clearly added to consumption and driven down the amount of saving out of current income and spurred capital investment.

To meet this extra demand, our economy has drawn on all sources of added supply. Our net imports and current account deficits have risen appreciably in recent years. This has been financed by foreign acquisition of dollar assets fostered by the same sharp increases in real rates of return on American capital that set off the wealth effect and domestic capital goods boom in the first place. Were it otherwise, the dollar's foreign exchange value would have been under marked downward pressure in recent years. We have also relied on net immigration to augment domestic output. And finally, we have drawn down the pool of available workers.

The bottom line, however, is that, while immigration and imports can significantly cushion the consequences of the wealth effect and its draining of the pool of unemployed workers for awhile, there are limits. Immigration is constrained by law and its enforcement; imports, by the willingness of global investors to accumulate dollar assets; and the draw down of the pool of workers by the potential emergency of inflationary imbalances in labor markets. Admittedly, we are groping to infer where those limits may be. But that there are limits cannot be open to question.

However one views the operational relevance of a Phillips curve or the associated NAIRU (the nonaccelerating inflation rate of unemployment)—and I am personally decidedly doubtful about it—there has to be a limit to how far the pool of available labor can be drawn down without pressing wage levels beyond productivity. The existence or nonexistence of an empirically identifiable NAIRU has no bearing on the existence of the venerable law of supply and demand.

To be sure, increases in wages in excess of productivity growth may not be inflationary, and destructive of economic growth, if offset by decreases in other costs or declining profit margins. A protracted decline in margins, however, is a recipe for recession. Thus, if our objective of maximum sustainable economic growth is to be achieved, the pool of available workers cannot shrink indefinitely.

As my late friend and eminent economist Herb Stein often suggested: If a trend cannot continue, it will stop. What will stop the wealth-induced excess of demand over productivity-expanded supply is largely developments in financial markets.

That process is already well advanced. For the equity wealth effect to be contained, either expected future earnings must decline, or the discount factor applied to those earnings must rise. There is little evidence of the former. Indeed, security analysts, reflecting detailed information on and from the companies they cover, have continued to revise upward long-term earnings projections. However, real rates of interest on long-term BBB corporate debt, a good proxy for the average of all corporate debt, have already risen well over a full percentage point since late 1997, suggesting increased pressure on discount factors.[3] This should not be a surprise because an excess of demand over supply ultimately comes down to planned investment exceeding saving that would be available at the economy's full potential. In the end, balance is achieved through higher borrowing rates. Thus, the rise in real rates should be viewed as a quite natural consequence of the pressures of heavier demands for investment capital, driven by higher perceived returns associated with technological breakthroughs and supported by a central bank intent on defusing the imbalances that would undermine the expansion.

We cannot predict with any assurance how long a growing wealth effect—more formally, a rise in the ratio of household net worth to income—will persist, nor do we suspect can anyone else. A diminution of the wealth effect, I should add, does not mean that prices of assets cannot keep rising, only that they rise no more than income.

A critical factor in how the rising wealth effect and its ultimate limitation will play out in the market place and the economy is the state of government, especially federal, finances.

The sharp rise in revenues (at a nearly 8 percent annual rate since 1995) has been significantly driven by increased receipts owing to realized capital gains and increases in compensation directly and indirectly related to the huge rise in stock prices. Both the Administration and the Congress have chosen wisely to allow unified budget surpluses to build and have usefully focused on eliminating the historically chronic borrowing from social security trust funds to finance current outlays.

The growing unified budget surpluses have absorbed a good part of the excess of potential private demand over potential supply. A continued expansion of the surplus would surely aid in sustaining the productive investment that has been key to leveraging the opportunities provided by new technology, while holding down a further reliance on imports and absorption of the pool of available workers.

I trust that the recent flurry of increased federal government outlays, seemingly made easier by the emerging surpluses, is an aberration. In today's environment of rapid innovation, growing unified budget surpluses can obviate at least part of the rebalancing pressures evident in marked increases in real long-term interest rates.

