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NOMINATION OF MARTHA ROMAYNE SEGER

HEARINGS

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

ON

NOMINATION OF MARTHA ROMAYNE SEGER TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM FOR A TERM OF 14 YEARS FROM FEBRUARY 1, 1984

JUNE 19, 20, 21, AND 22, 1984

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NOMINATION OF MARTHA ROMAYNE SEGER TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

TUESDAY, JUNE 19, 1984

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

The committee met, at 11 a.m., in room SD-538, Dirksen Senate Office Building, Senator Jake Garn (chairman of the committee) presiding.

Present: Senators Garn, Gorton, Hecht, Proxmire, Riegle, Sarbanes, and Sasser.

OPENING STATEMENT OF CHAIRMAN GARN

The CHAIRMAN. The committee will come to order.

The purpose of this morning's hearing before the Banking Committee is to consider the President's nomination of Martha Seger to be a member of the Board of Governors of the Federal Reserve System.

I might say at the outset a little bit of background, not particularly on this nomination or on you personally—but a little background about some of the conflicts we have had over previous Federal Reserve nominees and where they came from.

I am sure that everyone knows that the Federal Reserve Act has a provision in it which requires that not more than one member of the Federal Reserve Board be from any one Federal Reserve district. Over the years, this has caused a good deal of controversy. It has been discussed on the floor on several occasions and certainly in this committee, and back in 1979 and 1980 I joined a number of members of this committee in announcing that we would oppose any future nominees if they did not fit both the letter and the spirit of the law. This is because we had found that a lot of nominees for the Fed may have gone to school in California and may have resided temporarily in other Federal Reserve districts and any excuse the President could find was used for putting someone in a particular Federal Reserve district. We essentially found that we were developing a Federal Reserve Board that was coming from the Washington establishment and they were traded from the Council of Economic Advisers, Treasury, and the Fed, or from Fed staff. So I made a very strong statement in this committee and on the floor to put President Carter and any future President on notice that, without regard to personal qualifications of an individual, I would oppose nominees of that kind in the future. That without any equivocation that I would insist, on my own behalf, and that of many other members of the committee, and the Senate, that the Federal Reserve Act be followed.

I only give you that background to indicate that in this case the law has been followed. Dr. Seger is not only from Michigan, but also she has been there all the time and certainly fits the letter and the spirit of the law, which some previous nominees have not.

I would also say that this policy will be continued in the future, as vacancies occur, and that it is necessary for this President or any other President to comply. I will continue to insist that that geographical distribution be followed.

I wanted to say that at the outset because there have been some discussions on that during the last few months. The insistence of this committee is that the Fed certainly fit the geographical situation.

I may also say, before I turn to Senator Riegle, and Congressman Broomfield to introduce you, that I feel the President has made an excellent nomination. Beyond the fact that you fit the law, that you have a very fine background and experience and I personally favor your nomination and believe you will make an excellent member of the Federal Reserve Board.

Senator Riegle.

INTRODUCTORY STATEMENT BY SENATOR RIEGLE

Senator RIEGLE. Thank you, Mr. Chairman.

First of all, let me acknowledge the presence of Congressman Bill Broomfield from Michigan who, among other things, is the senior Republican in the House of Representatives and a very distinguished Member and a very dear friend of mine and colleague. And I'm just delighted to see him over here today and shortly he will have some remarks to make about Dr. Seger himself.

I had the opportunity to meet with the nominee recently and we talked at some length privately and she asked also if I would join in this introduction and I was pleased to accept.

So let me take this opportunity to introduce to the committee Dr. Martha Romayne Seger of Michigan. Dr. Seger is a native of Michigan with experience in business, banking, and government. She is the former commissioner of financial institutions for the State of Michigan and most recently has taught finance at Central Michigan University. Prior to that, she worked at General Motors, the Federal Reserve Bank of Chicago, the Federal Reserve Board here in Washington, DC, in the capital markets section, and the Detroit Bank & Trust, now Comerica-Detroit.

She has also taught at a variety of institutions, including, in addition to Central Michigan University, Oakland University, and the University of Michigan.

From 1976 to the present time, she has pursued, as she herself has described it, "a flexible schedule of teaching, research, lecturing, consulting, and public service."

Mr. Chairman, Dr. Seger has a reputation for frankness and even outspokenness, which I think the committee will find illuminating as the Senators pose their questions to her, and at the appropriate time I will have some additional personal comments to make but I will reserve that until the appropriate time.

The CHAIRMAN. Congressman Broomfield, we are very happy to have you here today and please proceed.

STATEMENT OF WILLIAM S. BROOMFIELD, U.S. REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. BROOMFIELD. Thank you very much, Senator Garn. I also want to thank my good friend, Senator Riegle, for his generous comments. We have been good friends over the years and I appreciate them very much.

Mr. Chairman, it is a very high honor for me to appear on behalf of my constituent, Dr. Martha Seger, one of the most distinguished women in the field of banking and economics who's been nominated by President Reagan for this important position on the Federal Reserve.

Martha has an extensive and very exceptional background as a financial economist, including a 2-year term as Commissioner of Financial Institutions of the State of Michigan. I found it interesting that back in 1976, Business Week selected her as one of the top 100 corporate women in America.

Also, in addition to her experience in the public sector, she has a long and varied career in banking and in the academic community. Currently a professor of finance at Central Michigan University, she has served as an officer of some of Detroit's largest banking institutions and also worked for 3 years early in her career on the staff of the Federal Reserve Board.

She has been nominated to fill the seat being vacated by Nancy Teeters, the only woman on the Federal Reserve Board, and in many ways it is the perfect replacement.

Mr. Chairman, I wholeheartedly endorse her candidacy and highly recommend her confirmation.

The CHAIRMAN. Thank you very much.

Do any of my colleagues wish to make any opening statement before we proceed?

OPENING STATEMENT OF SENATOR RIEGLE

Senator RIEGLE. Mr. Chairman, I might just do so because I have an intense interest in what goes on at the Fed and obviously I have a related connection here with respect to the fact that the nominee comes from my home State. We've had an opportunity to talk about some of the issues, but by no means exhaustively, and I hope that we will have that opportunity in the course of the hearings.

I do want to say, however, that I have considerable concern about a 14-year appointment coming this late in the Presidential term and literally on the eve of a Presidential election where the country will express itself in a sense on all the issues at once.

I think, quite apart from the specifics of this nominee—and I want to make that clear—it seems to me that if we were talking about a nomination for a term that would run to the end of the year, a term that might even run through a second Reagan term, that that would be one kind of situation for us to weigh. What we are looking at here, however, is something which is quite different.

We are looking at a 14-year term which in some respects is nearly a life appointment. I mean, it's an appointment that will take the nominee close to what we would think of as retirement age and so that is a very long period of time. So much so that if one assumes, say, that President Reagan were reelected—I don't know that that will be the case—I hope not—but should he be, and this nominee were confirmed, not only would she serve through that term but she would then serve through the next two terms of whoever was serving as President at that time.

So this is a very, very important fact and I think an important decision that we are called upon to make here with respect to the length of time that this particular nominee will serve.

So I think that very particular reason, which is quite apart from this particular nominee, attaches to this nomination and the timing of it, a special burden on this committee to be particularly diligent in understanding precisely what the nominee's views are and to understand clearly what we might expect out of such a long period of time in terms of the 14-year appointment.

I recall that during the 4 years that I had the responsibility to nominate Federal judgeship candidates for Michigan, which my colleague Congressman Broomfield will appreciate because he's been involved in that mixed blessing himself, that the task of examining nominees for what in fact in the case of Federal judges are lifetime appointments carries with it an inordinate burden of responsibility to be very meticulous and very careful in assessing, in those cases, Federal judges.

I think, in a sense, a member of the Federal Reserve Board at this time is holding a public policy position as important, if not more important, than a Federal judgeship, and particularly for such a lengthy period of service.

So for that reason, I think our hearing record becomes very important to the Senate as a whole and so I'm going to ask a number of probing questions and I trust that the witness—and I feel this based on my previous conversations with her—will be quite forthcoming so that we have an opportunity to hear her views and understand her background fully and to weigh that in this context.

One other thing I would mention is this, and that is that I asked Dr. Seger for her written views, her published views on economic and financial issues as they would extend over a period of years, and I was struck by the fact, as I mentioned to her and I want to share it with the committee today, that what I viewed as sort of an unfortunate fact that Dr. Seger has not written and published her views on economic issues, or monetary policy, or a range of related financial and economic subjects that one might expect would have been the case.

That by itself doesn't necessarily mean anything except that we don't have that body of information available to us to review as we have had previously with other nominees, and what I tend to do in a case like this on a serious policy appointment is take the published thoughts, the ideas, the articles, the newspaper stories, the presentations that have been made in other forms, and I review that material thoroughly so I have a basis for understanding what the viewpoints are or what the range of thought is and so forth represented by a nominee.

I asked Dr. Seger if she would submit to the committee and make available to me before the hearing today any materials like that that were written materials that would give some insight into her views, current, recent, past, or over the years. She indicated that basically there was no such material and with the exception of one news article or an interview which has been submitted and which I have here and which I will refer to later, and this is dated November 1983. But to date, the only written item that would reflect on her views and opinions on these matters is this single item.

That by itself is quite unusual, I might say. In addition, there is an op-ed feature that Dr. Seger wrote, I guess very recently, it was in the Traverse City paper issued on June 6 of this year. So that is something that is current to this month, and so this is the second item that we have to take a look at. This was on quite a different issue that really has no direct relationship at all to the monetary and financial policy issues that one would be concerned about with respect to the Fed, but the article for other reasons I think is something that I think we will have to examine in the period when we have the chance to raise questions with the nominee because I have tried to understand this and talked to some others about it and there's some concern that although this is unrelated to the subject matter of the Fed, it contains some assertions that may not be accurate. At least I am told by people named that they are not accurate and so I am going to want to inquire about that.

So I will just finish by saying, Mr. Chairman, that for a 14-year term and the seriousness of the policy decisions that the Fed has to make, the fact that there is no written record to examine leaves us really with the task of developing the record and I intend to do that quite fully, not any more so or less so because of the fact that the nominee is from Michigan, but because I think it is absolutely critical that we make the most prudent judgments possible at this time about who is going to serve on the Federal Reserve Board and who is going to serve for terms as long as 14 years.

So I will want to make sure, Mr. Chairman, that I have sufficient time, and I think that Senator Proxmire, the ranking member who's on the floor right now speaking but who will return shortly—I know that he has a number of questions of consequence that he wants to develop fully, as do I, and I can't speak for the other members of the committee, but I would say I think it is very important that we take whatever time is necessary to go through this from A to Z so that we have a hearing record that we can present to the Senate that we are sure is complete.

I thank the chairman.

The CHAIRMAN. Well, let me just make an observation. I would agree with almost everything the Senator from Michigan has said about the importance of these nominations, whenever they coincide with the beginning of a President's term, in the middle of it or at the end of it. It is always an important policymaking position.

But, I don't think that the 14-year term is that important. As I look at the record, I don't know of anyone who has served 14 years. It's an academic situation. We can check on that. My guess would be that the average is probably not more than about 4 years. So I don't really think that's a factor.

I agree with what you're saying about how we ought to examine any nominee for this important position, but I don't think whether it's a 14-year term or whether it's at the end of a President's term is really a factor because they just don't serve that long. That has not been the case at all.

I would make one other observation on the amount of writing by Dr. Seger. In the 10 years that I have served on this committee it is not an unusual amount, and we certainly reviewed the Vice Chairman from Florida who is a businessman who had no writings. Bill Miller, who was appointed by President Carter to be Chairman of the Federal Reserve Board was a businessman who did not have extensive writing or academic background. We certainly were not able, other than in the hearing process, to question either one of those Carter nominees other than during the process here. There was no extensive background of writing to do that.

So I don't disagree with what you said on the reasons and the importance of examining nominees. I do disagree, however, that the 14 years is anything but an academic thing because nobody serves that long. They just haven't, and the published writing—we could find all kinds of examples of the two most recent that I talked about where there was not a written background to go through either.

Senator RIEGLE. Would the chairman just yield on that point briefly?

The CHAIRMAN. Yes.

Senator RIEGLE. I would just make two points. One, in Dr. Seger's submission of her statement that has to be filed with the committee, there is a question here that's stated: "Do you expect to serve the full term for which you have been appointed?" Her answer to that is yes. I take that to be a factual answer, so I assume it is her intention to serve a full term.

I might just say with respect to Bill Miller, that appointment, as I recall—I don't recall the precise timing, but it was relatively early in the Carter administration when that appointment was made. It was here before the committee a long time because it was a controversial appointment, particularly on this side of the aisle as you may recall. There was a difference among Democrats, although he was a Democratic nominee.

But there's another very fundamental fact, and that is that Bill Miller functioned for a period of time as the chief executive officer of one of the major international companies in the United States who had a very, very distinguished business record at the highest level, was well known publicly, had spoken any number of times in any number of settings, and therefore was by no means an unknown quantity.

I don't mean to try to make any one-for-one relationships here, but I think that's quite different than the situation we find here when there is really very considerable absence of a record that one can get their hands on for study. That's what I'm saying.

The CHAIRMAN. My point was that there was no record of Chairman Miller's economic background or his feelings. Yes, he had run a business, but you have here a very successful educator from a Michigan financial institution. I would disagree that there is not a public record of achievement, background, or educational background in this area. But my purpose is not to debate before we have even heard the nominee, only to point out the 14-year term, which most nominees say that they intend to serve for the whole term. We even have Congressmen and Senators who intend to serve full terms but don't.

But let's get on with the hearing so that you do have the opportunity to ask whatever questions you would like.

Dr. Seger, could I first have you rise and be sworn.

[Whereupon, the witness was duly sworn.]

The CHAIRMAN. Do you have an opening statement you wish to make?

Dr. SEGER. No; I don't.

Senator SASSER. Mr. Chairman, are other members going to be precluded from an opening statement at this time?

The CHAIRMAN. No; at the time I asked the only one that I saw was Senator Riegle, but if you would like to make an opening statement you certainly may.

Senator SASSER. Thank you, Mr. Chairman.

OPENING STATEMENT OF SENATOR SASSER

Mr. Chairman, I find myself in agreement with my colleague, Senator Riegle. If Dr. Seger is confirmed, she at least will be entitled to serve a 14-year term on the Federal Reserve Board and as one of the Board's seven Governors she will exercise considerable influence over the economic affairs of this country and over the global economic community as well.

Now the conduct of monetary policy is something that profoundly affects every citizen of this country. Interest rates determine the level and type of business investment and the shape of our economy for years to come. So these are very important hearings. Interest rates will determine whether new families will be able to buy their first home and whether American consumers can purchase new automobiles, a matter of great interest to a nominee from Michigan I would assume, and other consumer groups. And interest rates also determine the cost of servicing the national debt which, given the fiscal policies of the present administration, is the fastest growing part of the Federal budget and we find that interest rates are climbing up again.

The prime rate has risen to 12.5 percent. Mortgage rates now stand at an average of 14.33 percent, the highest level in 1½ years, and consumer loan rates are running at the level of 15–19 percent. Most experts believe that the prime rate could increase another percent or so in the next few months.

Now interest rates and big deficits go hand-in-hand. That's generally conceded, contrary to the rather embarrassing statement that the Secretary of the Treasury made at the economic summit conference in Western Europe. The Federal Reserve Board is going to face a very difficult challenge in the years ahead in fashioning a monetary policy that can help sustain our economic recovery here at home, and abroad as well.

So I think we must carefully review the qualifications of Dr. Seger to ensure that she is the proper person for this post.

Now it is my belief, Mr. Chairman, that a Governor of the Federal Reserve Board must have a demonstrated ability to master the complexities and ramifications of monetary policy. A Governor should also have substantial business expertise in order to fully appreciate the economic impact of monetary policy on American businesses and consumers.

I might say that I agreed wholeheartedly with my chairman when he indicated that Governors of the Federal Reserve Board should come from the areas from which they seek to serve. He's quite correct in that and he's quite correct when he made another statement about the qualifications of a member of the Federal Reserve Board, and I'd like to refresh our committee on that.

Our chairman said—and I quote here, "I want to repeat what I said in the Banking Committee so that messages are sent loud and clear on how I feel. As the ranking minority member of that committee"—this was some years ago—"that unless future nominees, whether it is this President"—talking about President Carter—"or a future President, regardless of how personally well qualified they may be, if they do not match the intent and spirit of the law as far as geographical areas"—which we have heard today and which I agree with—"and we do not start seeing some businessmen, farmers, people to give more balance to that Board, rather than just trained economists, I'm putting everyone on notice that I will oppose, not just vote against but try to stop these nominations."

Now the chairman's statements were persuasive then when made in 1979 and I find his logic equally persuasive today.

Now a partisan approach to monetary policy by a member of the Federal Reserve Board is clearly not in the best interest of the American public, so these hearings should fully explore Dr. Seger's competency in many areas for this important position. These hearings should be wide ranging and thorough and we should act on Dr. Seger's nomination only after a full examination of her qualifications and a detailed exposition of her views about monetary policy and what monetary policies she espouses and intends to follow as a member of the Federal Reserve Board.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Proxmire.

OPENING STATEMENT OF SENATOR PROXMIRE

Senator PROXMIRE. Mr. Chairman, the Federal Reserve has become the single most important agency in the fight against inflation. Almost singlehandedly the Fed has brought the rate of inflation down from its historical peak of just a few years ago. Paul Volcker enjoys more respect and confidence within the business and financial community than either the President or the Congress and correctly so.

The Federal Reserve has earned its well-deserved reputation by maintaining its independence from political pressure. I was, therefore, concerned to read in the press that the appointment of Martha Seger to the Board marks an effort by the Reagan White House to seize the reins of monetary control. Perhaps this is merely the chatter of journalists with nothing else to write. Nevertheless, I think we must look at this nomination with great care to ensure that we do not send the wrong signal to the business and financial community.

Even an appearance of an attempt to politicize the Federal Reserve can sacrifice some of our painfully won gains on the war on inflation.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Sarbanes.

OPENING STATEMENT OF SENATOR SARBANES

Senator SARBANES. Mr. Chairman, we live in an economic world where domestic and international conditions cannot be isolated from one another. Our policies at home inevitably and profoundly influence conditions abroad and, conversely, developments abroad may have a critical effect on our Nation's economic and financial strength.

In this complex web of economic relations, the Federal Reserve System occupies a unique and pivotal role. The Federal Reserve confronts today problems more complex and more tenacious than any we have experienced in the past. Its decisions with respect to monetary policy will have far-reaching and long-range consequences.

Now Dr. Seger has been nominated to a full 14-year term on the Federal Reserve Board of Governors, a term that will expire in 1998—that is to say, at the very end of this century. Now, given the length and importance of this nomination, I join with many of my colleagues in wanting to hear in detail Dr. Seger's perspective on the role and responsibilities of the Federal Reserve, on the role she would expect to play as a member of its Board of Governors, and on the difficult problems besetting the domestic and international economies that the Federal Reserve will be called upon to consider.

The CHAIRMAN. Does anyone else wish to make a statement?

OPENING STATEMENT OF SENATOR HECHT

Senator HECHT. Thank you, Mr. Chairman.

I have had the occasion to meet with Dr. Seger in my office. We had a long discussion on business and economics and, as a small businessman, I find Dr. Seger particularly sensitive to the business community and, in my opinion, she definitely bridges a gap between economics and the business world of reality and I am very, very comfortable with her nomination. Thank you.

The CHAIRMAN. Thank you.

May I just make one more comment along the line that Senator Riegle and I were discussing. I do not disagree with many of the things that my colleagues have said on this side of the aisle about the importance of the Federal Reserve nominee in any year by any President because of the importance of the Federal Reserve Board itself and the impact that it does have on the economy.

I would just hope that we do explore your qualifications and your attitudes and that we don't get into bringing up issues that are different now than they were before, and I would only repeat that the 14-year term has always been true for any nominee except some who were just filling vacancies.

The issue as far as I know is, while it was not brought up in 1979, President Carter also appointed Emmett Rice and there's the entire hearing record—indicating—in the year before the election. That's it. It's very brief, very cursory. We on this side did not bring that up and also his published writings, the only contributions to institutional publications listed on his disclosure are articles and annual reports for which he could not claim full credit. Lyle Gramley, the last nominee under President Carter in 1980, was appointed and confirmed to a 14-year term during a Presidential election year.