As I noted at the beginning of my remarks, it may be many years before we fully understand the nature of the rapid changes currently confronting our economy. We are unlikely to fully comprehend the process and its interactions with asset prices until we have been through a complete business cycle.

Regrettably, we at the Federal Reserve do not have the luxury of awaiting a better set of insights into this process. Indeed, our goal, in responding to the complexity of current economic forces, is to extend the expansion by containing its imbalances and avoiding the very recession that would complete a business cycle.

If we knew for sure that economic growth would soon be driven wholly by gains in productivity and growth of the working age population, including immigration, we would not need to be as concerned about the potential for inflationary distortions. Clearly, we cannot know for sure, because we are dealing with world economic forces which are new and untested.

While we endeavor to find the proper configuration of monetary and fiscal policies to sustain the remarkable performance of our economy, there should be no ambiguity on the policies required to support enterprise and competition.

I believe that we as a people are very fortunate: When confronted with the choice between rapid growth with its inevitable insecurities and a stable, but stagnant economy, given time, Americans have chosen growth. But as we seek to manage what is now this increasingly palpable historic change in the way businesses and workers create value, our nation needs to address the associated dislocations that emerge, especially among workers who see the security of their jobs and their lives threatened. Societies cannot thrive when significant segments perceive its functioning as unjust.

It is the degree of unbridled fierce competition within and among our economies today—not free trade or globalization as such—that is the source of the unease that has manifested itself, and was on display in Seattle a month ago. Trade and globalization are merely the vehicles that foster competition, whose application and benefits currently are nowhere more evident than here, today, in the United States.

Confronted face-on, no one likes competition; certainly, I did not when I was a private consultant vying with other consulting firms. But the competitive challenge galvanized me and my colleagues to improve our performance so that at the end of the day we and, indeed, our competitors, and especially our clients, were more productive.

There are many ways to address the all too real human problems that are the inevitable consequences of accelerating change. Restraining competition, domestic or international, to suppress competitive turmoil is not one of them. That would be profoundly counterproductive to rising standards of living.

We are in a period of dramatic gains in innovation and technical change that challenge all of us, as owners of capital, as suppliers of labor, as voters and policymakers. How well policy can be fashioned to allow the private sector to maximize the benefits of innovations that we currently enjoy, and to contain the imbalances they create, will shape the economic configuration of the first part of the new century.

FOOTNOTES

[1] Since the early 1990s, the annual growth rate in output per hour of nonfinancial corporate businesses outside high tech has risen by a full percentage point.

[2] For example, the emergence of many alternate technologies in areas where only one or two will set the standard and survive has created high risk, high reward outcomes for their creators. The desire to spread risk (and the willingness to forgo the winner-take-all return) has fostered a substantial number of technology-sharing alliances.

[3] The inflation expectations employed in this calculation are those implicit in the gap between the interest rates on ten-year Treasury inflation-indexed notes and those on a nominal security derived from Treasury STRIPS constructed to have comparable duration. The latter are used because, they have the same relatively limited liquidity as inflation-indexed notes.

Mr. MOYNIHAN. I thank the Chair. I yield the floor. I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. WELLSTONE. 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. WELLSTONE. Mr. President, about the only chance we ever have to discuss interest rates and monetary policy in this body is when Alan Greenspan gets renominated to the Federal Reserve Board, which admittedly seems to happen on a fairly regular basis.

That is a shame, because there aren't many issues we debate in the Senate that have a bigger impact on the average American family. Why are interest rates so important? Well, for one thing, the decision to raise or lower interest rates directly affects pretty much every single American, in one way or another. Small businesses and farmers who need to take out loans. Families who want to buy a home or a car. Parents who need a loan to send their children to college. The economic future of all these people may hinge on the decisions of the Federal Reserve Board.

More importantly, the decision to raise or lower interest rates has a direct effect on anybody who has or wants a job. Interest rates have got to be the single most important factor determining the rate of unemployment. They're also tremendously important in determining how fast our economy grows. If the Fed slams the brakes on the economy, consumer demand falters, inventories pile up, employers lay workers off, and millions of lives are disrupted. The health and vitality of every community in every corner of every state depends to some extent on monetary policy decisions made by the Federal Reserve Board in Washington.

The importance of monetary policy has only grown over time. As former Labor Secretary Bob Reich likes to point out, we used to have two accelerator pedals for the economy. One was cutting interest rates. The other was government stimulus. But now that we're locked into running surpluses for as far as the eye can see, fiscal policy is pretty much dead. Interest rates are the main policy tool we have left for influencing the economy. Indeed, interest rates have a greater impact on most American families than the budgets we pass and most of the legislation we consider.

Yet for some reason monetary policy has fallen off the political radar screen. At one time, of course, it was a front-burner political issue. Certainly in the late 19th century, there were few issues that inspired more heated debate among farmers in the Midwest than the gold standard and monetary policy. And for decades after the Great Depression, one of our most pressing national political issues was full employment, which was—and is—integrally connected to interest rates.

While interest rates and monetary policy have become the most important instruments of U.S. economic policy, they have also been virtually walled off from democratic decision-making and debate. In this as in so many other areas, there seems to be an inverse relationship between an issue's importance to the American people and the amount of time we spend debating it here on the floor of the U.S. Senate.

I don't think that's the way it ought to be. That's not the way a democratic government should operate. These are vitally important issues, and they deserve a full and open debate involving broad public participation.

We did have something of a debate on monetary policy the last time Mr. Greenspan was renominated to the Board. Looking back on that discussion, I'm proud to say it was a substantive one. It focused not on personal criticisms, but on the important issues of monetary policy that affect all of our constituents.

I also think the arguments raised in the 1996 debate can serve as a useful starting point for today's deliberations. We have a record from that debate, and we have four years of economic experience to compare it against. And based on that record and that experience, we can draw certain conclusions.

The conclusions I draw are as follows. I think monetary policy over the past 4 years has been a pleasant surprise for some of us, in ways that I'll discuss in a moment. Nevertheless, it seems to me that the premise of the current movement toward higher interest rates is not only unfounded—but also contradicted by our experience of the last four years. In other words, I'm less troubled by where we've been than by where I see us heading in the near future.

The past four years have been a tremendously successful experiment in monetary policy. I would hope we could all draw the right lessons from that success. During this entire period, we have had relatively low levels of unemployment and strong economic growth. Yet throughout that time, we have also heard repeated demands from various quarters for the Fed to raise its rates.

We all know what these appeals sound like, but let me just give a couple examples. In January 1997, soon after the conclusion of our last debate, the Bond Buyer quoted an analyst from Merrill Lynch as saying,

> If we see further employment gains that are above the equilibrium level, it looks like wage acceleration will get worse and that will be about as bad a news as we could have for the markets.

In the January 1997 American Banker, an analyst from Chase Manhattan issued a very similar warning:

> The labor market is growing progressively tighter because of job growth, unemployment is near 20-year lows and there is an unambiguous acceleration in wage rates when you get beyond the volatility. At some point the Fed is going to have to raise interest rates.

Another banker quoted in the January 1997 American Banker said,

> The Fed is going to have to do something to slow the economy down. If you want to have an impact and want to slow the economy down, you hit it with the big stick first.

And so on and so forth. There is nothing unusual about these appeals from inflation hawks. We hear them all the time, no matter what economic conditions may be. The Fed hears them all the time from the Reserve Banks. In fact, Chairman Greenspan makes the same argument himself from time to time. This is more or less the same argument he made last month in his speech before the Economic Club of New York.

The difference is that back is 1997 and 1998, Mr. Greenspan and the Federal Reserve ignored those repeated and urgent appeals for higher rates to put a lid on wage growth. For its wise and dovish stance on interest rates in 1997 and 1998, I think the Fed deserves a great deal of credit.