So I want to make those points, and they are not to argue with any of you on the importance of the nomination or how probing you are with your questions. Certainly all of us should be, but I do think we need to separate qualifications for this job from what seems to be a rather common practice under previous Presidents during election years or the year before, and that published material has not seemed to be an issue before.

Dr. Seger, I understand that you will resign from your position with the Central Michigan University, Comerica Inc., and you will sever all your existing lecturing and consulting arrangements and other directorships if you are confirmed. Is that correct?

Dr. SEGER. Yes, it is.

The CHAIRMAN. What you're saying then is you will avoid not only any conflict of interest but even the appearance of a conflict of interest in your service as a member of the Federal Reserve Board?

Dr. SEGER. I have already told Central Michigan University's dean and also the chairman of the board of Comerica that I would submit my resignation in writing as soon this nomination is confirmed. They have been told.

The CHAIRMAN. Will you agree to appear before this committee and other duly constituted committees of the Senate when requested to do so?

Dr. SEGER. Definitely.

The CHAIRMAN. Senator Proxmire.

DETAILS OF INTERVIEW

Senator PROXMIRE. Dr. Seger, according to an Evans and Novak column of March 7, Chairman Volcker was not consulted on your appointment to the Fed. They say you were selected by James Baker of the White House and Preston Martin, the only Reagan appointee on the Fed. According to their column, you were interviewed by Governor Martin, who passed you with "flying colors" both on your monetary expertise and your "desire to follow a 'Reaganite growth path.' "

How much of that column is accurate?

Dr. SEGER. I don't know if Chairman Volcker was consulted or not. Back in 1983, I was proposed as a member of the Home Loan Bank Board by some savings and loans from Michigan who thought I had done a very good job there. They put my name in for a slot—this was in early 1983—on the Home Loan Bank Board, and at that point I was interviewed by a number of people, including Preston Martin.

Then I asked to have my name withdrawn from consideration for that position, because I wanted to sign my contract for teaching; and so that didn't pan out. But they had my information, my file, and when I was considered later for the Federal Reserve Board, they also had me speak to Governor Martin. I did not speak to Chairman Volcker, but whether he was consulted, actually I don't know.

Senator PROXMIRE. Were you, in fact, interviewed by Governor Martin and not by Chairman Volcker?

Dr. SEGER. I was interviewed by Preston Martin and not by Chairman Volcker, but whether or not he was consulted about me, I don't know.

Senator PROXMIRE. But you did not talk with the Chairman before your nomination was sent to the Senate?

Dr. SEGER. That's right.

The CHAIRMAN. May I just clarify the timeframe? You said you were interviewed by Preston Martin for the position on the Federal Home Loan Bank Board?

Dr. SEGER. Right; That's when I first met him. When this appointment came along, they asked me to be interviewed by him again.

The CHAIRMAN. All right. Thank you.

Senator SARBANES. I want to be very clear on this. You were interviewed by Preston Martin?

The CHAIRMAN. Twice.

Senator SARBANES. Specifically with reference to nomination to the Federal Reserve Board?

Dr. SEGER. Yes. The first time was in connection with the Home Loan Bank Board and then, early this year——

Senator SARBANES. But you're not referring to that interview here; that was another interview; is that correct?

Dr. SEGER. Early this year he talked to me about the Federal Reserve Board. I'm saying I have spoken to him twice, once about each position.

Senator PROXMIRE. Did you ask to be interviewed by Chairman Volcker?

Dr. SEGER. You know, I'm a hick from the Midwest. I didn't know who was supposed to talk to me.

Senator PROXMIRE. I'm a kid from the Midwest, too. Did you talk about a "Reaganite growth path?"

Dr. SEGER. No, I didn't.

Senator PROXMIRE. You didn't talk about that. That part of the report, as far as you know, is not correct?

Dr. SEGER. I was never interviewed by Evans and Novak.

Senator PROXMIRE. I know that. But Evans and Novak said that and I quoted Evans and Novak that Governor Martin passed you with "flying colors" both on your monetary expertise and your "desire to follow a Reaganite growth path."

Dr. SEGER. I'm saying I don't know where they got that; they didn't get it from me.

Senator PROXMIRE. You didn't tell Governor Martin that you wanted to follow a Reaganite growth path?

Dr. SEGER. No, I didn't.

Senator PROXMIRE. Is it your perception that President Reagan has a different economic growth strategy than that of the Federal Reserve Board.

SHOOTING FOR SAME TARGET

Dr. SEGER. As I understand both strategies, they are probably aiming for the same target, which is to keep the economy or the economic recovery on track at a nice, moderate, noninflationary rate of growth, and in that strategic sense, as I understand both——

Senator PROXMIRE. You don't perceive any difference between President Reagan's position on monetary policy? From time to time, there's been some indication of support by the President of the Federal Reserve Board's policies and sometimes criticism. It's not your perception that there's a difference then? You feel that they are the same?

Dr. SEGER. What I'm saying is I think they are shooting for the same goal. Now whether both sides have identical numbers, I'm not sure.

Senator PROXMIRE. Let me ask you a much more general question.

Monetarist economists such as Milton Friedman have argued we would be better off without a Federal Reserve Board. They contend the Fed systematically underestimates and overestimates the course of the economy and that its efforts to lean against the wind are actually destabilizing. They believe we would be better served if the monetary authorities were required by law to follow a fixed rule for monetary growth regardless of current economic conditions. How do you come down on this debate?

Dr. SEGER. Having taught business conditions, and certainly having read the views of Milton Friedman—and by the way, I am not a monetarist; I think it came out that I was—I think that you certainly have to be concerned with monetary growth. I guess my view of the overall economy is maybe a little different from Milton Friedman's and that is that I'm impressed with how extremely big our economy is, how complex it is, how diverse it is, and I just don't feel I am personally smart enough to come up with the rule that he refers to that you can just program a black box which would crank out the appropriate amount of monetary growth and have no hands-on adjustment of that.

He may know a lot more about this than I do, but I just think that there are too many influences on the economy and that maybe I'd take a view that is different from his because of our differences about how the economy operates.

Senator PROXMIRE. It's your feeling that the economy is more complex than Friedman perceives it? His notion that you would fix the growth rate at a certain level for monetary aggregates and stick to that through thick and thin you think is not right and it depends on fiscal policy, international policy and many other things?

Dr. SEGER. Exactly.

Senator PROXMIRE. I note on your nomination statement that you studied the redlining issue during 1976 and 1977. Who sponsored the study and how was it conducted?

STUDY ON REDLINING

Dr. SEGER. I started out doing a study because the HMDA legislation had just been passed in Washington, I had a banking background and was going to head into academia and I was interested in finding something to research. I was collecting information, the first batch of data from HMDA.

I was working on this independently. Then a nonprofit subsidiary of what used to be the Michigan Savings and Loan League heard that I was working on this and were interested in seeing if I would extend the project and, instead of looking at the reports of a couple of S&L's—which is what I was doing—to evaluate these reports in a bigger way and see if, in fact, you could use those numbers to indicate either the absence or the presence of redlining. They put up money at the University of Michigan Business School and this was used for programming, for computer work, to process all of these HMDA reports.

Senator PROXMIRE. What were your principal conclusions?

Dr. SEGER. I finally dropped the project because I couldn't come to any conclusions. I tried correlating these numbers with all sorts of things, and maybe I'm too honest a researcher, but I just couldn't make anything out of them.

Senator PROXMIRE. You couldn't determine whether there was redlining or not redlining?

Dr. SEGER. Not based on those numbers.

Senator PROXMIRE. You could not conclude there was a deliberate attempt to exclude certain neighborhoods and ethnic groups and so forth from borrowing? Were your conclusions that you couldn't come to a conclusion ever reduced to writing and submitted for publication?

Dr. SEGER. As I said, I didn't feel I could draw any reasonable conclusions from this analysis.

Senator PROXMIRE. Well, could you draw a conclusion or did you draw a conclusion that redlining was not a premeditated effort to exclude certain groups from borrowing?

Dr. SEGER. I know that's the way it's defined. As I looked at the numbers, the patterns of where the mortgages were made, economic factors, demographic factors, income factors, and all those things, it didn't seem to me that you could explain these differences in lending patterns strictly on the basis of prejudice.

Senator PROXMIRE. Well, why would you not want to publish those findings so they could be examined and criticized by other scholars who did perceive a systematic pattern of redlining behavior? Wouldn't it have been useful for you to make that finding? After all, you invested a lot of your time and effort. Why not present that? It seems to me that some people felt that redlining was a systematic effort to exclude low-income people, blacks, and others from being able to borrow.

Dr. SEGER. Well, as I said——

Senator PROXMIRE. You weren't able to perceive that in your study?

Dr. SEGER. Right.

Senator PROXMIRE. Why wouldn't it have been constructive for you to make that finding, publish it, and challenge others to prove that you were wrong? Isn't that the usual procedure for debating public policy? When you make a study like that, you publish your results and then those who disagree with you can challenge *that*.

Dr. SEGER. Maybe I didn't make myself clear. As I went along I couldn't make any thing definite out of the analysis, and I just never finished it.

Senator PROXMIRE. During your nomination hearings to be the commissioner of banking in Michigan, you told the Michigan Legislature, "I have never seen what I would call redlining take place. I have seen the statistics and in and of themselves, I don't believe they show anything."

FIB REPORT ON REDLINING

As you know, Michigan passed an anti-redlining law in 1977. One provision of the law required the Michigan Financial Institutions Bureau [FIB] to conduct a computerized analysis of mortgage lending reports to detect possible patterns of redlining by financial institutions. One of your early steps as commissioner was to dispense with any analysis of the mortgage lending statistics.

Here is what the speaker of the Michigan House of Representatives said about your action:

> I am very disappointed, therefore, to learn that the Financial Institutions Bureau does not intend to comply with legislative intent regarding section 8 provisions of the act concerning the Anti-Redlining Annual Report for 1979 due the Governor and the Legislature. I am informed that while FIB will prepare some kind of report, there will be no disclosure data analysis; thus, the single most important consumer information piece FIB has been asked for has been scrapped, at least for the time being. It is not consoling to recall that the 1978 Annual Report was not issued until November 1980 and that one of the assurances Commissioner Martha Seger gave the Senate during her confirmation hearings was that the next report would be timely and inclusive.

He goes on to say—

> This decision was reached by FIB without benefit of discussion with any legislators or persons who were involved with the original negotiations of the bill (that is, Statewide Coalition on Redlining) or with the recently appointed FIB advisory committee. It is my understanding that the Advisory Committee was informed after the fact, giving them an opportunity to express frustration and concern, but no opportunity to participate in the process of reaching that decision.
>
> The Annual Report was envisioned as a valuable tool for consumers, who negotiated this legislation in good faith with financial institutions, your office, the Legislature, and FIB. Now the hard-won protective provisions are being usurped.

Another member of the Michigan House said, "You are, in effect, taking the law into your own hands—and taking away consumer rights."

The Detroit Free Press wondered whether you showed "too much zeal" in cutting back on the redlining studies.

What are we to conclude from this controversy?

Dr. SEGER. First of all, if you want the facts on this, the report did get out. The issue was the timing of it. Again, I don't want to take an hour to bore you with the details, but the FIB was part of

Commerce. They switched from one computer system to another and everything had to be reprogrammed, so that put us off schedule.

We had, because of the Michigan budgetary crunch and I think Senator Riegle will confirm this—a terrible situation with dramatic cuts; the number of our employees was reduced about every other month. Before I went there, they would take some of the examiners and assign them for a couple of months to work on this report. As the whole staff got squeezed dramatically, and as the problems of the financial institutions worsened, we couldn't reallocate those people. That was a management decision and neither the Governor nor the legislature seemed to be willing to give me more money or to give me more help to work on this.

The report did get out. I don't know what the Free Press said, but——

Senator PROXMIRE. Well, my time is up. I understand you already had the money for it.

Dr. SEGER. Pardon me?

Senator PROXMIRE. I understand you already had the money for it. It was included in the budget.

Dr. SEGER. That is not the case.

Senator PROXMIRE. All right. My time is up.

The CHAIRMAN. Senator Riegle.

Senator RIEGLE. Let me say at the outset that I am going to try to get all the issues out on the table so that we have a complete and full committee record, so I know you will be responsive to questions that I raise.

I must say that I am surprised that you didn't elect to make an opening statement today. Let me sort of reflect on that because if we reconvened at another point I think it might be a constructive thing to do, so I make the suggestion in that vein.

LACK OF INFORMATION FOR COMMITTEE REVIEW

I say that for the reason that your views are not generally known. For some of us from Michigan we have a sense of them, but the committee as a whole does not. You are a new person for them and on a matter of such enormity in terms of the importance of the Federal Reserve Board, your views count. They are important. People here need to know what they are. I think it would be useful perhaps if you made an assertion as to what some of those basic views are as they relate to monetary policy, fiscal policy, Fed practice, and the independence of the Fed and things of that kind. I don't mean a lengthy doctoral thesis, but I mean in terms of presenting your ideas and, in a sense, yourself to the committee when there is no such written record. I think it's good to give the committee something of a starting point in terms of your views on some of the key monetary and financial policy issues. Of course, there are a great number of issues—the deficits, monetary aggregates, the trade deficit, foreign debts by less developed countries and so forth.

I think you see what I'm driving at, a starting point as to your general outlook on sort of the major topical issues that relate to Fed policy. Yet when that is not present, either in the form of speeches or written materials or articles or in an opening statement or what have, then it's like an absolute blank slate and it's very difficult in terms of these 10-minute time periods to be able to learn enough about you that there's a basis for that kind of evaluation. So I think your views would be a useful thing for the committee to have and I know you have views and I think it would be well if those could be presented in a form of your choosing.

By the way, just let me ask, were you counseled one way or other by the White House on the statement?

Dr. SEGER. No.

Senator RIEGLE. That was solely your decision?

Dr. SEGER. I looked at a couple of copies of hearings in the past; the two I looked at were Nancy Teeter's and Preston Martin's. Neither of them had an opening statement and I assumed that was the way the hearings went.

Senator RIEGLE. I take it in both their cases their views would have been much more fully known because they would have been in print and they would have been available to the committee beforehand. So I think that may account for the difference.

Who set up the interview with Preston Martin?

Dr. SEGER. The White House personnel office.

Senator RIEGLE. Do you know why they would have set it up with him rather than with Volcker?

Dr. SEGER. I don't know.

Senator RIEGLE. You were never interviewed by Volcker; that's the bottom line?

Dr. SEGER. That's correct.

Senator RIEGLE. I'm sort of surprised at that because he is the Chairman and I would think—I would agree with what someone earlier said—he's probably the most respected financial figure in the country, although he's controversial and a lot of people who would like to oust him from the job, but I think it's surprising that there was not an interview with the Chairman and it just doesn't quite fit in terms of what the normal practice would seem to be.

Let me go to one article that I have been able to obtain. There were two that I mentioned, one on economic and policy issues, the other on a totally unrelated field which I want to get into later because I think that it is not important so much in the substance as it is in terms of other things which are appropriate.

I want to refer to this article that was in the Detroiter magazine of November 1983. I'm sure you're familiar with this.

Dr. SEGER. As you know, we have the Economic Club of Detroit and every fall they have an economic outlook panel. I was on that panel, and when your staff member wanted something published I said that that was the one thing that I could give them because they had published the remarks of the whole panel.

Senator RIEGLE. Right. I think you mentioned that to me in our meeting that you thought you recalled that and I appreciate you finding it and sending it to me because I think it's a useful piece for us to start with.

[The following article was subsequently submitted for the record:]

OVERVIEW

Martha Seger, Ph.D.

This is the fourth anniversary of my appearance here as part of a different panel in December 1979. My forecast was more pessimistic than that of the industry tycoons who preceded me, since my crystal ball saw "a recession ahead—one that would be long and severe." Unfortunately, I was right, but most of the audience that day did not take my prediction seriously.

In contrast, today I'm in a *good* mood and I have basically an *optimistic* view of the outlook for the U.S. economy. A major influence on my feelings is the performance of much of the economy over most of the past year—a performance that has been far stronger than even the most upbeat forecasters expected.

We are recovering from the '81-'82 recession. Since November 1982 has been designated as the low point of that cycle by the National Bureau of Economic Research, the upswing has now been in progress for 10 months, and it is tracking the "normal" cyclical recovery rather than being undernourished and anemic....

In fact, our nation's price performance has been better than most economists even dreamed it would be. Inflation—as measured by the CPI—was reduced to 3.9 percent last year, less than one third the horrendous 13.3 percent and 12.4 percent in the last two years of the Carter administration. And in the past 12 months, inflation has dropped to about 2½ percent. Let me emphasize—this is a *tremendous* accomplishment and one that will produce a mammoth payoff for the U.S. economy in the future if we can keep inflation under control.

This brief review of the economy's recent performance suggests that a good base has been built for the launch of the new model year for the auto industry and for a favorable forecast for 1984 in general, despite the bad name that George Orwell's book attached to the year ahead.

Before I give you my specific forecast, let me summarize my assumptions:

1. In international relations—no real confrontation with Russia that could evolve into World War III and no full-fledged war in the Middle East that could produce another oil embargo.
2. Some progress in solving the world debt problem—especially, smoothly restructuring LDC debt before it leads to some sort of financial crisis.
3. Relative stability in the price of crude oil with ample supplies through 1984.
4. Monetary policy will be accommodative, with the Fed providing enough money and credit to allow the expansion to continue through the forecast period. But the Fed will continue to carefully monitor the growth of the monetary aggregates to keep them within their target ranges. In general, I expect monetary policy to be fine tuned rather than be subjected to sharp 90-degree turns as has sometimes happened in the past.
5. Finally, the toughest, most controversial assumption to make concerns fiscal policy....In this coming fiscal year, I expect a much lower deficit—say $125 billion—because faster economic growth, higher personal incomes, larger capital gains and surging profits for corporations will provide larger than expected tax revenues. Although I would prefer much less red ink, I don't think it will cause the disaster that alarmists are suggesting.

Now, after all these assumptions, what can we expect for 1984? Since inflation is such a key element in my outlook, let me present this good news first. I expect inflation—as measured by the CPI—to be in the vicinity of 4 percent for both 1983 and 1984. The key factors here are the productivity improvements finally showing up and the wage production. I'm assuming business management will continue to stress productivity gains and bargain hard to keep these two items in line and produce only modest hikes in unit labor costs.

I think interest-rate movements between now and late 1984 will pleasantly surprise many people. Over the next six months, I expect rates to move in a narrow band of one-half percentage point on either side of today's levels. Then rates will begin a gradual rise, ending 1984 about one to two percentage points above today's. This is possible, I believe, because corporations' cash flow will be growing rapidly—propelled by sharp hikes in corporate profits—and equity money will be readily available, thus curbing corporate demand for funds in the debt markets and making way for the treasury financing. Also, a lessening of inflation psychology among investors should reduce the inflation premium from today's unusual size.

Modest inflation and manageable interest rates should help to keep real GNP advancing through the next five quarters. Although the rate of growth is likely to slip from the unsustainable 9.2 percent posted in [the second quarter of] 1983 and an estimated 7 percent in this quarter, it should average about 5 percent over the remainder of the period.

Housing, consumer spending on durables, defense expenditures and a slowdown in inventory liquidation have fueled the recovery to date. Now I expect housing starts to hang in around 1.7 million for both 1983 and 1984.

Modest inflation and manageable interest rates should help keep real GNP advancing through the next five quarters.

I expect consumer spending to continue to propel the economy. With the final stage of the tax rate cut now in effect and inflation moderating, real disposable income—total and per capital—is at a record high. This substantial purchasing power should combine with plenty of credit and strengthening consumer confidence to generate a strong demand for autos. New-car purchases should total 9.1 million this year and 10.25 million next.

Capital spending is beginning to come alive. Rising utilization rates and some good profit reports should encourage business management to undertake modernization and expansion projects.

One of these days the U.S. dollar will weaken a bit, and, when it does, exports of U.S. merchandise should respond favorably.