The important thing for us to realize is that this unexpected experiment in monetary policy worked. The Fed's unusual deviation from tight money orthodoxy was clearly successful. Yesterday the President was handling out kudos for the longest economic expansion in our history. He did praise Chairman Greenspan, but I think we need to be more specific in our praise. The key policy choice we should be focusing on is the Fed's reluctance to raise rates during a critical period in the mid to late 1990's.

The results of that policy choice have been much-discussed elsewhere, so I don't need to go into all the details here. But there is one thing I want to emphasize: the importance of sustained low unemployment for people on the lower end of the income scale. Finally, in the last couple years we are beginning to see wage gains for lower-income workers—for the first time since the 1970's. Unemployment for workers who haven't completed high school was only 6 percent in December, an historical low. And low unemployment is especially important for minorities, who traditionally experience higher rates of joblessness. Black male joblessness has fallen to its lowest level in 30 years, through it's still about twice the rate for whites.

The benefits of low unemployment and strong economic growth extend beyond the people who found jobs or are starting to see higher wages for the first time in a long time. We all benefit. The principal reason why the federal budget went into surplus four years ahead of schedule—in 1998 rather than 2002—was because of higher-than-expected economic growth. That wouldn't have been possible had the Fed slammed on the brakes.

Higher economic growth also extended the life of the Social Security Trust Funds, demonstrating how probably the best thing we can do to protect Social Security is to ensure strong economic growth in the future. Because of lower unemployment and higher growth, crime rates declined, as many people who would otherwise have no hope were able to obtain stable employment. And finally, it goes without saying that the consequences of welfare reform would have been much more devastating had the Fed followed the advice of those inflation hawks and raised interest rates.

There is one other milestone decision by the Fed that deserves to be singled out for praise. In September 1998, I and several other senators spoke on the floor about the need for interest rate reductions to address the instability in the global economy in the wake of the Asian Crisis and the collapse of the Russian economy. The Fed acted quickly and decisively. It not only resisted calls to raise rates in 1998; it actually lowered them by ¾ of a percentage point between September and November. I'm convinced that those rate reductions made a decisive contribution towards stabilizing global financial markets.

So much for my sweet talk about the Federal Reserve. Today I also want to express my deep concern about where the Fed appears to be headed in the next few months. I'm troubled that the Board may be unlearning the lessons of its successful recent experiment in monetary policy and reverting to its old ways. Already in June, August, and November of last year, the Fed raised rates by ¼ of a percentage point. These hikes effectively restored rates to where they were before the Russian crisis of 1998.

In his speech last month, Chairman Greenspan announced that he is once again worried about wage-induced inflation. Virtually everyone understood those remarks as another signal that the Fed will raise rates soon. The Federal Open Markets Committee (FOMC) has been meeting yesterday and today, and today announced another increase of ¼ percent. Some economists believe there could be a total of four rate increases by the end of June.

To panic over inflation in the present economic circumstances strikes me as something close to irrational paranoia. Inflation is the true ''Phantom Menace.'' First of all, the core inflation rate last year fell to 1.9 percent in 1999, the lowest it's been since 1965. Let me repeat that: core inflation is the lowest it's been since 1965. It's true that consumer prices rose faster than that last year, but this was due to sharply higher energy prices, which should not lead to higher rates. Most commodity prices are still at record lows.

In his speech last month, Chairman Greenspan spelled out his concerns. He underscored the danger that rising wages could cause inflation to spiral out of control. I find this argument very troubling. It seems to disregard our experience since 1996, for which the Fed deserves, as I said, a great deal of credit. Just a moment ago I was praising the Federal Reserve for rejecting this very same argument in 1997 and 1998.