Budget figures show that defense spending will continue to bolster the economy—especially in certain areas.

Finally, inventory liquidation seems to have run its course and accumulation of stocks will be another plus in the outlook. So 1984 should be a good year for all of us.

Senator RIEGLE. I notice that you say here—this has a dateline of November 1983, so it was late in the year 1983 that these would have been your views—and you say here—you're talking about fiscal policy—

In this coming fiscal year, I expect a much lower deficit, say, $125 billion, because faster economic growth, higher personal incomes, larger capital gains and surge of profits for corporations will provide larger than expected tax revenues. Though I would have preferred much less red ink, I don't think it will cause the disaster that alarmists are suggesting.

DIFFERENCE ON BUDGET FORECAST

Now the latest forecast I'm aware of shows the deficit coming in well above the $125 billion that you saw not all that long ago. How do you account for the difference? What do you now see as the deficit is for the fiscal year in which you made the $125 billion forecast? What do you now think it will be?

Dr. SEGER. First of all, I think that that was $155 billion. That was the number I had.

Senator RIEGLE. Well, the article says $125 billion. You think it may be a misprint?

Dr. SEGER. Yes, but I'll still answer your question about the current deficit. In fiscal 1984, somewhere between $175 and $180 billion, something like that.

Senator RIEGLE. $175 to $180 billion is your current estimate of the current fiscal year 1984 deficit?

Dr. SEGER. Yes.

Senator RIEGLE. So you're saying that that is what you now foresee?

Dr. SEGER. This talk was actually given last September. It was published in November.

Senator RIEGLE. Well, let's say it's the low figure. Let's say it's going to be $175 billion. You said you think there's a misprint here and that you think you said $155 billion and they printed $125 billion.

Dr. SEGER. Yes.

Senator RIEGLE. In any event, that's a substantial underforecast, if you will. How do you account for that? Why were you so far off?

Dr. SEGER. I think that budgets are very difficult to forecast. I have been following this for some time and even people in the Congressional Budget Office have difficulty. As you go through the year, expenditure items get changed, revenue collections are influenced by how the economy is doing, and——

Senator RIEGLE. What were the main things? Obviously, your policy assumptions were wrong. You thought there would be one set—you made one set of policy assumptions and things turned out quite differently. What didn't turn out the way you thought it would?

Dr. SEGER. Looking at the revenue side, I think that the things I pointed out are in fact happening, that the corporate profits are coming back strongly and this is producing more revenue than was initially expected, and, that, again, there are more people at work. We're having additional collections from individual income taxes.

Senator RIEGLE. That would have closed the gap. That would have caused the deficit to be lower, but in fact it's higher than what you thought. What were the things that worked against your forecast? What didn't turn out the way you thought it would?

Dr. SEGER. OK. I said I think those things are coming along pretty much as I expected. I was probably off on the expenditure side.

Senator RIEGLE. On the expenditure side. So where on the expenditure side were the miscalculations made?

Dr. SEGER. I don't know the particulars.

Senator RIEGLE. The reason I ask this—and if you prepare a statement you may want to deal with this because the whole question is sort of how realistic a forecaster are you or what goes into the basis for your judgment here to make these kinds of forecasts.

If, for example, you were on the Board and you thought that next year's deficit was going to be $100 billion and everybody else thought it was going to be $200 billion and you, in turn, then made monetary policy recommendations on that kind of judgment, I'm afraid that could take us way off course. I mean, that's a very important consideration around here. It's not a partisan issue, it's a fully nonpartisan issue. People are very concerned about how realistic are the forecasts that these policies are based on because it is significant if there's a miscalculation by $25 billion or $50 billion—and this is a fairly close-in forecast, you weren't forecasting out 4 or 5 years. You were forecasting for the coming fiscal year and you say it's $155 billion and let's accept that even though it was printed in the article as $125 billion. Even so, it seems to me that would be one of the lowest estimates that I think anybody made that I would be aware of in that time period.

I can't think of another economist that late in the year 1983 would have been forecasting the deficit in the fiscal year upcoming as low as $155 billion. So that would have put you way out I think on the edge of the forecasting ranges.

My time is up, but I'm going to want to come back to this because I think one of the things we've got to try to assess here is how your economic thinking works and how you build your forecasts, how accurate have they have been, how accurate they are likely to be in the future, and this is a critically important area. I just want to stress that to you before yielding back, Mr. Chairman.

The CHAIRMAN. Senator Sasser.

Senator SASSER. Thank you, Mr. Chairman.

I'd like to pursue this economic line of questioning, Dr. Seger, if I could, and just ask you this. Specifically, do you think that inflation remains a significant risk as the economic expansion continues?

Dr. SEGER. Do I think it will be———

Senator SASSER. Do you think it remains a significant risk as the economy continues to expand? If you do, what policies are needed to counter this inflation?

Dr. SEGER. If you look at the economy and see where we are now and then view where we are relative to the capacity of the economy to improve, it is true that as you narrow the gap between present output and potential capacity that the risk of getting into inflationary problems increases. I don't think that's very controversial. That seems to be pretty standard economic thinking.

QUESTION OF MONETARY RESTRAINT

Senator SASSER. Well, we have the tension now between the Federal Reserve Board, where some say Chairman Volcker wants to exercise monetary restraint as a means of fighting a threatening resurgence of inflation; and on the other hand, we have others who oppose this monetary restraint, saying that inflation is no problem. So we have Chairman Volcker on one side of this issue, if the popular press is to be believed, and on the other side we have individuals such as the Secretary of the Treasury, Mr. Regan.

My question is: Which side would you come down on? Do we need to exercise, in your judgment, increased monetary restraint as the result of threatening inflation or is that simply something we should not be concerned about?

Dr. SEGER. I think you always have to be concerned about inflation. I think the economy is doing far better in a noninflationary environment. But there is a lot of room for differences in judgment about, first of all, what the capacity of the economy actually is. This isn't a nice, concrete number. Second, there is a difference of opinion about how quickly we can approach that before we trigger a new outburst of inflation.

I think, as I understand Chairman Volcker's views, that he's trying to say we want to gradually squeeze things down so that we will prevent another outburst of inflation. The Fed is not doing 90-degree turns, but they are gradually working on slowing monetary growth in order to achieve that end.

Senator SASSER. Well, am I to gather from what you say then that you would agree with the Chairman of the Federal Reserve Board if his views are being accurately reported—and I can't say whether they are or not—that we do need to pursue increased monetary restraint to combat inflation?

Dr. SEGER. I think this is what has gone on, a gradual, modest tightening as we have gone along.

Senator SASSER. This has become one of the big questions of the day, as you well know, and there have been a lot of disagreements between the Federal Reserve Board on the one hand, as reported in the popular press, and then, of course, the Secretary of the Treasury, who has had his own statements to make, and I presume he's been speaking for the administration. So it's a matter of, I think, some considerable urgency for at least one member of this committee to know what your views are on this particular matter.

Now on the question of fighting inflation, would you put a stronger emphasis on reducing the Federal deficit or would you put a stronger emphasis on monetary restraint if you had to come down on one side or the other?

Dr. SEGER. I think this is part of the problem in this country, that we've got two basic economic stabilization tools, fiscal policy and monetary policy, and I think the country is better off or best off when you utilize your whole set of tools and not use just one or just the other. I think if you're fighting inflation, if the economy calls for that stance, then you want to use some of each, some fiscal and some nonfiscal policies.

Senator SASSER. Well, I couldn't agree with you more and I think, Dr. Seger, one of our problems at the present time is that fiscal policy and monetary policy have been operating at cross purposes in this country for about 3 years and we have gone through a period of great monetary restraint while at the same time we were going through a period of almost no restraint on the fiscal side.

Now you indicated at the White House press conference where your nomination was announced that you supported—if you were quoted correctly—that you supported everything the President was doing. I'm sure the President welcomed your words of support, but my question to you is, do you support, for example, the very deep tax cuts that were made in 1981, which was a very expansive monetary policy being pursued by the administration, as opposed to the monetary restraint that the Federal Reserve Board was pursuing at the same time or shortly thereafter?

Dr. SEGER. As I think back——

Senator SASSER. We can't have it both ways. We can't say that we believe that fiscal and monetary policy ought to be coordinated and at the same time say we support everything this administration does when one of the keystones of this economic policy appears to me has been very expansive fiscal policy.

Dr. SEGER. If you think back to the summer of 1981, we were just starting into a recession that went from the middle of 1981 through the rest of the year and all through 1982. Yes, I did support the tax cuts at that time. I think we needed some additional incentives to be given to the people of this country, and I think we needed the incentives given to businesses that were in that bill that Congress passed. Again, there are times in the business cycle when you want to stimulate the economy and there are other times when obviously you want to restrain it. But looking back to 1981 and certainly 1982, the economy was in a very deep slump, and I think some stimulus was appropriate.

Now again, there could be arguments about the particulars or the exact dollar amount of stimulus and the exact form it took, but I think stimulus was appropriate.

IMPORTANCE OF DEFICIT REDUCTION

Senator SASSER. Well, do you regard deficit reduction as the most important economic priority that we presently face in this country and, if so, how should the deficit reduction be achieved?

Dr. SEGER. I guess I'm a little cautious about using superlatives, but reducing the deficit is definitely a very important matter. If for no other reason it's become a very important matter because the financial markets find this a critical factor and they have a lot to do with how that's viewed and, in turn, its impact on financial markets and the stock and bond prices. Obviously, it's very important.

Senator SASSER. Well, we don't have any disagreement that the deficit reduction is very important. The next question is, how do we go about deficit reduction? Do you, for example, agree with the Chairman of the Federal Reserve Board that in the event it becomes impossible to reduce spending to a sufficiently large degree, then substantial further tax increases would be needed to bring deficits and interest rates down?

Dr. SEGER. When you look at a budget, you've got two things you can work with. You can work with the revenue side, which means tinkering with taxes, or you can work with the expenditure side.

Senator SASSER. Well, that's very apparent and I know that, Dr. Seger. But my question to you is, how would you go about reducing the deficit? We've had the Chairman of the Federal Reserve Board up here and he has testified that the deficit must be reduced. If for some reason we cannot reduce spending enough, then he's recommended that in that event there be a substantial further tax increase to bring the deficit down so interest rates will come down.

My question to you is: How would you get the deficit down and would you agree with the Chairman that in the final analysis we might have to have some substantial further tax increases?

Dr. SEGER. I wasn't trying to be flippant on the comments about the budget. I'm just saying that you've got three choices. You can address the expenditure side; you can do something with taxes; or you can do a combination of the two.

Senator SASSER. Well, what would you do? What would you recommend to this committee? You're going to sit on the Board which has great economic impact and helps determine the economic policy of this country. What would you recommend to this committee?

Dr. SEGER. Is the Congress going to take its cue as to what to do with the budget from the Federal Reserve Board?

Senator SASSER. Well, Dr. Seger, the Senators ask the questions here and the witnesses respond and what I'm trying to determine today is what your economic views are and how you would react on the Board of Governors. Now if I were on the other side of the table, I would answer those questions.

Now they tell me that my time is up. So I will be back again.

The CHAIRMAN. Senator Sarbanes.

Senator SARBANES. Thank you, Mr. Chairman.

Dr. Seger, what I would like to do in my opening round of questions is to get a clearer idea of what it is you have done in your career. I think the statement submitted to us in that regard is somewhat sketchy and I'm particularly interested in the last 10 years.

I take it that in the summer of 1974 you left the Detroit Bank & Trust Co. and went over to the Bank of the Commonwealth in Detroit. Is that correct?

Dr. SEGER. Yes.

Senator SARBANES. Now did those two banks later merge? Were they competitors of one another?

Dr. SEGER. Yes, they merged in 1983 and they were both in the Detroit market. The Bank of the Commonwealth had been a problem bank since the late 1960's. The FDIC gave them assistance a few years later and a new management team was put in place. The new president from Boston asked me in the summer of 1974 to give him a hand by working on their investment problems.

Senator SARBANES. What kind of problems did the Bank of the Commonwealth have?

Dr. SEGER. Going back to the 1960's, which is when this big problem developed, they had put on a very heavy load of long-term municipal bonds. This was back in the mid-1960's, 1965–67, somewhere along in there. They had also made a lot of loans that didn't turn out to be terribly high quality. I guess if I had to pick a single problem that was the key one they faced, it was making an investment mistake and acquiring too many long-term obligations such that when interest rates rose the values of these changed dramatically.

Senator SARBANES. Well, now you stayed with them for just 2 years?

Dr. SEGER. Right. As I indicated, I really wanted to get on to teaching and some lecturing.

Senator SARBANES. Did you contribute to bringing the bank out of its difficulties, or did it continue to have those problems?

Dr. SEGER. I certainly worked on the problems. It helped me understand how difficult it is to take a bank that is already having tremendous difficulties and in fact turn it around.

Senator SARBANES. They subsequently merged into another bank; is that correct?

Dr. SEGER. They continued to have tremendous problems through this whole period. I left in 1976, but when I was a regulator in Michigan in 1981 and 1982 it was still a big problem, and at the end of 1983—I've forgotten the exact month—it was merged out of existence and Comerica Bank-Detroit acquired it.

Senator SARBANES. Would it be accurate to describe it as a shaky financial institution?

Dr. SEGER. That's what I meant by problems; yes.

Senator SARBANES. When you left in September–October 1976, leaving aside the not quite 2 years when you were the commissioner of financial institutions in Michigan—that was from January 1981 to December 1982—I'm not altogether clear on what you were doing over the last 8 years. It would be helpful if you could run through what you were doing during that period.

TEACHER AND LECTURER

Dr. SEGER. I have done, as I said, some teaching.

Senator SARBANES. Let's take it seriatim. I just want to get an understanding of exactly what your career has been. When you left the bank in September 1976, then what did you do?

Dr. SEGER. I worked on some consulting jobs. I prepared individual lectures. I gave various talks. Then in the fall of 1977, I was asked to teach at the University of Michigan to cover for Professor McCracken who was going to be away, so I started preparing my lectures and started teaching at the University of Michigan in 1978. As I said, I hadn't taught business conditions before, so——

Senator SARBANES. Between September 1976 and January 1978 in effect you were free lancing. I don't know if that is the right expression to use, but you were in that status? You did some lecturing, I gather, and some consulting from your home?

Dr. SEGER. Yes.

Senator SARBANES. I take it you didn't have an established consulting office or anything of that sort; is that correct?

Dr. SEGER. That's correct.

Senator SARBANES. How extensive was that activity during that not quite 18-month period?

Dr. SEGER. I did some work for a bank in Alabama. I did some work for a bank consulting company. I helped them set up a data base. And, as I said, I gave lectures.

Senator SARBANES. The lectures that began in January 1978 or other lectures?

Dr. SEGER. Individual lectures.

Senator SARBANES. How many of those, just roughly, did you give and how often did you do that? This was your source of income, I take it.

Dr. SEGER. The consulting jobs I was doing and——

Senator SARBANES. How often would you give a lecture?

Dr. SEGER. I don't know if I can remember the exact number.

Senator SARBANES. Once every couple of months, once every 3 or 4 months, more often than that?

Dr. SEGER. I would say an average of a talk a month; that's a very loose estimate.

Senator SARBANES. Now in January 1978 you undertook to teach these courses at the University of Michigan in the business school?

Dr. SEGER. Yes, sir.

Senator SARBANES. How many courses did you handle?

Dr. SEGER. I handled an undergrad business conditions course, which was a business economics course, and a graduate course; the total was 9 hours, which was full time.

Senator SARBANES. So you were not a full-time teacher?

Dr. SEGER. Yes, I was full time.

Senator SARBANES. What was the nature of the appointment you had?

Dr. SEGER. You mean my title?

Senator SARBANES. Well, were you a lecturer in the school or simply an outside consultant? You must have had some faculty status.

Dr. SEGER. I was an associate professor.

Senator SARBANES. You were an associate professor?

Dr. SEGER. Yes.

Senator SARBANES. Does an associate professorship carry tenure with it at the University of Michigan?

Dr. SEGER. Not for a couple of years, no. You have to have been an associate professor for a number of years. I think it's 3 years.

Senator SARBANES. Is that the category just below full professor?

Dr. SEGER. Yes, it is.

Senator SARBANES. All right. Now you did that for a semester. I gather when you were taken on it was on the understanding——

Dr. SEGER. No; I did it for 1½ years, 1978 and 1979.

Senator SARBANES. All right. All on this basis of filling in for a professor who was on leave?

Dr. SEGER. Yes.

Senator SARBANES. Then he returned, I take it—he or she returned and then that was the end of that?

Dr. SEGER. Yes.

Senator SARBANES. Then what?

Dr. SEGER. Then I went back to doing individual lecturing. I also talked to some schools elsewhere about a full-time, permanent teaching job, because I did like teaching and I did want to do more of it. Eventually I was hired by Oakland University. That's where I was teaching——

Senator SARBANES. Had you explored while you were at the University of Michigan any possibility of a more permanent job there?

Dr. SEGER. They talked to me about it. I'm a graduate of the University of Michigan and they have a very strong "publish or perish" approach and, as I indicated to Senator Riegle, the thing I like about academia is the teaching per se. I am not a philosopher. I am not a theoretician; and I don't enjoy just sitting and doing research. I was looking for a school where I could be given credit teaching.

Senator SARBANES. So when you left there you went back, in effect, to the same status that you had after you left the bank and before this 18-month teaching stint at the University of Michigan; is that correct?

Dr. SEGER. Yes.

Senator SARBANES. And more or less in the same terms you were describing earlier?

Dr. SEGER. Yes. As I said, when I talked to Oakland back in early 1980 and knew what I was going to be doing there, I started preparing material for those courses.

Senator SARBANES. So you went to Oakland in the fall of 1980?

Dr. SEGER. I actually started teaching in August, but again I started working on the course, back in the spring.

Senator SARBANES. Then left them rather promptly to take this position—or did you take a leave of absence?

Dr. SEGER. I had no idea that the Governor was going to ask me to be a commissioner. I signed a 3-year contract with Oakland and had every intention of living with that.

Senator SARBANES. Then you went back to them after your stint as commissioner?

Dr. SEGER. Yes.

Senator SARBANES. Then what happened that you did not continue along with Oakland?

FULL PROFESSOR AT CENTRAL MICHIGAN UNIVERSITY

Dr. SEGER. I was made offers by several schools besides Oakland. At Oakland I was associate professor. I looked at all the different offers that I had and chose Central Michigan University, which offered me a full professorship and also would allow me to teach the finance courses that I wanted to teach. At Oakland, courses were given out more on a seniority basis and I was the most junior person in that department.

Senator SARBANES. Did you go to Central Michigan University as a full professor?

Dr. SEGER. Yes, I did.

Senator SARBANES. And as a tenured member of the faculty?

Dr. SEGER. Not as tenured. If I go back this coming year, the tenure decision would be made some time during this year.

Senator SARBANES. I see. So at none of these academic appointments have you been there long enough to have been considered for tenure; is that correct?

Dr. SEGER. Yes. Again, university policies vary. I hate to generalize, but it's always a couple of years before they vote on it.

Senator SARBANES. I understand that, but your response to the fact that you had not gained tenure anywhere is that you were not anywhere long enough to meet the time requirements to be considered for tenure; is that correct?

Dr. SEGER. Yes.

Senator SARBANES. I see my time has expired. I want to make one point. I share some of the concern that's been expressed this morning about the paucity of anything in writing that reflects your views and positions on substantive matters. And, of course, you come as an academic; you don't come as a business person, where we can look at the company and make some judgment on the basis of your responsibilities there and the conduct of the company. In other words, you come from an activity in which what you think and how you express it orally and in writing is important. I notice, for instance, that in your financial statement there's a number of lectures. Apparently just last month you gave almost 15 hours of lectures at the New Mexico School of Banking; is that correct?

Dr. SEGER. I have done that, sir, every year for the last 6 or 7 years. It's a banking school run by the University of New Mexico and they have these all over the country.

Senator SARBANES. Are those lectures available?

Dr. SEGER. No, I don't prepare verbatim scripts. I don't have a big staff, I do them myself. I could give you the outline of what I covered in the course.

Senator SARBANES. Now you gave three lectures to the Michigan Bankers Association in the course of this last year; is that correct?