Simply put, I do not believe there is any credible indication that labor costs are about to send inflation spinning out of control. Wage growth actually slowed in the last year, despite persistently low unemployment. In the fourth quarter of 1999, average hourly wages increased at an annual rate of 3.3 percent. That's less than the 4 percent they increased from 1997 to mid-1999. Measured a different way, wage growth fell from 4.1 percent in 1999 to 3.6 percent in 1998. Wage growth could not have been slowing down over the past couple years if labor markets were operating as Chairman Greenspan describes.

As Chairman Greenspan and the President have both pointed out, a remarkable feature of the current recovery is that workers' wage demands have been lower than their historical levels. Yesterday the President claimed the reason why American workers have not made ''enormous wage demands'' is that they have become ''very sophisticated about the way the world economy works.'' That's an interesting comment. He seems to be suggesting that the way the world economy works is to depress wages.

In his now-famous testimony before the Senate Budget Committee in January 1997, Mr. Greenspan had a slightly less upbeat explanation for slackening wage demands. He pointed to job insecurity. ''Heightened job insecurity explains a significant part of the restraint on compensation,'' he testified. Of course, Chairman Greenspan raised this issue because he was concerned the situation could not continue forever: ''At some point in the future,'' he said, ''the trade-off of subdued wage growth for job security has to come to an end.''

There are several reasons why workers would be more insecure in today's economy, but it's hard for me to consider any of them good news. An unprecedented wave of mergers and corporate restructurings has led to layoffs for many senior employees. Labor unions have lost a great deal of its bargaining power, for various reasons. These include deregulation, a trade deficit that destroys unionized manufacturing jobs, and competition from low-wage imports.

But even if wage growth really were picking up steam, it would not necessarily lead to inflation. I think pretty much every economist would agree that wages can increase at least as fast as productivity growth—without causing a rise in prices. That's because when there's more wealth to go around due to greater efficiencies, more of that wealth can be shared with workers without asking consumers to pay more.

And that's exactly what's been happening. Ever since 1996, productivity has been rising at about 1 percent above the expected trend line. For the past couple of years productivity has been rising at about 2 percent, though real wages rose only 1.5 percent last year. Unit labor costs have fallen since 1996, meaning that wages have not been keeping up with productivity. Moreover, productivity growth is expected to remain strong in the future. There is plenty of room for more wage growth.

One of the lessons of this recovery is that low unemployment can actually lead to higher productivity. It makes sense. For one thing, when labor markets are tight, businesses have to make more efficient use of their workers. That leads to higher efficiency and more wealth that can then be shared with workers. It's a virtuous cycle.

In fact, this recovery has taught us several lessons which don't seem to be reflected in the Fed's recent shift toward higher rates. First and foremost, the theory that there is a natural rate of unemployment—around 5.5 or 6 percent—below which inflation will spiral out of control appears to be thoroughly discredited.

In June 1996, when we were debating Mr. Greenspan's previous renomination, I came to the floor to take issue with this theory, which is called the NAIRU (Non-Accelerating Inflation Rate of Unemployment). At that time, unemployment was 5.6 percent. I was arguing that unemployment could go lower without sending wages—and therefore prices—into an upward spiral.

Let's look at the record since 1996. Unemployment has been below 6 percent the entire time, with no inflationary spiral in sight. Unemployment has been 4.1 percent for four months now. It's been below 5 percent for 30 months. It's been below 4.5 percent for 14 months. Not only is inflation not spiraling out of control, it's pretty hard to detect any sign of inflation at all. Core inflation is the lowest it's been since 1965.

In the most recent issue of the American Prospect, the economist James K. Galbraith writes,

> Faced with such embarrassing facts, only a handful of economists continue to defend the natural rate idea. And yet, the natural rate movement still influences policy. Some of its survivors vote on the Federal Reserve's Open Market Committee. They are presently driving interest rates upward on precisely the pretext that low unemployment must otherwise soon bring rising inflation. It is a notion for which no evidence exists. And except for the damage that higher interest rates will do, it would be hard not to laugh.