Dr. SEGER. Yes, sir.

Senator SARBANES. Were they published in the bankers' magazine?

Dr. SEGER. No, they weren't.

Senator SARBANES. What were they about?

Dr. SEGER. One of them was a lecture on women in banking. One was on improving the education of bank directors, getting them more tuned in to what's going on in banking institutions of which they are directors. The third was a lecture to the mortgage lending portion of the Michigan Bankers Association.

Senator SARBANES. And of the lectures at the University of New Mexico Banking School, the one you just gave, what was that about?

Dr. SEGER. It was on regulation of banks.

Senator SARBANES. On regulation of banks?

Dr. SEGER. Yes; then there were some on what I would call money and banking—banking and the economy.

Senator SARBANES. Have some of the groups or institutions to which you have given lectures subsequently published them in their own trade journals or their own internal communications to their membership?

Dr. SEGER. Not that I know of.

Senator SARBANES. Well, I'm not sure I understand that answer. They have not or——

Dr. SEGER. I have never seen any of them published.

Senator SARBANES. Or lengthy reports about what you had to say to their membership? I'm now distinguishing from some publication in an academic journal. It seems to me that you have appeared before a number of groups. Have they in effect talked about what you had to say to them or summarized it or provided excerpts from it that you know about?

Dr. SEGER. Not that I know about.

Senator SARBANES. Would it serve a purpose to try to check that out? I'd be very interested in seeing what you have been saying. You come to us, it is asserted by some, with a significant record; and yet when we try to find anything that we can examine and read and consider to find out what your views have been or what you have said or what you thought, there seems to be just a blank tablet. It seems to me that we ought to try to fill that in if possible.

Would you be averse to trying to go back to some of these places to see whether there are some reports available? Or perhaps our staff could work with you in fact in trying to do that?

Dr. SEGER. For example, at a banking school, you run your classes just like you run your classes in college. I'm sure that those are not——

Senator SARBANES. You speak to the Michigan bankers. I take it they paid you a fee for doing that. Was there was nothing subsequently in their monthly journal, or whatever the newsletter or publication of the Michigan bankers is, that reported your speech or at least excerpted or summarized what you had to say?

Dr. SEGER. Not that I have seen.

Senator SARBANES. But there may have been?

Dr. SEGER. I don't get——

Senator SARBANES. You're suggesting that there may have been but you just don't know about them.

Dr. SEGER. I'm just saying I don't get all the publications, so I haven't seen them published.

Senator SARBANES. I think we probably ought to look at some of the lectures you have been giving and see whether such reports or publications in fact appeared so we can have some idea of what you were saying.

Mr. Chairman, could we ask the staff to undertake some effort in that regard?

The CHAIRMAN. Of course, the Senator can ask the staff anything he would like to do. I would like to ask the Senator if we could move on and he would wait another turn. The committee under Chairman Proxmire and I have always been 10 minutes and I will stay as long 10-minute periods as you want, but the Senator has gone 20 minutes and I wish he would abide by the time schedule for the convenience of other Senators. I have given up each of my turns to allow my colleagues. I have asked no questions except at the beginning, and I will be happy to stay here as long as you want as many 10-minute periods, but I wish we could stick to the time that has been the policy under two different chairmen.

Senator SARBANES. Mr. Chairman, I think that point is well taken and I will endeavor to stick to the time. Could we have the staff undertake the effort with regard to my inquiries?

[The following material was subsequently submitted for the record:]

ECONOMICS & REGULATION

FRESHMEN CLASS

INSTRUCTOR—MARTHA SEGER

Section on MONEY

I. Nature and History of Money

A. Kinds of Money
B. What is "The Money Supply"

II. Function and Importance of Money

A. Specialization, Exchange and Money
B. Does Money Matter?
C. The Quantity Theory of Money
D. The Keynesian View
E. Supply-Side Economics

Section on The U.S. Money and Banking System

I. American Commercial Banking

A. Function of banks as financial intermediaries
B. Bank reserves and factors affecting them

II. Credit Creation

A. How deposits and credit are created
B. Individual bank creation and destruction of deposits--limits
C. Banking system vs. individual bank
D. Weekly Fed Statement
E. Weekly reporting member banks and NYC

Section on Central Banking

I. Structure and Operation of the Federal Reserve System as a Central Bank

A. Function of a central bank
B. Structure of the Federal Reserve
C. Operations of the Federal Reserve--service vs. Monetary Control

II. Instruments of Monetary Policy

A. Open Market Operations
B. Reserve Requirements
C. Discount mechanism
D. Reg Q
E. Other--selective

III. Goals of Monetary Policy

A. Stable Prices
B. "Full" Employment
C. Economic growth
D. Balance of Payments equilibrium
E. Other Objectives
F. Problem of conflicting goals

IV. Implementation of Monetary Policy

A. FOMC Directive
B. Monetary Aggregate Growth Targets
C. October 1979 change in emphasis

V. Tight Money--What is it? How is it measured?

A. Discriminating Effects
B. Disintermediation
C. Impact on stock prices
D. Political and Social Constraints

Section on <u>Regulation</u>

I. Regulation of banks and banking

A. Micro vs. macro

II. The Bank Regulatory Agencies

A. State
B. Federal

III. Major banking regulations

IV. Regulation of other depository institutions

Section on <u>Deregulation and Legislation</u>

I. Major legislation--pre 1980

A. McFadden Act of 1927
B. Glass-Steagall Act of 1933
C. Bank Holding Co. Act of 1956 (and amendments)

II. Major legislation--1980 to Present

A. DIDMCA of 1980
B. Gran-St. Germain of 1982

Section on Structural Changes

I. Holding Companies

II. Mergers and Consolidations

III. Interstate Banking

IV. International

V. Electronic payments systems

The CHAIRMAN. I have no objection to any inquiries the Senator wishes to make.

May I just take a questioning period at this time. I would like to insert for the record a letter from the National Association of Women Business Owners which states that the National Association of Women Business Owners supports the nomination of Martha Seger to be a member of the Federal Reserve Board.

[The following letter was subsequently submitted for the record:]

NATIONAL ASSOCIATION OF WOMEN BUSINESS OWNERS
CAPITAL AREA CHAPTER

June 19, 1984

The Honorable Jake Garn,
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Chairman Garn:

The National Association of Women Business Owners supports the nomination of Martha Seger to become a member of the Federal Reserve Board. NAWBO is a national membership organization with chapters across the country which is devoted to increasing opportunities for women entrepreneurs. As such, it recognizes the fundamental importance of the Federal Reserve Board and believes that this qualified woman should join its ranks. Accordingly, we urge the Committee to vote favorably on this nomination and send it promptly to the Senate floor.

Sincerely,

Virginia Littlejohn

Virginia Littlejohn,
President
National Association of
Women Business Owners

VL/al

The CHAIRMAN. I would also just note, getting back to the colloquy that Senator Riegle and I were having at the opening, once again I want to emphasize so there's no misunderstanding, the members of this committee as long as I'm chairing it, will have the opportunity to ask as many substantive questions as they wish; certainly that is their right and nominees should be carefully considered.

OPENING STATEMENT PROBLEM

But I would just note for the record that in reviewing just a few of the past nominees, there was no opening statement from Chairman Volcker, no opening statement from Nancy Teeters, no opening statement from Preston Martin, no opening statement from Frederick Shultz, no opening statement from Emmett Rice. I would conclude from the record of each of the hearings I have here, all of which are very brief, with the exception of Chairman Volcker's initial one, that it is not uncommon not to have an opening statement.

Also, in just reviewing these brief ones, Chairman Volcker, Lyle Gramley, Emmett Rice, Mr. Shultz, and Mr. Martin also answered that they would serve the full term. Chairman Volcker in his reconfirmation did not commit to serve a full term. So I think at least on those two questions, it's not unusual, as shown by the record of at least five of the last nominees.

Senator RIEGLE. Mr. Chairman, might I just ask one question with respect to the points you made? It would seem to me in the instance I think of all the ones that you mentioned that their views on the basic monetary and economic and financial policy issues were generally quite well known because they in themselves were quite well known. Their views were quite well known.

The CHAIRMAN. I would think that would be true of Chairman Volcker and Preston Martin. Preston Martin had served previously on the Federal Home Loan Bank Board. I would not think that was true of Lyle Gramley, Emmett Rice, or Mr. Shultz, who was a businessman down in Florida.

Senator RIEGLE. Well, if I just may, I remember Shultz because he ran a forecasting service and so he——

The CHAIRMAN. I personally had never heard of him until he was nominated. Maybe that's my own ignorance.

Senator RIEGLE. My point is that there was material in writing as to his views and so what we had an opportunity to do as a committee was to gather those materials before the hearing and basically understand more about what their views were, their ideas, their attitudes and so forth. And that's what's missing here. That's the only point I make.

The CHAIRMAN. I don't want to prolong this, but with each of them, even Preston Martin, who was a Ph.D. and had been a teacher and so on, has a list of only about five published works. So, virtually all of them, with the exception of one or two, have not had an extensive background of writing in those areas. It's an academic point. I just felt that it was unfair to use these against Dr. Seger when it was common practice not to have an opening statement or published writings. Again, Emmett Rice had none to take credit for at all, and we approved him in eight and a half pages, with no extensive review of his background at all. He's turned out to be a fine Governor, but if we were judging him by the same criteria we're apparently using today, he certainly didn't look very good on paper, but he's turned out to be a very fine Governor. I certainly have appreciated his work since 1979 when he was approved.

One other point, the Congressional Budget Office currently estimates the 1984 fiscal deficit will be $175 to $180 billion. Senator Riegle noted before that you estimated last September the 1984 deficit at $155 billion. Last September the CBO's estimate was $198 billion. Thus, your estimate is about as accurate as the CBO's. You were $20 billion under and they were $18 billion over their current estimate.

I would also note, in response to a question from Chairman Proxmire about the length of the term, that in 1979 he received a letter from Henry Wallach and here are some of the facts: The last eight members all resigned before the end of their term except Steve Gardner who passed away, he left before his term as well, and George Mitchel, who served out his entire term. He gives some examples here of years served. Years served: 3 years, 7 months; 3 years, 5 months; 8 years, 5 months; 3 years, 11 months. When you get into the list of how long people served, there are very few that served over 3 or 4 years until you get way back in history. There are some that scored for 10 or 11 years when you get back to the former Chairman of the Fed of 14 years from Utah, Mariner Eccles.

So a 14-year term seems to be very, very academic in looking at the record and rather meaningless as to how long people stay.

Senator RIEGLE. Mr. Chairman, on that point, we've talked about it and I mentioned it. There is a question on the form and the witness has answered it in the affirmative. Why don't we ask her if it's her intention to serve the 14-year term? She's here. Is it your intention to serve the 14-year term as you said in your statement?

Dr. SEGER. To my knowledge at this minute. I don't know what will happen to my health.

Senator RIEGLE. Assuming good health, but it's your intention to serve the full term; is that right?

Dr. SEGER. Or, as I said, some family catastrophe or——

Senator RIEGLE. But barring that, barring some extraordinary event, it is your intent to serve 14 years?

[Dr. Seger nods head.]

Senator RIEGLE. You're shaking your head yes.

Dr. SEGER. Yes.

The CHAIRMAN. But again, I would only say that Volcker, Gramley, Rice, Shultz and Martin, as far as I went back, said exactly the same thing.

Senator RIEGLE. I don't know if the question was asked them in the same way. We've got the witness here and she's just answered that it's her intention.

14-YEAR TERM IS ACADEMIC

The CHAIRMAN. It's very direct in the disclosure. I'm sure they all or most of them expect to. Volcker did not. He's the one exception recently. In his renomination he said he would not. The rest of them answered exactly the same way, whether it was verbal or it was in writing. I'm just trying to make the point that I think the 14-year term is academic as proven by a list of every Federal Reserve Board Governor that has ever served since 1913–82. Mariner Eccles was the only one that served term after term.

Senator PROXMIRE. William McChesney Martin.

Senator SARBANES. Mr. Chairman, that happened because some of the earlier appointees weren't appointed for a 14-year term. Nancy Teeters, whose term just expired did not get a 14-term. She got only the balance of what remained of a 14-year term. Usually, when they come before us, the nominees are not being put into a spot on the Fed for the 14-year term just beginning.

The CHAIRMAN. Those of them I cited, Senator, were. Volcker, Gramley, Rice were 14-year terms. Gramley is still there, but we're arguing about something I think—there's a factual record here that is indicative of the point I am trying to make. If my colleagues want to argue with the record, fine, be my guest. Again, I will repeat, all of the substantive questions on her philosophy are fair game and should be asked. We will stay as long as necessary until my colleagues have asked all the questions they wish to ask.

I'm just trying to indicate as best I can, without prolonging this over and over again, that I felt it was only fair to point out in the record, on the points of a 14-year term, published articles which are rather meager in most of the ones I have had an opportunity look at, and the issue of whether an opening statement is detrimental or not, when Chairman Volcker, Preston Martin, Frederick Shultz, Emmett Rice also had no opening statements. So, maybe we should reconsider their nominations on that very important point.

Senator SASSER. Could we reconsider some of those in actuality, Mr. Chairman, I wouldn't mind doing that.

The CHAIRMAN. Senator Proxmire.

Senator PROXMIRE. Mr. Chairman, I might just point out that Henry Wallach has served for 10 years and is still going strong and will serve another 4. Charles Partee has served for 8 years and he's going strong and there's no indication he's going to quit. Emmett Rice has been in there for more than 5 years and he's likely to continue. Lyle Gramley shows no signs of giving up. He's been in there for 4 years.

So I think there's an indication that at least the present Board likes their job and is likely to stick around for a while.

I'd like to ask you, Dr. Seger, your judgment about what responsibility you believe the Federal Reserve has to prevent a sharp increase in interest rates. Suppose the economy and business loan demand show strong growth and interest rates continue their upward rise. Should the Fed accommodate this demand by relaxing its grip on its monetary targets or should it stick to those targets irrespective of what happens to interest rates?

Dr. SEGER. The Fed, in my judgment, does not target interest rates and——

Senator PROXMIRE. Should not target interest rates?

Dr. SEGER. Does not and should not target interest rates.

Senator PROXMIRE. All right.

JOB OF THE FEDERAL RESERVE

Dr. SEGER. What they basically do is try to implement a monetary policy that meets their overall goals of encouraging the noninflationary rate of growth in the economy and generating many job opportunities. If, in the process of curbing inflation, which they think is a desirable goal, this tends to put the squeeze on the availability of money and credit, in combination with all the other factors that influence interest rates, that would drive up interest rates.

Senator PROXMIRE. So as far as you're concerned, if interest rates go up, then so be it. They went up not long ago—as you know, the prime rate was 20 percent, the mortgage rate was 17 percent—these were extraordinarily painful and difficult for many people in the economy. You think we just have to take that punishment and take that pain in the interest of achieving price stability and in the interest of the long-run health of the economy?

Dr. SEGER. I remember those high interest rates very well. It was in 1981 and 1982 when I was in my regulating job and it was very painful, there's no doubt about it. But at that time they were trying to get that runaway inflation under control. Now today I think in fact, I believe you referred to this earlier—that we have made very good progress in bringing down the rate of inflation from where it was in the late 1970's. It's about a third of what it was. Inflation itself is an influence on the level of interest rates and having these lower levels of inflation, I think, is, again, going to help keep interest rates down, regardless of what the Fed does.

Senator PROXMIRE. I don't want you to take too much time on this, maybe just a sentence or two on these would be very helpful. I'd like to get a notion of your idea of the kind of Federal Reserve Governor you'd like to be and the kind of job the Federal Reserve Governor should do. So give us a brief critique that is your opinion of the wisdom and success or failure of the monetary policy of the Fed under each of the last four Chairmen. First, William McChesney Martin. He was Chairman, as you know for 20 years, perhaps the most famous Chairman of this century—I should say, ever since the Federal Reserve has only been here since 1915.

Dr. SEGER. William McChesney Martin was Chairman of the Fed when I was a low-level staff economist there in the mid-1960's.

Senator PROXMIRE. You were at the Fed then?

Dr. SEGER. Yes, sir. I was a financial economist in the capital markets section.

Senator PROXMIRE. What is your judgment of the kind of job Martin did?

Dr. SEGER. He was very well respected. I thought he did a very good job. He was well regarded in the business community, as Chairman Volcker is.

Senator PROXMIRE. What was the heart of his approach and his policies in your view?

Dr. SEGER. The expression that I recall most vividly was "leaning against the wind"—I believe that was the way he said it.

Senator PROXMIRE. You think that's a pretty good philosophy for the Fed to follow?

Dr. SEGER. What that basically says is if the economy is whipping ahead the Fed leans on it to keep it from expanding too rapidly; if it's slowing excessively, then the Fed would lean against that movement.

Senator PROXMIRE. How about Arthur Burns? He followed Martin.

Dr. SEGER. I do not know Arthur Burns.

Senator PROXMIRE. Well, you were very interested at that time, I presume. He was the Chairman for 8 years during a period when you had left the Fed. What is your judgment of his period as Chairman?

Dr. SEGER. Again, he was very highly regarded as a business conditions economist. He was very knowledgeable on why business cycles occur and had done a lot of work and research on that. To my knowledge, he was well regarded in the business community and in the banking community.

Senator PROXMIRE. Do you have any feeling about the allegations that in 1972 he deliberately increased the money supply to ease economic conditions and bring down interest rates and help reelect President Nixon? Do you have an opinion on that?

Dr. SEGER. I have no idea, but I certainly have never heard anything about Arthur Burns that would make me suspect that.

Senator PROXMIRE. There was a lot of talk about that in the election. As a matter of fact, during that year, there was an extraordinary increase in the money supply compared to what had happened before and after.

How about William Miller? He served 4 years recently.

Dr. SEGER. I met William Miller once when he was at Textron; that's my personal exposure to William Miller. It seems to me he was in and out as Chairman rather quickly.

Senator PROXMIRE. Well, 4 years.

Dr. SEGER. I can't be exact on his tenure.

Senator PROXMIRE. All right. Finally, how about Paul Volcker? What's your judgment of his chairmanship? Do you think his policies generally have been right or wrong?

Dr. SEGER. I think Mr. Volcker came in at a very tough time back in 1979, that he needed to do some things to restore confidence in America, confidence in our public policies. From what I have gathered, he's a take-charge type. He's willing to make the tough decisions. He's willing to take strong stands and, certainly in the financial community where I have a lot of contacts he has been well regarded and still seems to be.

Senator PROXMIRE. Dr. Seger, you were right and I was wrong when I referred to William Miller. He was there only 15 months, not 4 years. I was wrong about that. He then became Secretary of Treasury.

Let me ask you some other questions that seem technical but I think they're very important because of the options the Federal Reserve Board has.

FED'S POWER TO CHANGE RESERVE REQUIREMENTS

How useful is the power to change reserve requirements been as monetary tool of the Federal Reserve Board?

Dr. SEGER. We went through a period when it lost its usefulness because of the fact that only banks who were members of the Federal Reserve System were subject to the Fed's reserve requirements; there was a shrinking family, and this is one of the things that you corrected in the Monetary Control Act.

Senator PROXMIRE. Now we've made them pretty much universal.

Dr. SEGER. Yes; but I'm talking about the period up to 1980.

Senator PROXMIRE. Under present circumstances, do you think this is a good option, that we should use change in reserve requirements to affect the money supply?

Dr. SEGER. It's certainly one of the available tools, yes.

Senator PROXMIRE. Banks always tend to oppose that. Of course, if we try to increase reserve requirements, it means it affects their profitability. You think it's a tool we should use. We haven't used it much for many years, as you know.

Dr. SEGER. As I said, I think the reason it wasn't used for a long time was this problem of withdrawal of banks from the Federal Reserve System.

Senator PROXMIRE. This committee will have to work on a very controversial issue which is whether or not we should pay interest on required reserves. Do you think the Federal Reserve should pay interest on required reserves?

Dr. SEGER. I think we should.

Senator PROXMIRE. That would be $1½ billion, according to the staff, subsidy to the banks at a time when we're cutting everybody else such as food stamps and nutrition programs. We should pay $1.5 billion subsidy to the banks in your view. Why?