The case for raising interest rates is also exceedingly weak. In fact, the very arguments made recently by Chairman Greenspan and various Wall Street analysts should actually persuade us to keep rates where they are. Yes, sustained low unemployment is having some effect on wages, especially at the lower end. It's not sending inflation spiraling out of control, but it is having an effect. But this is a positive phenomenon that we should be attempting to prolong, for all the reasons I listed before in praising the Fed's performance in 1997 and 1998. The price of raising rates now is all the benefits we've seen flowing from lower unemployment and faster growth.

After all, many working people are only now beginning to feel the effects of this recovery. Only in the last two years have wage increases given workers back some of what they had lost over the past two decades. During most of the recovery of the 1990s, the median wage actually fell. Wages for low and middle-income workers dropped sharply in the early 1990's, due in part to an unnecessarily tight monetary policy by the Federal Reserve.

This trend didn't start to reverse itself until 1996—thanks to a looser monetary policy from the Federal Reserve, as well as an increase in the minimum wage. It wasn't until 1999 that median wages regained their peak level from 1989, before the last recession. That's where most workers are today: about where they were before the last recession. This is no time to actively dampen wage growth—precisely at the moment when workers are starting to benefit from this recovery. The policies that brought about these much-delayed benefits for working people are precisely the ones that the Federal Reserve is now poised to reverse.

I think we have an obligation to make sure all Americans, not just corporate CEOs and those at the top of the income ladder, can benefit from this recovery. Just recently, the Center on Budget and Policy Priorities and the Economic Policy Institute released a report on income inequality in America. This is what they found. Despite strong economic growth, income disparities were significantly greater in the late 1990's than they were in the 1980's. In two-thirds of all states, income inequality between the top 20 percent and the bottom 20 percent increased. The earnings of the poorest fifth of American families rose less than 1 percent between 1988 and 1998, but the earning of the richest fifth jumped 15 percent. The income gap significantly narrowed in only three states—Alaska, Louisiana, and Tennessee.

Even my friend JOHN MCCAIN has noted the widening gap between the haves and the have-nots in America, and that message seemed to go over pretty well in New Hampshire.

Raising interest rates now could also have an indirect effect on inequality—by raising the value of the dollar and therefore contributing to the problems of our trade deficit. In the last 4 years, our trade deficit has grown from less than 1.0 percent of GDP to almost 3.5 percent of GDP in the fourth quarter of 1999. This is unprecedented.

The burgeoning trade deficit has contributed to inequality by resulting in the loss of manufacturing jobs. We lost 248,000 manufacturing jobs in 1999, and 520,000 since March 1998. Because of low unemployment, those job losses are generally made up by job creation elsewhere. But the new jobs tend to be nonunionized, with lower pay and fewer benefits. In the last two years, job growth has occurred exclusively in the service industries, where wages and benefits are often much lower.

A second problem with the trade deficit is that it casts a pall over this recovery. We are now the world's largest debtor nation. We have accumulated over $2 trillion in trade deficits over the last couple decades. Yesterday, even President Clinton said he worried that if foreign investors lost confidence in our economy and pulled out their money, they could do major damage to the economy.

We have to consider the danger that unmanageable trade deficits or unnecessary monetary tightening could not only erase wage gains for lower-income workers, but could actually send the economy into a tailspin. This recovery has been kept alive by Americans who have been spending more than they earn, partly due to the ''wealth effect'' of soaring stock prices. Lowering growth with higher interest rates could cause investors to reassess their rosy assumption about future growth and puncture the speculative bubble on Wall Street.

In fact, in his speech last month in New York, Chairman Greenspan also mentioned the danger of a stock market correction. If the goal is to curb ''irrational exuberance'' on Wall Street, there are much better ways of doing that. In the 1950's and 1960's, Fed Chairman William McChesney Martin, Jr., repeatedly raised margin requirements, but Mr. Greenspan has refused to take that step.

Given the sizable dangers involved—both in terms of the damage it would do to lower-wage workers and to the overall economy—I think raising interest rates at this time would be extremely unwise. If an inflationary situation actually materializes and turns out not to be a figment of bankers' collective imaginations, the Fed can always deal with that problem if and when it arises. Recent evidence suggests that interest rate moves no longer operate with a lag due to the increased openness of the Fed.

We have made a tremendous advance in the four years since we last debated this issue. We have discovered that the three-decade-old mystery over falling wages and rising inequality turns out to be not so mysterious after all. The fact is, we know how to raise wages and reduce inequality. We do not have to reinvent the wheel. Among other things, we need to maintain low unemployment over a sustained period. We've done this before and we can do it again. It would be a tragedy if an unjustified fear of rising wages or an economic downturn kept us from continuing that progress.

I think Chairman Greenspan's performance at the Fed has been very helpful in drawing out these lessons over the past 4 years. It would be a tragedy—both for our country and especially for workers at the lower end of the income scale—if he were to ignore those lessons to once again focus on putting a stop to rising wages.

Mr. President, it is kind of ironic that about the only time relevant to really discuss monetary policy or have a debate about monetary policy is when Alan Greenspan gets renominated to the Federal Reserve Board. It is a shame because there is probably not an issue that has greater impact on people's lives. People just do not know that much about monetary policy. But the fact is, when you look at the real interest rates, you are talking about a policy that dramatically affects small business people, dramatically affects family farmers, dramatically affects the industrial base of our country, dramatically affects low- and moderate-income people, and it is critically important to policy.

There was a time in the history of our country, in the late 1800s, when there was a tremendous emphasis on monetary policy and the need to keep real interest rates down. There was a time post-Depression when there was a real focus on employment policy and the need to move toward full employment, and the whole question of what the tradeoff was between having high interest rates that would choke off economic growth, and then people would not be able to find jobs at decent wages.

I think in 1996 we had a very good debate. I don't think the debate was so much about Alan Greenspan—I voted against Alan Greenspan's nomination then—but it had more to do with the debate about monetary policy.

What was going on during that debate is that many of us were saying we were very concerned about the Federal Reserve policy. We were concerned about the focus on raising interest rates, and what we argued was all this discussion about NAIRU, all this discussion that you could not have low levels of officially defined unemployment without at the same time setting off an inflationary cycle, was simply wrong. What we were saying is it is extremely important to have a public policy which puts as our first priority that people should be able to obtain jobs at decent wages and that this was critically important when you looked at monetary policy. That is because when interest rates go up, then in fact it is very difficult to sustain this kind of growth.

I am pleased to say tonight—I think this is the irony—I was right about the policy and wrong about Alan Greenspan. I think I was right to say that the Fed is not accountable to citizens in this country. There is no democratic accountability, with a small ''d.'' These are critically important decisions that are sort of walled off from any kind of public accountability. I think that is a profound mistake. This is a decisionmaking body with enormous power that crucially defines the quality or lack of quality of people's lives. But what we were saying, some of us, was that we took exception to the Fed's policy of always seeing inflation right around the corner when it did not exist, a kind of phantom inflation, and raising interest rates and having as its conscious policy: We are going to raise interest rates because unemployment is falling too low and we have to do something because surely there will be inflation.

Therefore, many people still do not get jobs or the jobs they get are jobs at fairly low wages. And, when real interest rates go up, it has a draconian effect, again, on small businesspeople, a horrible effect on farmers and producers in my State, and a very harsh effect on low- and moderate-income people, a harsh effect on home buyers, a harsh effect on people who do not have a lot of money who are trying to buy a car.

I give Alan Greenspan credit. What has happened in 1997 and 1998 is that Alan Greenspan did a superb job of being a dove. He was a dove. He did not raise the interest rates. There were many people in the Banking Committee, many people in the financial community, who kept saying he needed to raise those interest rates. He did not do so. I think his stewardship has been very important. As a result of that, this is what has happened. As a result of not raising these interest rates up until this past year, as a result of not accepting this orthodoxy, what have we been able to accomplish? Record low levels of unemployment—that is very important to communities of color; very important to people who are traditionally the ones who are most affected by high levels of unemployment. It is very important to the basic idea of economic opportunity in America because the key to economic opportunity is to be able to find a job, even more a job at a decent wage, even more a job at a decent wage under civilized working conditions.