Dr. SEGER. I guess I don't really view it as a subsidy.

Senator PROXMIRE. You what?

Dr. SEGER. I guess I don't view that payment as a subsidy. I think it's more a matter of equitable treatment. When banks are forced to keep reserves at the Fed while other kinds of institutions that compete with banks do not have to—are not subject——

Senator PROXMIRE. They never paid them before and banks pay between 2 and 3 percent of their income in taxes to the Federal Government because of various provisions in the tax laws. But you think on top of that we ought to give them a $1.5 billion interest payment on their required reserves?

Dr. SEGER. What I was getting at was the matter of equitable treatment, comparing banks to other institutions that compete with banks that do not have to leave reserves in place.

Senator PROXMIRE. Of course, as I say, we have made reserve requirements—we've required now that the banks that didn't use to have reserve requirements have them—credit unions, S&L's—so we have changed the law in that respect.

Dr. SEGER. I was thinking more of money market mutual funds which are competitive but, to my knowledge, are not reservable.

Senator PROXMIRE. My time is up, Mr. Chairman.

The CHAIRMAN. Senator Riegle.

Senator RIEGLE. Mr. Chairman, I want to go into a subject here that will take probably all my time, so I'm going to go as quickly as I can so I'm able to finish it and if I run over I'm going to ask my colleagues to yield to me briefly so I can finish it.

I'm having the clerk bring down to you, Dr. Seger, a copy of an op-ed feature that ran in the Record-Eagle paper in Traverse City on June 6 of this year which I'm sure you're familiar with because it's a piece that you wrote to the paper and which they published on that date. So I'll give you a minute to take a look at it. I'm sure you're familiar with this. As I say, this is hot off the press because of the June 6, 1984 date.

And I would ask, Mr. Chairman, that a copy of this be made a part of the record.

The CHAIRMAN. It will be made a part of the record.

[The article follows:]

6 T.C. RECORD-EAGLE
WEDNESDAY, JUNE 6, 1984

Stories about Headlee's stand in '82 inaccurate

Martha Seger

Forum

Several stories recently have attempted to recreate the 1982 Blanchard/Headlee race for governor as being decided on Dick Headlee's lack of support for abortion, lesbian adoption rights, etc., along with Helen Milliken, Elly Peterson and other formerly prominent Republican women. It was not the factual case.

I am proud to say that I supported Dick Headlee for governor because he knew how to create jobs by cutting taxes and reducing state spending. Helen Milliken, Elly Peterson and other Republicans who comprised the Michigan Republican Women's Task Force supported Democrat James Blanchard because he endorsed the platform of the Women's Assembly "consisting of 28 feminist organizations." Job creation and lower taxes were not among the resolutions adopted by co-chair Helen Milliken, which included such organizations as the United Auto Workers, National Organization for Women (NOW), the Michigan Education Association Women's Caucus and the League of Women Voters.

According to a news release issued by the Women's Assembly just before the 1982 gubernatorial election, the "feminists" called for legalizing "lesbian and gay consensual sexual activity", proposed child custody and adoption rights for homosexuals; and resolved to "provide lesbians and gay men the same protections now provided to others," including marriage.

Such deviation from normal family life in Michigan was supported by Blanchard. It should not have been a surprise that Richard Headlee opposed the platform of the Women's Assembly because such anti-family legal changes were considered by the Platform Committee of the Republican National Committee meeting in Detroit during the 1980 Republican National Convention and rejected.

Helen Milliken and Elly Peterson made their views known at that convention and found no support from the Republican women participating in the Republican Platform Committee. To this day, I do not believe Helen Milliken, Elly Peterson or the handful of other "feminist agenda" advocates have rejected the Women's Assembly plan to undermine the family structure in Michigan. Nor have they expressed their support for the 1980 Republican National Platform that will probably be adopted in total as the 1984 Republican National Platform by Republican delegates from Michigan and from every other state in the union this summer in Dallas.

It is not accurate to suggest that Dick Headlee's views on abortion, homosexual marriage and other family issues are any different from President Reagan's or the majority of other Republicans in Michigan or the United States. It is further inaccurate to report that Michigan Republicans had different views in 1982 on the feminist agenda than did Dick Headlee. We did not.

The greater question for the "Republican" feminists should be whether they still give single issue top priority to the feminist agenda now that all citizens of Michigan are paying higher taxes to support an increased total state budget in a state that has led the nation in unemployment for more than three years.

Further, as a woman economist, I'm personally insulted by attention to "feminist issues" that suggest women don't have the intellectual capacity to understand "real economic issues."

About the author

Martha Seger, who holds an undergraduate and two graduate degrees from The University of Michigan, has been nominated by President Reagan to the Federal Reserve Board. She has served as a financial economist for he Federal Reserve System in Washington, D.C., as chief economist for the Detroit Bank and Trust Co. (now Comerica), and as vice president in charge of economics and investments at Bank of the Commonwealth. In 1981 Gov. William Milliken named her commissioner of the Financial Institution Bureau. She has lectured and taught at the University of Michigan, the University of Windsor and Oakland University. She began teaching economics at Central Michigan University last year.

About the forum

The forum is a periodic column of opinion written by Record Eagle readers in their areas of interest or expertise. Submissions, which should be limited to 1,000 words, may be made to the editor. Please include biographical information and a photo, if available.

PUBLISHED ARTICLE OF JUNE 6, 1984

Senator RIEGLE. Now, I assume you wrote this piece.

Dr. SEGER. I sent a letter to the editor of several papers back in early May. Apparently they just ran it in Traverse City in June, but the letter went out in early May.

Senator RIEGLE. But you wrote it, I take it?

Dr. SEGER. Yes, I did.

Senator RIEGLE. And you stand by what it says? You wrote this piece. These are your views; is that correct?

Dr. SEGER. Yes, it is.

Senator RIEGLE. I understand this also appeared in other papers in Michigan. I understand it was distributed more broadly than just to the Traverse City paper.

Dr. SEGER. I sent a letter to the editor of a number of papers in Michigan. I don't know which day the papers chose to run it.

Senator RIEGLE. But in any event, these are your views and this is accurate and this is what you submitted for publication and they published it; is that correct?

Dr. SEGER. It looks a little truncated, but it's basically——

Senator RIEGLE. You think there may be more than what is here?

Dr. SEGER. I think they squeezed down some of the sentences.

Senator RIEGLE. I assume they have not added anything that you didn't say because they present it as directly from you.

Now I want to remind you that you are under oath, as I'm sure you will recall, and I want to know whether you stand by what you have said here word for word.

Dr. SEGER. I was going back to the 1982 election.

Senator RIEGLE. If I may, let me get into that in a second.

Dr. SEGER. OK.

Senator RIEGLE. And I will give you plenty of time to respond, but I just want to know whether you stand by what you have written here today in terms of your appearance before this committee.

Dr. SEGER. This is generally it. I don't have my original with me to see if they did change some of the exact——

Senator RIEGLE. Well, we'll check that out. As far as you know, as you scan it, these are your views and you sent these views in for publication and they have been published; is that correct?

Dr. SEGER. Yes.

Senator RIEGLE. OK. Now I want to file a very important disclaimer here and I want to make clear to the record, to you, to my Senate colleagues, and to the press that's present that I have no particular desire or any desire at all to focus on the content of the issues that are raised in this piece. That is not why I raise this. I want that made very clear because I don't think that those issues per se necessarily have any relevance to the question of someone's suitability to serve on the Fed. I just want that to be an ironclad disclaimer at the outset.

My concern lies elsewhere, and that's with the whole question of the accuracy of what was said and the reasonableness of the representations that appear. There are a couple reasons this is important. One of the reasons is that, as I said at the outset, I only have in my possession two documents that contain your views as they have been presented publicly, the one that we talked about earlier on economics and this one, which is in fact this month. This one is current, a different subject, but that's all I have to work with at the moment until I have something else added to it.

Now it's been indicated to me that there are a number of things in this particular story that are not accurate, so I just want to go through two or three of them because I want to know whether you stand by the assertions in light of the fact that it's been said to me that they are not accurate.

For example, the first one that I'd like to cover with you indicate that Helen Milliken, a former First Lady of Michigan, supported Democrat James Blanchard.

Now it's been asserted that that is not true, that she did not support him. Do you stand by the notion that she did and what do you mean by support? Did she endorse him? Did she act on his behalf as a candidate. What do you base that on?

Dr. SEGER. Two things basically. One is she was at a meeting; I was told by someone who was at a meeting in downtown Detroit, a big women's rally for Jim Blanchard, that Helen Milliken was there and was with these other women who were supporting Blanchard. That's one thing.

The second piece of information that I used to base that on is that Randy Riecker, who was the vice chair of the Republican Party of Michigan, at a testimonial dinner for her because she was retiring, indicated that she was the only Republican woman in an official position who backed Headlee in the 1982 campaign.

Senator RIEGLE. So on the basis of what you just said, you feel comfortable making the assertion that Helen Milliken supported Democrat James Blanchard?

Dr. SEGER. The third point I would make is she came out in many, many articles with strong critical statements of Headlee and his staff.

Senator RIEGLE. Isn't that quite different?

Dr. SEGER. Oh, yes, and——

Senator RIEGLE. It's one thing to criticize another candidate and it's something else to support a candidate. That seems to me to require an affirmative act, a statement, an appearance together.

Dr. SEGER. The first two may have fallen in that category.

Senator RIEGLE. So based on what this person told you in terms of the first thing you mentioned that she apparently was with a group of people who——

Dr. SEGER. A big women's rally.

Senator RIEGLE. You've drawn the conclusion you think you have enough evidence then to make the direct assertion which you make here that she supported Democrat James Blanchard; is that right?

Dr. SEGER. That, and the Randy Riecker comments.

Senator RIEGLE. But those three items are the basis for which you have drawn the conclusion and you make the positive assertion under your name that she supported Blanchard; is that correct?

[Dr. Seger nods head.]

Senator RIEGLE. Would you say yes so the stenographer can record your response.

Dr. SEGER. Yes.

Senator RIEGLE. Now the second item I would raise—and you've got a copy of this in front of you, so let's go down now to the paragraph that says, "According to the news release issued by the Women's Assembly" et cetera. Did you see that news release or do you have it now? Would you have it in your files?

Dr. SEGER. I have it in my files, yes.

Senator RIEGLE. I think it would be helpful if you gave us that.

Dr. SEGER. In fact, a copy of that was attached to the letter to the editor, sir.

Senator RIEGLE. I think it would be important that we receive that as well because it gets to the question of the accuracy in your representations and your thoughts here.

Now I notice in the end of that paragraph you quote from this news release—and you're certain, by the way, that it was issued by the Women's Assembly?

Dr. SEGER. That's what it's called, Women's Assembly.

Senator RIEGLE. But it was issued by them in their name as an official document?

Dr. SEGER. Yes.

Senator RIEGLE. You're certain of that. And that's on the document that you have that you're going to provide to me and the committee?

Dr. SEGER. Yes, sir.

Senator RIEGLE. I notice at the end of that paragraph you quote all the way through except down to the end of the paragraph the last two words, "including marriage" are not included in the quotes. What's the significance of the fact that those words are there outside the quotation marks?

Dr. SEGER. As I recall, it was not the same sentence.

Senator RIEGLE. Are you adding that then in terms of your interpretation or do you mean that to be as well in quotation marks?

Dr. SEGER. The way I understand quotation marks is you use them if you are quoting exactly, word by word.

Senator RIEGLE. That's my question. Are you editorializing here or is this a direct quote.

"INCLUDING MARRIAGE"—DIRECT QUOTE

Dr. SEGER. Well, the "including marriage" came from another part of the same——

Senator RIEGLE. So in other words, when you send me this document I will be able to find those words located in the equivalent context elsewhere; is that correct?

Dr. SEGER. Yes, as I recall.

Senator RIEGLE. So, in other words, although there might be a dot-dot-dot here showing a separation, your assertion to the committee is that the words "including marriage" would also be found as a quotation off this pamphlet that you referred to and so properly that might also then include a quotation mark here and that is not an editorial addition by yourself; is that correct?

[Dr. Seger nods head.]

Senator RIEGLE. Your answer is yes?

Dr. SEGER. As I remember the piece, that's correct.

Senator SARBANES. Would the Senator yield?

Senator RIEGLE. Yes.

Senator SARBANES. Dr. Seger, the reason for this is the stenographer can't take down nods of the head and she has to have some oral statement from you. If you're going to nod your head, if you could also say yes, it would be very helpful to the orderly procedure of the committee. Then Senator Riegle doesn't have to keep saying, "I take it your answer is yes," because you've simply been nodding your head and it would be helpful if you could answer orally. If you shake it the other way, say no.

Dr. SEGER. OK.

Senator RIEGLE. Finally, I'm not trying to rush you but the time is late and both caucuses are meeting and I've got a number of other things I want to get into here——

The CHAIRMAN. You know how boring those caucuses are.

Senator RIEGLE. Well, sometimes they are, although it's very important in this instance.

You go on to say two paragraphs down, "Helen Milliken, and Elly Peterson made their views known at that convention," and you made the assertion here that they were in some fashion actively involved conveying attitudes at the Republican Platform Committee. Do you know that to be the truth firsthand, or is this hearsay?

Dr. SEGER. I was not on the platform committee, but I was told that.

Senator RIEGLE. So you made that assertion based on the fact that somebody else made that representation to you and you feel comfortable on that basis making the assertion in your own name, because that's what you're doing here—you're not saying here, "I was told by someone such and such," you're making it as an assertion in your own name and so, in a sense, you're adding your credibility to the assertion and you mean to do that; is that correct?

Dr. SEGER. This was covered by the media at that time.

Senator RIEGLE. But you're telling me something different here. This is something that is published under your name and this is your choice of language and words and you're making the assertions and I want to know whether I can understand the fact that you believe this to be the case and you are making the assertion. And you are, I take it?

Dr. SEGER. Yes, I am.

Senator RIEGLE. OK. Now I want to say again I am not interested in rehashing the consequences or even the substance of what is being talked about here. I am concerned about the accuracy of your representations and your sense of confidence in making those kinds of assertions.

So I checked it out in terms of what the recollection would be if Mrs. Milliken and Elly Peterson, who are referred to here by name with respect to these items, to find out if in fact what you said is true, at least as they would see it, and I have gotten a very strong response to the contrary. As a matter of fact, it was given to me over the phone today and in writing which is being sent to me in the mail.

RESPONSE TO ARTICLE

Let me just send some copies around here so my colleagues will have it as well. This is what they say in response to that. It's addressed to me on behalf of my questions to them so it can be presented to the committee.

It reads as follows:

> Concerning your inquiry about the letter being sent by Ms. Seger to various Michigan newspapers we would like to be on record concerning the inaccuracies her letter contains:
>
> 1. Helen Milliken did not support the gubernatorial candidacy of James Blanchard.
>
> 2. The Womens Assembly, made up of 28 statewide Michigan organizations such as the YWCA, the League of Women Voters, the American Association of University Women, the Business and Professional Women, did not issue a "plan to undermine the family structure in Michigan"—the goal of the groups participating in Womens Assembly was to strengthen and improve the quality of family life through the more than 75 issues with which it dealt, such as education, employment, family relations, health care, community concerns, and international relations.

I should say, by the way, that this letter that was sent to me was sent over the names of both Helen Milliken and Elly Peterson.

Continuing now—

> The plank which Ms. Seger so outrageously distorts (deals with private consentual adult activity and) reflects one adopted by the American Law Institute and American Bar Association. Twenty-five States have already enacted it into law.

I further understand from the conversations that there's a question as to whether or not such a statement as you described earlier in your piece was released by the Womens Assembly, but I guess we can clear that up if you've got what you purport to be the document that you say is that. So we will take a look at it and see who's right in that respect.

Point 3 covers this point and that is:

> There was no press release as alleged by Ms. Seger in paragraph 3. That paragraph contains her own interpretation of the plank described in the paragraph immediately above.
>
> 4. Neither Helen Milliken or Elly Peterson testified before the platform committee at the Republican National Convention in Detroit or attempted to influence any of its members on a one-on-one basis. Our only activity at the convention was to participate in the Equal Rights Amendment march and thereby express our concern over the removal of support from the platform of the Equal Rights Amendment which had been a part of the Republican platform since 1940.
>
> Thank you for your inquiry.
>
> Sincerely,
>
> HELEN MILLIKEN AND ELLY PETERSON.

[The following letter was subsequently submitted for the record:]

HELEN MILLIKEN
6103 Peninsula Drive
Traverse City, Michigan 49684

June 19, 1984

Honorable Donald W. Riegle
United States Senate
Washington, D. C. 20510

Dear Senator Riegle:

Concerning your inquiry about the letter being sent by Ms. Segar to various Michigan newspapers recently, we would like to be on record concerning the inaccuracies her letter contains:

1. Helen Milliken did not support the gubernatorial candidacy of James Blanchard.

2. The Women's Assembly, made up of 28 statewide Michigan organizations such as the Y.W.C.A., the League of Women Voters, the American Association of University Women, the Business and Professional Women, did not issue "a plan to undermine the family structure in Michigan" -- the goal of the groups participating in Women's Assembly was to strengthen and improve the quality of family life through the more than 75 issues with which it dealt, such as education, employment, family relations, health care, community concerns and international relations.

   The plank which Ms. Segar so outrageously distorts deals with private consentual adult activity and reflects one recommended by the American Law Institute and the American Bar Association. Twenty-five states have already enacted it into law in their criminal codes.

   There was no press release as alleged by Ms. Segar in paragraph 3. That paragraph contains her own interpretation of the plank described in the paragraph immediately above.

3. Neither Helen Milliken nor Elly Peterson testified before the Platform Committee at the Republican National Convention in Detroit or attempted to influence any of its members on a one-on-one basis. Our only activity at the Convention was to participate in the ERA march to express our concern over the removal of support from the Platform of the Equal Rights Amendment which had been a part of the Republican Platform since 1940.

Thank you for your inquiry.

Sincerely,

Helen Milliken

Elly Peterson

Helen Milliken　　　　Elly Peterson

Senator RIEGLE. As I said, this was dictated over the phone. The letter has been sent today.

Now in light of this assertion by them, which is now also an official part of the committee record, is there any part of your assertion in your letter that you stood behind earlier here in your testimony that you would like now to either withdraw, change, modify, file a request to say that you would like to maybe have that set aside until you have had a chance to look further?

Dr. SEGER. As I said, I would like to pull out the couple-page document from the Women's Assembly. I do not have it with me and that was the way I read it, but I would certainly be willing to reread it. I will give you a copy.

Senator RIEGLE. I'm wondering about all the different items here. In light of the fact that you've had an assertion here from Mrs. Milliken that she did not support the candidacy of Blanchard, would you like to change that?

Dr. SEGER. That may be semantics, a difference in what she means by support and what I think of supporting his candidacy.

Senator RIEGLE. So I guess what you're saying is then that you stand by each and every assertion that you have made; is that correct?

Dr. SEGER. As I said, I will reread the Women's Assembly sheet, but, yes, based on how I remember it.

Senator RIEGLE. You have her letter in front of you now?

Dr. SEGER. Yes.

Senator RIEGLE. And as I read through it, I assume you had a chance to read along and follow it.

Dr. SEGER. Yes.

Senator RIEGLE. So I take it then, based on having this in front of you and their assertions to the contrary, that this does not prompt you to want to change in any respect your assertions that are contained in your letter that was published on June 6?

ASSERTIONS STILL ACCURATE

Dr. SEGER. As I said, as far as I'm concerned, both of those women did support Governor Blanchard in that campaign. I remember their innumerable statements. Maybe their understanding of the word "support" and mine are different; I don't know. The Women's Assembly did put out a couple sheets of paper on what their positions were, and this task force did adopt that. That's accurate.

Senator RIEGLE. So again, I just want to conclude here, because my time is up and I want to come back because others I think may want to cover it too—but in light of the fact that you now have from them an assertion that is directly in conflict with the assertions that you made about them, that despite having that in front of you, you still hold absolutely to the assertions that you have made? You are asserting that what you are saying is accurate and correct and that notwithstanding this statement by them that you have misrepresented the facts and misrepresented where they stand on these things?

Dr. SEGER. As I said, when I think back to 1982—which is the period we are talking about, the fall of 1982—this is the way I remember what went on and this is the way I remember what was said in that assembly, and I do have sheets of paper on that. I was told that they went to the 1980 platform committee and made their pitch.

Senator RIEGLE. I want to repeat it one more time because this is very important. You now have from them an assertion that the facts are different from what you have said and so I want to know, in light of the fact that now has been said to you and you have that in front of you, whether you still feel that what you have said previously is accurate, that you stand by it, you don't wish to modify it, and in a sense, then, you are not prepared to accept these representations that are made by them that are at odds with the charges that you have made or the assertions that you have made?

Dr. SEGER. As I said, as these matters were explained to me and as I remember their comments from 1982—and that wasn't based on anybody else's comments—this is the way it stands. If what I was told about the platform activities was wrong, then obviously I would certainly apologize to them. But this was the way it was told to me.

Senator RIEGLE. Are you surprised that you now have from them an assertion that is as blunt and direct and refutes what you allege about them? It seems to me it's a pretty blunt rebuttal of what you have asserted.

Dr. SEGER. Again, thinking back, they were somewhat disappointed that I openly supported Dick Headlee—who was the Republican candidate, by the way, in 1982—and these women disagreed with his stand on the equal rights amendment and were soundly critical of him on some other issues.

Senator RIEGLE. So basically, you are not prepared to accept what they are asserting to be their views and what they did and so forth. You stand by your opposing view? In other words, you're rejecting what they are saying; is that correct?

Dr. SEGER. I am saying this is not consistent with the way I recall it.

Senator RIEGLE. Well, I think you have a little different obligation than that. I think you have the obligation when someone makes an assertion that you have misrepresented something they have done and they have said that that is not right, I think you either then have to stand by your original assertions or I think you have to be prepared to change your assertions. And I gather you are saying that your intention right now at this minute in this committee is to stand by your assertions.

Dr. SEGER. Maybe I didn't make this clear. I said that if someone proved to me that what I was told about the platform thing was wrong, I would be willing to apologize to them. I just said that.

Senator RIEGLE. You're misunderstanding me and I think you ought to be more direct, and that is, you have them now before you an assertion from them directly and personally that what you have said is not correct, and I take it that you are not prepared to accept that. I'm asking you to do one or the other. In other words, either indicate now that you stand by what you said before, or in fact you are prepared to modify what you have just said because you have in front of you assertions by them that it's inaccurate. I want to know which—do you still stand by what you said in print just a short time ago?

Dr. SEGER. I wasn't there, so if these women said they didn't and someone else said they did, if what I was told was wrong, then obviously I would be willing to apologize to them. But I wasn't there.

Senator RIEGLE. Well, my time is up. I will come back to that. I appreciate the patience of the chairman.

The CHAIRMAN. Well, you've gotten even with Senator Sarbanes.

Senator RIEGLE. Well, I think you understand it's the sort of situation that's awfully hard.

The CHAIRMAN. Well, again, I will not take my questioning time again this time, but I do feel compelled to wonder about this line of questioning and I fail to see what it has to do with qualifications for the Federal Reserve. It isn't fiscal policy and it isn't monetary policy and, in my 10 years in the Senate, it is the very first time I have ever seen a local political dispute brought into a hearing, particularly from the State. If it is an attempt to discredit your credibility, somehow you were misrepresenting, I also find that also rather hollow.

CREDIBILITY OF DIFFERENT VIEWS

All of us represent our views as we see them, particularly politicians. I have listened to debate for 10 years on the floor of the Senate. I have listened to it on this committee. Senator Riegle and I have had sharp differences of opinion, but I didn't question his credibility because he disagreed with me. We've had the same set of facts. We have interpreted them differently. I have never been accused by him of misrepresenting an issue when I believed what I was saying, nor has it worked the other way.

Last night on the floor on the debate on Nicaragua, we heard as opposing a viewpoint as you could possibly hear and I don't dispute the sincerity of either side of that argument last night—totally different situations. They could take the same testimony, the same situation, and view it differently in impassioned speeches until 1 o'clock this morning—totally different viewpoints with one side saying, "You're wrong" and the other side saying, "You're wrong."

So I don't know the situation. I am not a resident of Michigan. I wasn't involved in that campaign. All I'm trying to say is that it seems to me that whatever you said, you undoubtedly believed, and they have a right to say they believe differently, that they did not do it. I don't think that's an issue of credibility because, apparently, the Senator is willing to accept their assertions on the other side and I don't know how it's possible really to prove either one on either side.

From the evidence you had, you believed this to be true. They are saying no. Good Lord, we look at the paper every day and any paper in this country and any news media, and we see opposing viewpoints on exactly the same thing. We have seen charges. You can go back to any campaign you want to be involved in. We saw Ronald Reagan accusing Gerald Ford of all sorts of things and he said, "No, it's not true." We've seen Fritz Mondale and we've seen Gary Hart making all kinds of charges back and forth and "No, I didn't do that," "Yes, I did." It's not peculiar to one political party or one set of politicians.

I think we are really stretching here to prove I don't know what kind of a point with a local situation in which you may be wrong. I don't know. But to attack your credibility for saying what you believe and they have their right to deny it. I think we're once again trying to pull something out that is rather common practice of people saying what they believe.

You know, I have actually said things in my life, that I sincerely believed at the time, that turned out to be wrong later on. I really have. I challenge any human being on the face of this earth not to have done the same thing, particularly politicians.

Dr. SEGER. This is the first I had seen this article. I did not write an article. This is dishonest journalism. I sent a letter to the editor, and they set this up as a signed article by me with my picture. That's not even honest journalism, to send a letter to the editor and have it run as an article.

The CHAIRMAN. Let me say to my good friends on the other side, as far as the time constraints, where only your side is here, I will interject and take time if I feel I should, but with no other Republican members here, however you want to divide up your time, it's all right with me. If you want to take more than 10 minutes, you're here all by yourselves, and I have no one here to switch back and forth with. However, it's Senator Sasser's turn next by order of coming or Senator Sarbanes, it's entirely up to you how you want to do it, being as there are no Republicans here.

Senator SARBANES. Will you yield to me?

Senator SASSER. Yes, I will yield.

The CHAIRMAN. Let me just say then, don't worry about time constraints among yourselves.

Senator SARBANES. I asked Senator Sasser to yield in order to take very sharp exceptions to the statement which you just made. I think the line of questioning is very relevant because I think it goes to some sort of very basic questions about Dr. Seger and the way she approaches issues and therefore the question about her credibility.

Now, the thing that I found very disturbing was your assertion that if someone came along and proved to you that the charges you had made against these women were not correct, you would withdraw them. You made the charges in the first instance. The people against whom they were made have denied and rejected them, and it seems to me that places an obligation upon you to substantiate the charges, not upon them to disprove them.

I appreciate what the Chairman said about sharp differences over issues. We had a sharp debate last night on the floor of the Senate with respect to Central America policy, and that's part and parcel of an exchange in a democratic society.

But allegation, against individuals, which they assert are factually inaccurate, do not come under the rubric of the normal discourse over policy issues. Certainly, as I understand the way our system works and my view of fairness, it's not incumbent upon persons against whom allegations have been made, persons who deny their factual accuracy, to have the task of proving factual inaccuracy.

It's the responsibility of the person who makes the charges in the first instance.

I find your response unacceptable. It seems to me the response you should have made, in light of the letter read to you by Senator Riegle is that you would—go back and look at the situation and seek to provide further substantiation for the position which you took.

That is not what you said at the table, and, I think, Mr. Chairman, it was a very significant response. It made the line of questioning pursued by Senator Riegle particularly pertinent to the nomination before us.

I thank the Senator for yielding.

The CHAIRMAN. Senator Sasser.

Senator SASSER. Thank you, Mr. Chairman.

Chairman Volcker has recently expressed his view that—and I quote—"a cautionary note" needs to be sounded regarding the wave of bank-financed leveraged buyouts which has swept through the financial system in recent months.

Now from what little I know of your view, Dr. Seger—and that's what I'm trying to do today is find out what your views are—you are represented in the case to be an aggressive advocate of free markets in the financial system.

Do you believe that bank-financed leverage buyouts are potentially dangerous to the soundness of the financial system?

POTENTIAL DANGER OF LEVERAGE BUYOUTS

Dr. SEGER. That would be my position, that there is potential danger.

Senator SASSER. Do you think it's appropriate then for the Chairman of the Federal Reserve Board or a member of the Board of Governors to jawbone the banks against such lending or even for the Government to take steps to discourage it, or for us to consider legislation that could emerge from this committee to discourage it?

Dr. SEGER. I think Chairman Volcker is doing some of this already in talking about what happens when companies that have had strong balance sheets suddenly take on a lot of debt which increases the leverage. Later on this can be a weakening factor, and I think he's already pointed that out.

I don't know if that's what you mean by "jawboning," but I think it is under discussion right now.

Senator SASSER. Well, Dr. Seger, do you believe that in the realm of economic and monetary policy that the actions taken to produce the recession of 1981–82, specifically, a very tight monetary policy which went into effect in the spring of 1981, the tightest monetary policy that I can remember in many years—do you think that the actions taken to produce that recession were justified under the circumstances? Was the high rate of unemployment that was experienced, 11 percent by the end of 1982—and you come from a State where it was much higher, Michigan—was this worth the gains that were made against inflation, in your judgment?

Dr. SEGER. As I think back to the 1981 period, I think the Fed probably had very few options and that they had to deal strongly with the severe inflation problem. There's no question that if we have a severe inflation problem the solution involves pain. You're absolutely right. In Michigan, 11 percent would have sounded like a low-unemployment rate. We had some cities, statewide, where it was 17 percent and some cities such as Senator Riegle's city of Flint, where it was above 20 percent. I'm very aware of that side. It was very painful and we're still working at getting unemployment down.

But I really think at that point the Fed was between a rock and a hard place.

Senator SASSER. Well, would it be fair to characterize your answer as saying that you did think the Fed was justified under the circumstances and that the pain in the long run was worth the gains?

Dr. SEGER. That gets into a value judgment, whether the pain was worth it, but I really think in the context of that time, 1981, and what was going on, that the Fed—I wasn't down here—probably had to act that way.

Senator SASSER. Well, do you agree that the tax cuts that came then in 1981 were just contrary and in opposition to what the Fed was trying to do at that time and that is to cool off the economy and slacken demand?

Dr. SEGER. I said earlier, I did support the tax cuts. I think we did need incentives to be given and I think business needed the tax cuts they got, the accelerated depreciation and those types of things, in order again to give them incentives to invest in more modern equipment and building.

Senator SASSER. Well, if we all had 20-20 hindsight, as some claim to, looking back on it now, would you have supported restraint of monetary policy in 1981 and simultaneously have supported the expansionary fiscal policy of that year characterized by very, very substantial tax cuts?

Dr. SEGER. As I said, I definitely did support the tax cut. I think most of it didn't take effect until 1982 when we were 6 months into the recession by the time that a big chunk of it actually took effect. Then it was the middle of 1982 when another part of it took effect, which coincided quite nicely, I think, with the severe slack, it was supplying some stimulus that was badly needed at that time and some incentives that were needed.

Now the big squeeze from monetary policy, as I look back, came in early 1981 and through 1981; and then some time in June-July 1982 as I recall, the Fed dropped the discount rate, and this was the first obvious signal that they were adjusting their policy that I recall.

CYCLES OF HIGH UNEMPLOYMENT

Senator SASSER. Well, do you know of any alternative policies that could have been recommended in 1981 to achieve the disinflation at a lower cost in unemployment? I am very troubled by these cycles of very, very high unemployment, some of them brought about in this case by what I viewed at that time as an overly restrictive monetary policy, and we find that these recessions are coming closer together. The wave gets closer or the trough gets closer after each one of these recessions and the unemployment that's left over after the recession, after each recession, is higher than the preceding one.

Now do you know of any alternative policy that you could recommend or would have recommended that would achieve disinflation at a lower cost than unemployment?

Dr. SEGER. I don't know of another.

Senator SASSER. Pardon?

Dr. SEGER. I don't know of another.

Senator SASSER. And you believe, then, I presume, that higher rates of unemployment are necessary to fight inflation, that it's an either/or proposition or at least it has been for the last 10 or 15 years?

Dr. SEGER. Looking at the record when there has been a severe inflation problem and drastic actions are taken to slow the economy, there's no doubt about it, sales decline, production declines, and when that happens people are laid off. As I said, I have seen it firsthand in the State in which I live.

Longer term, I think you can argue that bringing inflation under control and giving business confidence in our desire to keep it under control could actually help the employment situation, because then they will feel confident about expanding.

Senator SASSER. Do you believe there's such a thing as a natural rate of unemployment. That's defined as the rate of unemployment below which inflation will tend to accelerate without limit.

Dr. SEGER. Yes. Back when I was first studying economics, we used to think that number was down in the neighborhood of 2 percent. In fact, I think in the Humphrey-Hawkins bill, even as recently as 1978, they were talking about shooting for a 3-percent unemployment rate for adults and 4 percent for an overall unemployment rate. As we've had more structural-type unemployment, this figure has gotten bounced up. Again, different economists I believe have different exact numbers.

Senator SASSER. What would be your estimate of the actual level of the natural rate of unemployment, given the existing structure of this economy?

Dr. SEGER. We don't have exact statistics. If you look at the unemployment numbers, we don't have exact statistics on which portion is seasonal, which portion is cyclical, which portion is long-term structural. People can make guesses about how it's stacked up, but we do not have hard, fast numbers. The number I've seen most often mentioned for this trigger rate is somewhere between 6 and 6½ percent.

Senator SASSER. All right. Well, what would be your posture with regard to monetary policy when the economy approaches the natural unemployment rate? How would you react?

Dr. SEGER. As I think I suggested earlier when monetary policy was discussed, when you are trying to come up with a reasonable policy that is going to be implemented, you look at many, many different factors. We don't have, to my knowledge, a particular number or a particular factor that overrides all others in the formulation of monetary policy.

Senator SASSER. What I'm getting at is that if Dr. Seger thinks the natural rate of unemployment is 6½ percent, when we start approaching 6½ percent, how are you going to react as a member of the Board of Governors? Are you going say let's put on the monetary brakes here? Would that be your reaction? I'd like to know for the record how you would react to that.

Dr. SEGER. I think I mentioned earlier you look at the capacity of the economy and at where the economy is presently operating and the amount of slack in it. One of the things you look at in terms of slack is the labor market. It's not the only one. You look at manufacturing capacity and the portion of manufacturing capacity that's being utilized. You look at the labor market. There are various aspects of capacity that you look at.

Senator SASSER. Well, I've got a note here saying my time has expired.

Senator SARBANES. Mr. Chairman, I'd like to inquire what you foresee as the schedule.

The CHAIRMAN. Well, I intended to accommodate anybody who wanted to ask questions as long as they wanted to ask them.

Senator SARBANES. You don't intend to take a break for lunch here for the caucuses?

The CHAIRMAN. Well, it seems to me that if this nomination is that important, it's always very difficult to reconvene with schedules later. We have an Export Administration Act, a continuing conference, this afternoon in this room at 4 o'clock. So I would prefer to have you ask all the questions that you would like. If we reschedule it, you're also going to have conflicts. So it would be my preference to continue as long as you wish to ask questions.

Senator RIEGLE. Mr. Chairman, if I may, I am willing to stay here, although I don't recall an equivalent instance where we sort of put everybody, including the witness, through an endurance test right through the lunch hour on into the late afternoon possibly up until 4 o'clock.

The CHAIRMAN. Oh, yes, we have.

Senator RIEGLE. The chairman may be familiar with those cases, but they are quite rare. I don't recall any right now. But whether he does or doesn't is beside the point. It seems to me I think what might make more sense—and I suggest it—I offer this as an idea—and that is at some point here—we still are in caucus and there are some important matters being taken up in our caucus that some of us have a particular interest in and should be having some participation with. Apart from that, it seems to me that we ought to at some point here recess for a brief period for lunch so that the witness has a chance to escape from the table at least for a half hour, or 40 minutes, or whatever.

We're going to be here probably until midnight anyway and I'm willing to come back into session, just speaking as one Senator here in this committee, at any hour today, and I realize it's difficult to rearrange. We did start, I might say, at an unusual hour today. We don't normally start at 11 o'clock. We normally start earlier than that, so that's pushed us into the lunch hour and into the caucus period in a way that is not normal. That's nobody's fault. That's just the way things happened today.

So I would suggest that maybe what we ought to do here at some point is have a brief recess. If you want to continue today and come back in here, we will do it. Otherwise, it seems to me that we may very well find ourselves in a situation where we will go right down to 4 o'clock, and I'm not sure what we prove by doing that, quite frankly. I think that can actually work against what we are trying to accomplish.

The CHAIRMAN. The committee will stand in recess until 3 p.m.

[Whereupon, at 1:40 p.m., the hearing was recessed, to be reconvened at 3 p.m., this same day.]

AFTERNOON SESSION

The CHAIRMAN. The committee will come to order.

To continue my unblemished record at never having the committee start late, and we do not have a witness yet, therefore, we will temporarily be quiet until she arrives. But we did start on time.

Senator RIEGLE. Let me just say to the chairman that the burdens of being chairman are never easy ones, and there are days when I'd like to have them back, and then there are days when I am not so sure.

The CHAIRMAN. There are days when I'd like to give it back to you.

Senator RIEGLE. I'll say to the chairman, for whom I have great personal regard, as he knows, that sometimes these matters that arise in scheduling and circumstances can be very frustrating, but I always find the chairman to be a great person to work with and despite whatever frustrations he may be dealing with as a chairman normally would, he has always been thoughtful and reasonable—or at least almost always.

The CHAIRMAN. Well, actually it worked out rather well. It gave me an excuse to cancel something at 3 o'clock that I didn't want to go to.

Senator RIEGLE. Well, sometimes those things work that way.

The CHAIRMAN. It turned out to be a responsible excuse.

Senator RIEGLE. Well, you know, I must say too, it's my 18th year in the Congress, and I have been through lots and lots of hearings and seen a lot of witnesses in a lot of situations, and I think sometimes the witnesses are put through an ordeal that just testifying tends to be, and that sometimes having a break is perhaps as helpful to them as anybody else.

The CHAIRMAN. If you are ready to continue, we are, I hope.

Dr. SEGER. We had to get a ride back.

The CHAIRMAN. I hope your blood sugar is up. I, unfortunately, didn't get time to grab anything. I made the mistake of going to my office and my staff pounced on me for a dozen different issues that had nothing to do with anything here or on the floor.

So we will turn to Senator Riegle for additional questions he wishes to ask you.

Senator RIEGLE. Thank you, Mr. Chairman. I know my other colleagues also have things they want to pursue, and presumably, they will do so when they can. We are under some pressures. As you may know, we've got a defense bill on the floor, which Senator Tower is trying ardently to complete, and we have been in session until midnight the last 3—or 3 out of the 4 most recent legislative evenings, and so we are in a bit of a marathon on the floor. And there is great pressure for people to be there and in the committee on this and that, and so I am sure you will understand why people come and go and can't necessarily be here all the time.

I want to go back to the economic policy issues where I began discussing earlier today, but I want to wrap up one loose end before I do, because I want there not to be any misunderstanding about it.

REHASH OF LETTER

With respect to the letter to the editor that was printed in the Traverse City paper, I gather that you sent that out some weeks ago, and it appears now in the Traverse City. When would you imagine you sent that to the city?

Dr. SEGER. I sent it out the first week of May.

Senator RIEGLE. The first week in May?

Dr. SEGER. As I said, it was just a letter to the editor; the paper—which to me is slightly dishonest journalism—set it into a column. It's just a letter to the editor.

Senator RIEGLE. Right. I have been through that too. So I am familiar with that. I notice at the bottom of the piece, they say——

The CHAIRMAN. I never even get my letters to the editor printed, let alone a column.

Senator RIEGLE. Well, you're not as good a writer. But I gather what they say at the bottom of this column is "the Forum is a periodic column of opinion written by Record-Eagle readers in their areas of interest or expertise," et cetera. But it is correct that you did send the letter in, intending it to be printed, and they, of course printed it.

Dr. SEGER. It's just a letter to the editor.