What else has been accomplished? Because we have had low levels of unemployment, finally we have seen the lowest wage workers be able to bid up their wages because this is a good market for them. We are beginning to see some closing of the gap. It is closing very little, but up until the past couple of years, or this past year, we had not seen much improvement at all in terms of real wages. We have seen some improvement.

What have we been able to accomplish? Record surpluses. What have we been able to accomplish? The Social Security trust fund appears much stronger than it did because of economic performance. What have we been able to accomplish? High levels of productivity. By the way, if your productivity is ahead of your wage increases, I do not believe you are ever going to have to be concerned about an inflationary cycle.

So I come to the floor of the Senate to say it was important we had this debate about monetary policy in 1996. I think those of us who took exception to the Fed's policy of continuing to raise interest rates were correct. Those of us who did not accept NAIRU and this whole argument that below a certain level of unemployment you could not go any further, I think we were correct. Those of us who argued it was important to keep interest rates down for economic growth and economic recovery and jobs at decent wages, that it was important to keep interest rates down for the sake of our producers, for the sake of the manufacturing sector, for the sake of small businesses, for the sake of moderate- and middle-income households were right. I was wrong about Alan Greenspan because, as it turns out, under his guidance, the Fed has what I think is a pretty darned good record.

Therefore, I now come to part three. I am perplexed that now, again today, we saw an increase. The Fed is now raising interest rates, this past year I think three or four times. Yet inflation is at a record low level, and the only sector of the economy where we see inflation is energy costs, which has a whole lot to do with the OPEC cartel and does not have anything to do with ordinary families in the United States of America.

So it seems to me, for reasons I cannot explain, Mr. Greenspan and the Fed are ignoring the very success that they have had. I do worry because I think if we continue to raise the interest rates, not only is it going to undercut our economic growth, not only will it have a disproportionate negative effect on those Americans who struggle the most, much less middle-income families, not only is it going to add to our already serious trade imbalance which plays havoc—which is both a result of and plays havoc with our industrial sector—but I think if it is going to continue to raise these interest rates, it threatens this unbelievable economic performance we have seen.

One final point I make tonight is that during this period of economic growth we have not all grown together. To a certain extent we have grown apart. Actually, the gap between the richest 20 percent and poorest 20 percent grows wider and wider. Why, given the success of the Federal Reserve, why, given the success of this economic performance while keeping interest rates down, why, given some improvement for the lowest wage workers, why, given the surpluses, why, given the Social Security trust fund looking better because people are working, because people are making better wages, why at this point in time does Mr. Greenspan and the Federal Reserve seem to be going down the path of raising interest rates in direct contradiction to a policy that has been successful? That is the question.

I wanted to come to the floor to speak because I find it, as a teacher, much less a Senator, to be just an interesting and, to a certain extent, perplexing irony. In 1996, we had a debate about monetary policy. It only comes up when the Greenspan nomination comes up. I think we should be debating monetary policy more. Once upon a time it was a front burner issue. But then Alan Greenspan has surprised me and kept real interest rates down. I want to give him all the credit in the world for that, and I think it has been very important and tied to our economic performance. It is very important to the people with the least amount of economic clout in our country who do not do as well financially. But now it looks as if Alan Greenspan and the Federal Reserve have been going in the exact opposite direction of what has been a successful economic policy. That I fear, that I worry about, that I dissent from, and that I wanted to speak about as a Senator.

SECURITY CONCERNS

Mr. WELLSTONE. Mr. President, I just finished speaking with our Sergeant at Arms on the Senate side, Jim Ziglar. He is in full accord with what I am about to say.