Senator RIEGLE. Right. And they printed it in this form, which you had nothing to do with?

Dr. SEGER. Which looks like a signed column.

Senator RIEGLE. Right. It does, nevertheless, represent the views that you held then and you hold now?

Dr. SEGER. As I said, I haven't had a chance to check the letter word by word against what I sent in.

Senator RIEGLE. We're going to do that. You're going to do that and send that to me.

Dr. SEGER. Yes.

[Dr. Seger subsequently inserted for the record the letter to the editor; the document from Women's Assembly III; and several articles from the Detroit Free Press regarding the 1982 campaign for Governor of Michigan:]

Martha R. Seger, Ph.D.
Professor of Finance
Central Michigan University
Mt. Pleasant, MI 48859

May 4, 1984

LETTER TO THE EDITOR:

Several stories recently have attempted to recreate the 1982 Blanchard/Headlee race for Governor as being decided on Dick Headlee's lack of support for abortion, lesbian adoption rights, etc. along with Helen Milliken, Elly Peterson and other formerly prominent Republican women. It was not the factual case.

I am proud to say that I supported Dick Headlee for Governor because he knew how to create jobs by cutting taxes and reducing state spending. Helen Milliken, Elly Peterson and other Republicans who comprised the Michigan Republican Women's Task Force supported Democrat James Blanchard because he endorsed the platform of the Women's Assembly "consisting of 28 feminist organizations." Job creation and lower taxes were not among the resolutions adopted by Co-chair Helen Milliken which included such organizations as the United Auto Workers, National Organization of Women (NOW), the Michigan Education Association Women's Caucus and the League of Women Voters.

You will note from the attached news release issued by the Women's Assembly just before the 1982 Gubernatorial election that the "feminists" called for legalizing "lesbian and gay consensual sexual activity"; proposed child custody and adoption rights for homosexuals and resolved to "provide lesbians and gay men the same protections now provided to others" including marriage.

Such deviation from normal family life in Michigan was supported by Candidate Blanchard. It should not have been a surprise that Richard Headlee opposed the platform of the Women's Assembly because such anti-family legal changes were considered by the Platform Committee of the Republican National Committee meeting in Detroit during the 1980 Republican National Convention AND REJECTED.

Helen Milliken and Elly Peterson made their views known at that convention and found no support from the Republican women participating in the Republican Platform Committee. To this day, I do not believe Helen Milliken, Elly Peterson or the handful of other "feminist agenda" advocates have rejected the Women's Assembly plan to undermine the family structure in Michigan. Nor have they expressed their support for the 1980 Republican National Platform which will probably be adopted in total as the 1984 Republican National Platform by Republican delegates from Michigan and from every other State in the Union this summer in Dallas.

It is not accurate to suggest that Dick Headlee's views on abortion, homosexual marriage and other family issues are any different from President Reagan's or the majority of other Republicans in Michigan or the United States. It is further inaccurate to report that Michigan Republicans had different views in 1982 on the feminist agenda than did Dick Headlee. We did not.

The greater question for the "Republican" feminists should be whether they still give single issue top priority to the Governor Blanchard they voted for because of his support of the feminist agenda now that all citizens of Michigan are paying higher taxes to support an increased Total State Budget in a state that has led the nation in unemployment for over three years.

Further, as a woman economist, I'm personally insulted by attention to "feminist issues" that suggest women don't have the intellectual capacity to understand "real economic issues."

Sincerely,

Martha R Seger

Martha R. Seger, Ph.D.
Professor of Finance
Central Michigan University
Mt. Pleasant, MI 48859

the Women's Assembly III

CO-CHAIRS

Mary Brown
State Representative

Bernadine Denning
Chair, Michigan Women's Commission

Helen Milliken
National Co-Chair, ERAmerica

A.A.U.W.
A.C.L.U
Delta Sigma Theta
DSA Feminist Initiative
Democratic Women's Caucus
Detroit Women's Forum
Greater Detroit Council of Jewish Women
League of Women Voters
MEA Women's Caucus
Michigan Coalition of Labor Union Women
Michigan Coalition of 100 Black Women
Michigan Conference of N O W
Michigan Council for Women in Education Administration
Michigan Federation of Business & Professional Women's Club
Michigan Nurses Association
Michigan Republican Women's Task Force
Michigan Women's Campaign Fund
Michigan Women's Commission
Michgian Women's Political Caucus
Mujeres Unidas de Michigan
National Council of Negro Women
Society for Women in Transportation
Professional Secretaries International
United Auto Workers
Women Lawyers Association of Michigan
Women in State Government
Y.W.C.A./Metro Detroit
Zonta International-District 15

Women's Assembly III, consisting of 28 feminist organizations representing over 100,000 individuals throughout Michigan, was created with the charge to develop a unified platform of women's issues, to convey the established platform to candidates and officials, and to work as a coalition for the implementation of the adopted platform at all levels of government.

Women's Assembly III is part of an ongoing educational and political process which has involved women since 1975. Women's Assembly I was the initial political skill-building conference to increase the political awareness of women. In 1977, "Management for Women" was the format for Women's Assembly II.

"All Issues are Women's Issues" was the theme of Women's Assembly III. Each participating organization had one representative to the organizing committee and six delegates chosen by their organization at the Assembly. Organizations were accepted for participation by either being a member of ERAmerica or a multi-issue women's organization that does not actively oppose ERA or reproductive choice and has existed prior to December 31, 1981.

At the conference itself, each organization delegate was assigned to one of the six major issue areas which were Employment and the Economy, Education, Power and Image, Family Relations and Health Care, Community Concerns, and International Relations. The delegates spent the day hearing testimony by the expert witnesses in their field of discussion and were then responsible for issue resolutions which would be presented the following day at the general assembly. Over 80 resolutions were presented and passed such as support of a continuation of a Federal ERA, investigation and utilization of alternative work schedules, implementation of recommendations on comparable worth, continuing support of displaced homemaker programs, strengthen social security for spouses, increase awareness and education of plight of women in poverty and support for a mutually verifiable nuclear freeze.

After the Assembly, each group of delegates returned to their organization to present the resolutions for ratification. Women's Assembly has continued its charge by mailing candidate questionnaires to those individuals running in the Gubernatorial, U.S. Senate, and State Senate and House non-incumbent and swing seats. They have also distributed over 50,000 "Get Out the Vote" postcards in addition to members. On November 3rd, Women's Assembly will be presenting to the Governor-Elect a compiled list of women for appointments to boards and commissions.

WHEREAS, the Michigan Women's Assembly is committed to the principle that all persons have an absolute right to full equality under the law, and every woman possesses the right to her own person, including the right to define and express her own sexuality without government interference; and

WHEREAS, lesbians and gay men have been denied the right to privacy and their basic civil liberties have been abridged, and women perceive that to tolerate the abridgement of the civil rights of one group of citizens will ultimately result in the ability of government to abridge the rights of any group of citizens, including women (both heterosexual and homosexual), and sets a dangerous precedent in a democracy which must be founded upon a respect for diversity; and

WHEREAS, the American Law Institute and the American Bar Association have recommended that private, adult, consensual sexual activity be exlucded from criminal law and such activity is, in fact, excluded in the criminal codes of twenty-five states without detriment to the public good; and

WHEREAS, both the American Psychiatric Association and the American Psychological Association have concluded that homosexuality should no longer be listed as a "mental disorder," and homosexuality, per se, implies no impairment of judgment, stability or general social or vocational capabilities; and

WHEREAS, many organizations have gone on record as favoring reform of the laws governing homosexuality including the American Medical Association, the National Education Association, the American Civil Liberties Union, the U.S. Civil Rights Commission, the National Council of Churches, the National Women's Political Caucus, the National Organization for Women, the American Jewish Committee, the American Personnel and Guidance Association, the National Federation of Priests' Councils, the American Association for the Advancement of Science, the National Association of Social Workers and the National Association of YWCAs; and

WHEREAS, many in power positions and in the media have sought to fan homophobia (fear of homosexuality) in an attempt to discredit the women's movement and until distorted stereotypes concerning homosexuals are confronted, all women in the women's movement run the risk of being inaccurately characterized; be it

RESOLVED, that the Michigan Women's Assembly III opposes all discrimination against lesbians and gay males in such areas as employment, licensing, housing, credit, public accommodations, health services, child custody, adoption rights, military service, immigration and naturalization, and declares that no burden of proof of character shall be placed upon such persons which is greater than or different from that placed upon other persons;

RESOLVED: that the Michigan Women's Assembly supports the enactment of civil rights legislation at the local, state and federal levels which would provide to lesbians and gay men the same protections now provided to others and to this end, supports the amendment of Article 1, Sec. 102 of the Elliott-Larsen Civil Rights Act (Michigan Act No. 453, 1976) to include the term "sexual preference," and supports the reform or repeal of Michigan laws which restrict private, consensual, adult sexual behavior, and whose selective enforcement has largely been directed at homosexuals.

WHEREAS, the United States Supreme Court in its historical 1973 decisions (Roe v. Wade and Doe v. Bolton) upheld the rights of women to choose abortions, ruling that during the first 6 months of pregnancy, abortion should be a decision between a woman and her doctor, and that a woman could have an abortion during the last trimester if her health were endangered; and

WHEREAS, in 1977, the Court in reviewing 3 cases (Beal v. Doe, Maher v. Roe and Poelker v. Doe), ruled that its earlier decisions did not entitle women to public funding of non-therapeutic abortions, leaving that matter to the states; and

WHEREAS, Michigan — through repeated vetoes by a courageous Governor — is one of only a few states which continues to protect the right of poor women to choose Medicaid funded-abortions; and

WHEREAS, choice opponents seeking to ban virtually all abortions have introduced over 17 different versions of a Human Life Amendment to the United States Constitution during the 97th Congress, and action by the United States Senate on one such amendment which would declare fertilized eggs and fetuses "persons" is imminent; and

WHEREAS, despite the fact that a minor's right to privacy and contraceptives has been decided in Doe v. Irwin, 615 F.2d 1162 (6th Cir. 1980) and upheld by the United States Supreme Court, opponents of free choice have also sought by administrative rule to deny young women birth control and family planning services by requiring parental notification within 10 days when anyone under age 18 receives prescription birth control devices from federally funded clinics; be it

RESOLVED, that all organizations sponsoring Women's Assembly III support a woman's right to reproductive freedom, including the right to choose abortion, and that Women's Assembly III strongly opposes all efforts to limit that right and will actively work to defeat the Human Life Amendment and statutes; and

RESOLVED, that Women's Assembly III supports continued Medicaid funding of abortions for poor women in Michigan; and

RESOLVED, that Women's Assembly III lauds the Planned Parenthood Federation of America and others who have vowed to challenge in court any administrative action which violates a minor woman's right to privacy and which limits access to birth control services.

10A · THURSDAY, OCTOBER 6, 1983 · USA TODAY

"USA TODAY hopes to serve as a forum for better understanding and unity to help make the USA truly one nation."

—Allen H. Neuharth
Chairman and Founder
Sept. 15, 1982

John C. Quinn
Editor

John Seigenthaler
Editorial Director

OPINION

The Issue: WOMAN FOR V.P.

Each day, USA TODAY debates a major news issue. Today's page includes our opinion that the nation is ready for a woman vice presidential candidate, other views Maryland, New York and the District of Columbia, and voices from across the USA.

KATHLEEN TEAGUE
Guest columnist

Voters will reject the feminist agenda

WASHINGTON — The greatest service the Democratic Party could perform for America would be to run a bonafide feminist for president and/or vice president of the United States.

Last weekend the leading feminist women's lib organization, the National Organization for Women (NOW), lobbied all the male Democratic presidential candidates for a female feminist running mate. NOTE: Not a woman running mate, or a male feminist (as Walter Mondale characterized himself), but a *female feminist*.

I hope the Democrats do just that.

What we really need in American politics today is a first-time national referendum on the feminist philosophy as espoused by feminist leaders such as Friedan, Steinem, Abzug, Smeal, Wilson and Goldsmith. Let's find out just how many Americans support the feminist platform.

A NOW feminist president and/or vice presidential candidate would support the feminist agenda — NOW's own resolutions, including:

1. Support for the "lesbian and Gay '84" project to pass laws to give homosexuals rights to child custody, to adopt children, to teach school and the "right of lesbians to full access to Alternative Insemination by Donor."

2. Support for taxpayer-funded abortions for anyone, at any age, at any stage of pregnancy.

3. Elimination of the tax-exempt status of churches and synagogues which discriminate on the basis of sex and do not ordain women and the elimination of tax-exempt status of any affiliated school.

4. Elimination of veterans' perference; elimination of laws which exempt women from military combat.

5. Support of draft registration for girls.

6. Support of unisex insurance laws which would force huge premium increases for women.

7. Support for legalized prostitution.

8. Support for the nuclear freeze.

9. Support for the ERA.

10. Opposition to voluntary school prayer.

These and many other feminist issues were debated in the states during the long ten-year battle over the Equal Rights Amendment. In six state referenda on ERA, the voters listened to both sides and voted overwhelmingly against ERA and the feminist agenda.

Congress has also voted overwhelmingly against many feminist agenda items.

But, for far too long, the radical feminist agenda has been hidden from the American people. The Democratic Party has a great opportunity now to give all the American people an opportunity to debate the long-hidden feminist agenda and vote it up or down once and for all.

Kathleen Teague is executive director of the American Legislative Exchange Council, a national organization of conservative state legislators.

since the primary."

But a lot of this talk seems calculating, if not disingenuous. These women, including Helen Milliken, have been living and breathing feminist issues for several years now. For most of them, passage of a national ERA and preservation of freedom of choice on abortion are critical issues for the 1980s. And an unsympathetic Michigan governor simply won't do.

It appears they have no intention of voting for Dick Headlee. If so, it's time they said so . . . or said nothing.

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DEBATE'S OUTCOME: HEADLEE BY A HEAD

So who won Monday's vaunted Dick Headlee-Jim Blanchard debate?

Answer: Headlee.

Oh, sure, on matters of substance -- what little there were -- it was probably a draw. But on form, Republican Headlee took it hands down.

He's quicker on his feet, smoother, nastier and, yes, considerably more glib than Democrat Blanchard.

The audience helped, too.

It was made up of 700 or so well-scrubbed business people from the Oakland County Council of Chambers of Commerce -- quintessentially suburban and very Republican -- crammed into Troy's San Marino Club for lunch . . . and rooting like gangbusters for Headlee.

Of course, it was no trap.

Blanchard knew odds

personal loans to the campaign of $240,000.

Ruppe says he is loath to sink more of his own money into the campaign, but if all else fails . . .

Poor ol' Phil, indeed.

getting it straight

A column on Page 3A Tuesday should have said a fundraiser for the Riegle for Senate campaign at the Detroit Club will be Sept. 29.

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KEYWORDS:
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DETROIT FREE PRESS
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IT'S TIME FEMINISTS SPOKE OUT ON HEADLEE

Helen Milliken and the other Republican feminists probably ought to quit playing games with Dick Headlee.

If they can't stomach him, which seems obvious . . . well, they ought to look him in the eye and say so.

Headlee, despite his disclaimers, appears to have serious political problems with a lot of women . . . or, at least, in recognizing what alienates them. He reminds audiences repeatedly of his large family (a picture of the Headlees plus nine children and 16 grandchildren adorns his campaign literature) and that God, not man, created gender differences -- reminders that, rightly or wrongly, conjure up for some women (and men) old, largely discredited "barefoot and pregnant" images.

Headlee also speaks earnestly about equal opportunities for working women and equal pay for equal work, but somehow still leaves the impression that he would be happier if most of 'em just opted for home and hearth . . . and babies.

And, of course, he is anti-abortion and opposed to the ERA.

This is not to suggest that Headlee is altogether antifeminist or to imply that all women are feminists.

Still, given the relentless and unmistakable movement of American women toward equality, Headlee appears to have a problem.

Pressing the advantage

His Democratic opponent, Jim Blanchard, is noisily pressing the advantage, flaunting his pro- choice on abortion and pro-ERA positions, accusing Headlee of a "horse-and-buggy social philosophy" and touting Martha Griffiths, the 70-year-old Democratic feminist running for lieutenant governor, as though she were a direct descendant of Joan of Arc . . . or maybe Wonder Woman.

Headlee has labeled charges that he is weak or old-fashioned on women's issues as "the big lie." But the feeling persists.

Helen Milliken has not helped. She is one of the officers of ERAmerica, one of three co-chairs of the state's Women's Assembly III and, almost certainly, the state's best-known Republican feminist. In public, at least , she has been unwilling to say where she stands on Headlee, but she sure draws blood.

She told reporters last month that a lot of feminists, Republicans included, would be attracted to the Democratic ticket because of Martha Griffiths' popularity, and added, "I'm not including or excluding myself."

And a week ago, she was quoted in the Lansing State Journal as saying: "There's a lot of soul -searching going on . . . Those of us who worked very hard in Michigan for ERA are not going to suddenly walk away from those issues and vote against them. Women are going to vote their consciences."

She's not alone.

Others also disturbed

Earlier this month, Elly Peterson, the well-known former Michigan Republican chairwoman, said she was "very much disturbed" by Headlee's positions and predicted that, unless those positions change, many Republican women would jump ship. Would she? Too early to tell, she said.

And last week, the Republican Women's Task Force issued a finger-wagging statement pledging "to vigorously support those Republican candidates who support our statement of purpose (including liberalized abortion laws and passage of a national ERA)." But on Headlee, it was silent.

One of two women who head the task force, Denise Alexander, said: "We hope that he (Headlee) will change . . . At the present time, I don't know what I'm going to do in November. It's a gut -wrenching question and one I've been wrestling with

@3 HUGH & MCDIARMID & @D 82/9 TO 82/10

DETROIT FREE PRESS
DATE: THURSDAY October 7, 1982
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ILLUST:
BYLINE:#HUGH#McDIARMID#
DATELINE:
MEMO: politics

SEE ELLY BACK JIM --- SEE DICK GO NUTS

The "women's" issue is one of the more durable themes of Michigan's 1982 campaign for governor . . . and it must be driving Dick Headlee nuts.

The latest episode was a Women-for-Blanchard/Griffiths luncheon in Detroit Tuesday featuring, as honored guests, Elly Peterson, the retired-but-still-formidable GOP political matriarch, and a group of about 25 like-minded Republican women moderates.

Oh, they weren't called honored guests, and they didn't sit at the head table with Jim Blanchard's wife, Paula, and his lieutenant governor candidate, Martha Griffiths . . . but they were what it was all about.

Strictly a setup job

In fact, the luncheon was strictly a setup, orchestrated down to the last teacup by Democrats from the Blanchard for Governor Committee. Blanchard met privately for 30 minutes or so with the Peterson group beforehand, and then, after everyone else (about 500 others, mostly Democratic women) was seated, the Republicans were paraded in like show-biz celebrities on opening night.

And the parade was certainly no surprise. Pro-ERA and pro-choice Republican women, including Peterson, have been plotting their defection ever since Headlee's upset win in the GOP primary back in early August.

Still, it was effective.

The luncheon re-enforced the widespread suspicion that Headlee, whose opposition to abortion and to adoption of a federal Equal Rights Amendment is deep and unwavering, makes him unusually vulnerable this year among women voters.

Headlee and his managers, of course, call such talk nonsense and say the women's issue is a phony that was hatched by Democrats to divert attention from the real issues of jobs, taxes and leadership.

They also point to the Headlee endorsement by the 2,000-member Michigan Republican Women's Federation and suggest that the number of disaffected Republican women is minute.

@3 HUGH & MCDIARMID & @D 82/9 TO 82/10

Headlee, in fact, was quoted last month by the Lansing State Journal as saying: "There are only nine women in the state who don't like me . They're members of the Republican Women's Task Force (which is pro-ERA and pro-choice on abortion) . . . These women are irrational . . . so obsessed with this that they've become hardened. They don't even smile. They're unhappy."

And on Tuesday, Headlee kissed off the GOP defectors at the Blanchard luncheon as pro-choice diehards who oppose him because he's anti-abortion.

"Unfortunately, they have made this single issue the litmus test of this campaign," he said.

She begs to differ

Elly Peterson, for one, begged to differ.

"It's ridiculous. He just can't think of anything else," she said. "We're all for Phil Ruppe (the anti-abortion GOP candidate for the U.S. Senate) and we were all for Jim Brickley (the anti-abortion lieutenant governor whom Headlee upset in the GOP primary for governor). He just doesn't understand."

Peterson says a primary source of her disaffection with Headlee -- one having little to do with so-called women's issues -- is what she calls the "polarization of Michigan." She accuses Headlee of an "unconscionable" attempt to pit Detroit against outstate Michigan, a move she feels would dismantle much of the base of the Michigan Republican Party that she, among others, helped build.

And Peterson, 68, is no Johnny-come-lately to the GOP.

She is a former assistant chairperson of the GOP National Committee. She was Michigan's Republican candidate for the U.S. Senate in 1964. And she served as state GOP chairperson from 1965 until early in 1969 under former Gov. George Romney.

"We were extremely close," says Peterson of her political relationship with Romney.

But that may have changed now.

Romney, who is among Headlee's most passionate supporters these days, has yet to call Peterson in Headlee's behalf.

Nor has Headlee called her in his own behalf.

But Blanchard called . . . over a month ago.

And look what happened.

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KEYWORDS: column; bios-Elly Peterson

03 HUGH & MCDIARMID & 0D 82/9 TO 82/10

There was more.

On the morning of the presidential meeting, Gupta was rubbed the wrong way by GOP advisers during a skull session for some 65 Republican congressional challengers from around the country.

"They kept telling us that we should say (in the campaigns) that everything good in the country is because of Republicans and that everything bad is because of Democrats," recalled Gupta. "And I said that wasn't good enough, that we had to maintain our credibility . . . "

Anyway, Gupta had planned to complain to the president about simplistic campaign advice as well as the "banana republic" business when the group met with him later that morning.

But fellow candidate Gary Arnold of Santa Cruz got his licks in first. And when the president told Arnold to "shut up" . . . well, that pretty much cooled things for Gupta, too. So she kept quiet.

A close call, Mr. President . . . very close.

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KEYWORDS: column

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ILLUST:
BYLINE:*HUGH*McDIARMID*
DATELINE:
MEMO: politics

ALL HAIL ST. IACOCCA, THE POLITICOS' CHOICE

It figures.

Lee Iacocca and Chrysler Corp. -- like mom and apple pie -- are now among the qualified deities of the 1982 campaign for governor of Michigan.

And oh, my, how the two principal candidates fawn over them . . . and at each other. Take last week, for example.

Jim Blanchard, the Democrat, told the audience during a gubernatorial debate in Grand Rapids on Monday that it was unfair of his Republican opponent, Dick Headlee, to cast him as

@3 HUGH & MCDIARMID & @D 82/9 TO 82/10

the errand boy of labor bosses.

He boasted of his success in Congress in 1979 in putting together a coalition of business and labor interests needed to win the Chrysler loan guarantees. And he named Iacocca, the Chrysler chairman, as among the big shooters from business who "support" his candidacy.

'I'm sick and tired . . . '

Headlee fired back after the debate.

"I'm sick and tired of (Blanchard's) running around saying he turned Chrysler around," he told reporters. "Lee Iacocca turned Chrysler around, and for Jim Blanchard to in any way diminish that doesn't make any sense at all."

Headlee also complained about Blanchard's claim of Iacocca "support."

"Mr. Iacocca's not supporting Blanchard in the race. Mr. Iacocca's neutral in the race," Headlee said.

Blanchard, in turn, said: "Of course, he (Iacocca) supports me. He's made commercials for me; he's raised money for me . . . He may be neutral in some official , corporate sense, but he's raised a lot of money and been a lot of help." (Actually Iacocca has not "made" commercials for Blanchard, but during the primary campaign he authorized the use of film clips in which he praised Blanchard.)

'Officially neutral'

Headlee, in turn, said: "Mr. Iacocca is officially neutral in the race. He has told us that . . . We have a letter (to that effect)," he said

Well, almost.

There is a three-paragraph public statement on the issue from Iacocca. It's dated Aug. 10 and says:

"Jim Blanchard provided leadership in the collective effort to secure congressional approval of the Chrysler loan guarantee act.

"I stand by statements I made then about his efforts and his capabilities. They are a matter of public record. My appreciation has not waned.

"However , I have not endorsed any candidate for governor nor do I expect to do so. The interests of Chrysler Corp. are paramount, and we must operate in a bipartisan fashion and recognize our friends in both parties .

Clear enough? Like mud.

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KEYWORDS:
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ILLUST: Pix
BYLINE:*HUGH*McDIARMID *
DATELINE:
MEMO: politics

HEADLEE HAS HIS POLLS, BUT NOT MUCH ELSE

Republican Dick Headlee trotted out his two pollsters Monday in Detroit and, with their blessings, claimed that big mo (momentum) was all in his favor in the waning days of the 1982 race for governor

Uh, Dick . . .

The claim apparently was based on private polls showing Headlee much closer to Democrat Jim Blanchard than is generally believed -- only about six points behind with 15 percent undecided, according to Headlee's people.

The Blanchard camp naturally has its own private polls with numbers showing a far wider gap (Blanchard by 16) and no Headlee momentum at all.

Besides his own poll figures, however, almost nothing seems to be going Headlee's way these days. Witness, for example:

* THE RUPPE FACTOR --- Word leaked out this week of further dissension between the Headlee campaign and the Phil Ruppe Senate campaign. Seems the Headlee people, already miffed at fellow Republican Ruppe for talking pointedly about differences between himself and Headlee on women and blacks , also are mad at Ruppe for cutting them out of fundraisers.

Republican sources say Headlee's people very much wanted a piece of the big George Bush fundraiser for Ruppe in Detroit Oct. 12 (as well as others scheduled next week) but were turned down flat.

The acrimony was such that GOP national committeewoman Ranny Riecker, who was helping Ruppe with the Bush dinner, had to warn the Headlee camp that if Headlee arrived late as he originally planned, he wouldn't even be introduced. (He was on time.)

For the record, Headlee said at a press conference Monday he doesn't believe there's any truth to reports that Ruppe is trying to put "distance" between their campaigns, but he took a swipe at Ruppe, saying: "There's already quite a bit of distance at the polls (a reference to polls showing Headlee doing better in his race than Ruppe in his).

\# "THE MILLIKEN FACTOR -- Gov. Milliken ~~was seated next~~ to Headlee at the Economic Club of Detroit luncheon Monday (the club -- not Milliken -- arranged the seating), and, afterwards, had this dialogue with reporters:

Question: Do you plan to vote for Dick Headlee?

Milliken: What do you think?

Question: I'm asking you. Do you

Milliken: I think the answer is quite obvious.

Question: Is that a yes?

Milliken: Goodbye, everybody (ducking into his limousine).

Headlee told reporters Monday that Milliken had made it clear to him that "the magnitude of the problems in this state" would preclude any heavy campaigning on Headlee's behalf. But Wednesday, Milliken spent much of the day campaigning in Detroit with Ruppe. And it is not lost on GOP insiders that Helen Milliken remains silent on support for Headlee, but has agreed to be honorary co-chairman of a Ruppe fundraiser next week.

\# UNDERDOG FACTOR -- Headlee's campaign commercials took on a sharper edge this week (some might say more negative), a tactic generally used by underdog candidates. One ad repeatedly criticized Blanchard as the tool of big labor bosses and big city bosses (and named Mayor Young as an example). Another implied that Blanchard's lieutenant governor running mate, Martha Griffiths, was anti-consumer because she is on the Consumers Power Co. board.

Headlee's own rhetoric also took a sharper, more personal edge, too. Several times this week, he accused Blanchard, who complained about Headlee's commercials, of "whimpering" (he labeled it "the whimper factor," an apparent takeoff on "the wimp factor" that has bedeviled Adlai Stevenson III, the Democratic gubernatorial candidate in Illinois).

He also accused Blanchard of having been "a professional student most of his life" and noted Tuesday that Blanchard had been a professional student "during the Vietnam war." Asked if he meant to imply that Blanchard's record was lacking because of an absence of military service, Headlee replied: "I wouldn't mind it if all the veterans found out."

That's momentum -- Headlee style.

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@3 HUGH & MCDIARMID & @D 82/9 TO 82/10

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ILLUST: Pix
BYLINE:*HUGH*MCDIARMID*
DATELINE:
MEMO: politics

HEADLEE STUMBLES OVER A 'NON-ISSUE'

What a mess.

Dick Headlee, the Republican candidate for governor, says the women's issue is a phony. He says his opponent, Democrat Jim Blanchard, raises it to divert attention from real issues, such as jobs and who can best lead the state. He says that "Elly Peterson (the former state GOP leader who is pro-Blanchard) and a few militants" have been unfairly dominating the headlines with it. He says the issue is a non-issue.

And then he dives in -- head first.

As L. Brooks Patterson, who is running for attorney general on Headlee's GOP Action Team, remarked informally Friday, Headlee comes up with "the damnedest thing I ever heard . . . It's like shooting your toes off."

What Headlee said was this:

''Those people that sponsor the ERA (Equal Rights Amendment) -- and it doesn't mention women anywhere in the ERA, it doesn't mention women's rights anywhere in it, it talks about sex -- they are proponents of lesbian marriage, homosexual marriage, things of that nature, which I categorically resist and categorically reject as part of a basis for a sound society."

Here's some chronology:

Tuesday, Oct. 19

Women's Assembly III -- a loose-knit, largely liberal but bipartisan group purporting to represent thousands of Michigan feminists (and boasting Helen Milliken as a co-chairwoman) -- releases its 1982 candidate ratings.

The ratings fall short of endorsements, and, because ERA and "choice" (on abortion) are paramount factors, the outcome is entirely predictable. Blanchard, who favors both, wins. Headlee, who favors neither, loses. Ho-hum.

But Headlee is asked about the Women's Assembly at a subsequent press conference. And he wakes everybody up.

"Never heard of 'em," he says tartly, and then he attacks

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the National Organization for Women (NOW), whose Michigan chapter is part of the Assembly.

"These people (NOW members) are tools of a liberal, Democratic element," he says. And he adds unflattering remarks about two of the national ERA's best known doyennes -- the GOP's Peterson and the Democrats' Martha Griffiths, who is running for lieutenant governor on Blanchard's ticket.

Wednesday , Oct. 20

In the evening, Headlee and Blanchard debate each other at the Detroit Press Club. The women's issue does not come up during the debate, but afterward, while talking to reporters, Headlee broaches it.

"This, tonight, didn't focus on the women's thing," he says. "But it seems I hardly wake up and pick up a newspaper until someone from the (press) is obsessed with the women's issue . . . They completely distort my track record with regard to equal rights for women . . .

"I thought it (the women's issue in the campaign) was so shallow that obviously I treated it with humor at first. That was my mistake . . . "

Thursday, Oct. 21

Early in the afternoon, Headlee phones 300-watt WMHW-FM at Central Michigan University in Mt. Pleasant to tape a radio interview.

The questions are asked by an 18-year-old freshman, Mike Maturen, and they're mostly routine, including this one: "You've been saying you do not oppose women's rights, yet at the same time you are opposed to the ERA . Could you clarify this?"

Uh-oh.

Rick Lepkowski, the station's news director and a Central Michigan senior, picks up the story:

"He thought he was talking to a buffoonish college radio station . He just was very careless . . . I was sitting in the production room with a friend (during the interview), and when Headlee said that (the ERA remarks), we looked at each other and said, 'Nah, he didn't say that, did he?' "

Lepkowski and Maturen play the tape of Headlee's ERA remarks for professor Jerry Henderson, the station's broadcast manager. Henderson suggests that they call the Associated Press. They do . . .

The rest is history.

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DATELINE:
MEMO: politics

MICHIGAN'S GOP: HOW SWEET IT ISN'T

"We are together."

-- Peter Secchia, Michigan's Republican national committeeman, responding via newsletter (9/2/82) to Democratic claims of a split in the state GOP.

Tom Brennan gave it to Bill Milliken last Friday . . . right between the eyes.

It was an astonishing and unexpected display of political animus, and it simply demolished the election-year myth about how sweet it is -- or shortly will be -- this year within the Michigan GOP.

Brennan, of course, is Dick Headlee's hand-picked candidate for lieutenant governor on the so-called GOP "Action Team." And what Brennan said, clearly, was what Dick Headlee and a lot of other Michigan conservatives feel . . . but have been either too cautious or too civil to say on their own.

Brennan, on Friday, was not civil.

He labeled Milliken "monarchial" and "ineffective" and characterized his administration as "overburdened with the barnacles of 14 years of hobnobbing with self-styled business and labor leaders."

He said that Milliken's office has been controlled by a "motley crew of union bosses, radical feminists and political hacks" and that Democrats, by nominating Jim Blanchard for governor, are seeking to emulate it.

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He said Milliken's 14-year tenure has been too long -- far too long -- and that citizens are "tired of oatmeal mush."

And much more.

The outburst, which came in Grand Rapids, provided further evidence of the election-year rancor between GOP moderates such as Milliken and GOP conservatives such as Headlee and, in this case, his teammate Brennan.

Rancor unreined

The rancor has been inflamed by Milliken's stubborn refusal to endorse Headlee, who was not Milliken's first choice for governor. Until last week, Milliken had straddddled the fence, saying he would "support the ticket" and refusing to be more specific. But on Thursday in Detroit, acknowledging that he'd already cast an absentee ballot, he pointedly refused to say for whom he had voted.

For Brennan, a 53-year-old former chief justice of the Michigan Supreme Court, this was the last straw.

"I have kept my mouth shut out of respect for him or his position, but this . . . this was it," he said by phone after release of his remarks.

"Here I am, a former chief justice running for lieutenant governor -- which I consider trench duty -- trying to help the ticket, and I think the least he (Milliken) could have done was swallow whatever pride he had and get in the game with us, but he didn't."

And, Brennan said, any reasonable person would have to infer that Milliken had voted "for the other guy."

He said it calmly and deliberately.

'It shocked me'

But GOP National Committeeman Peter Secchia, a Grand Rapids businessman who was present when Brennan spoke his piece to reporters earlier Friday, said Brennan was plenty worked up.

"It shocked me," Secchia said. "I heard him reading it, and, when he was done, I just went , 'wow!' I said to him, 'Don't you think it's a little strong?' And he said, 'I'm just tired of this bullshit.' He said he got furious when Milliken turned up down there with Coleman Young (in Detroit Thursday) and not saying who he'd voted for. He said that just drove him up the wall."

Secchia, asked whether the outburst would help or hurt the ticket, responded, "I dunno, I honestly don't .

Brennan said he didn't know either. But he said he wasn't about to take Milliken's indifference lying down.

"Nice guys don't win ball games," he said.

Except, of course, in 1970 and 1974 and 1978 and . . .

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KEYWORDS: statement; reaction; criticism; campaign; column; candidate
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BYLINE:*HUGH*McDIARMID*
DATELINE:
MEMO: election '82 / candidates and issues; politics

WHAT ISSUES? THIS CAMPAIGN BECAME A MORALITY PLAY

Incredible . . . but true.

The critical final days of the 1982 election, with a strong boost from Dick Headlee, appeared at times last week to have been reduced to a wacky morality play involving lesbians, homosexuals and, of all things, teenage sex.

Oh, sure, there were other, more cosmic issues being played out on TV ads and in frantic, 11th-hour electioneering -- the miserable state of the Michigan economy, the raging problem of auto imports, leadership qualities, etc. -- but those issues lacked passion and defied quick and easy answers.

So they were eclipsed in campaign rhetoric and in many news accounts by more temporal subjects that Headlee, the Republican candidate for governor, seemed especially anxious to explore.

IN FACT, Headlee, an enthusiastic 52-year-old businessman with a pietistic manner and a facile but unpredictable tongue, seems to have stolen an uncommonly large piece of this year's electoral show.

In notoriety, his campaign for governor has surpassed that of his Democratic opponent, Jim Blanchard, and reduced the contest for the U.S. Senate, which by all rights should have won equal billing, to somewhat of an afterthought.

Headlee may not be the most popular Michigan politician (indeed, most polls say he will lose Tuesday) but he is

@3 HUGH & MCDIARMID & @D 82/9 TO 82/10
undeniably lively -- and controversial.

In his primary campaign, Headlee made all sorts of waves, criticizing what he said were the excessive spending and taxing legacies of Gov. Milliken's 13 years in office and predicting that Milliken's chosen successor, Lt. Gov. Jim Brickley, would, if elected, become a Milliken clone. Headlee wrapped himself in free enterprise rhetoric, in scripture and in the willing embrace of ex-governor and fellow Mormon George Romney. In general, he thumbed his nose at big, bad Detroit and its black voters, ignored disaffected GOP moderates and courted the GOP right . . . And, in a noisy and exciting upset, he won the nomination.

IT WAS all most unorthodox.

After all, modern Republican history in Michigan was written by Bill Milliken, Detroit's good friend and a moderate's moderate, and, before that, by George Romney, who, in his earlier incarnation, was known to GOP regulars as an "urban populist."

But Headlee never waivered.

When Blanchard, who by then had destroyed his Democratic challengers and quietly but impressively united big labor and other elements of his party behind him, made reference in late summer to Headlee's "horse-and-buggy" social philosophy and to his presumed vulnerability on women's issues . . . well , Headlee accepted the challenge with gusto.

He wasn't anti-woman, he insisted, but he was anti-ERA and anti-choice on abortion, and proud of it.

And when Blanchard, a Unitarian, contrasted their religious styles, Headlee attacked his opponent's remarks as "anti-Christian."

And when a handful of liberal GOP women, led by former party bigwig Elly Peterson, took a walk and said Blanchard was their candidate, Headlee went into high gear.

It was that act -- plus unfavorable candidate ratings by Michigan's liberal but hardly radical Women's Assembly III (with Helen Milliken as co-chair) -- that led Headlee, during a radio interview 10 days ago, to denounce ERA sponsors as "proponents of lesbian marriage, homosexual marriage, things of that nature which I categorically resist and categorically reject as part of a basis for a sound society."

LAST WEEK, he said his remarks had been aimed not so much at the ERA as at Women's Assembly III, whose platform, he said, advocated not only homosexual and lesbian marriage but also "custodial and adoption rights for those marriages" and the right of government "to come into my family without my knowledge and counsel my children to use birth control devices, birth control pills and to have abortions without the parents' knowledge."

The harshest of these claims were distortions of Assembly III's positions, but Headlee and Romney and Tom Brennan, the GOP candidate for lieutenant governor, repeated them in separate appearances last Monday and Tuesday and then in unison at a Wednesday press conference in Detroit.

Romney called the issue "secondary" but carried on at length about it, referring to the women's platform as "shocking and disgusting."

Headlee called the issue "diversionary" and "ancillary" but said, "Frankly, we think it's responsible -- now that it has become an issue -- to develop it in depth."

And he did, even adding this twist: "The reason the women's issue has been so prominent is because so much money is spent on sex education and so little money is spent on economic education . . . "

AT THAT POINT, Headlee lamented the lack of campaign focus on what he said were the principal issues -- "Jobs, taxes and spending, and leadership."

"When you start talking about economic plans . . . it's chloroform on the electronic media and it doesn't sell newspapers," he said.

And then, barely pausing for breath, he added : "As I said before, if we would eliminate sex education and replace it with economic education, we'd have jobs in this state."

Blanchard, meanwhile, was keeping a low profile.

"I am not going to allow myself to be distracted by his (Headlee's) problems," he said.

The remark seemed unnecessarily cavalier from the person who raised the issue in the first place. But if, indeed, the whole issue of women's rights, including the stuff about gay marriage and teenage sex, turns out Tuesday to have hurt Headlee . . . well, it may have explained a critical difference between the two campaigns

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KEYWORDS: analysis
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@3 HUGH & MCDIARMID & @D 82/9 TO 82/10

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DATELINE:
MEMO: politics

ROMNEY'S FIERY TALK BRINGS UP MEMORIES

Republican Dick Headlee unleashed Michigan's aging but still hyperactive apocalypse, George Romney, on the 1982 campaign for governor again this week. And, at times, it was like riding down Memory Lane . . . on a fire truck.

Old George's principal target naturally was Democrat Jim Blanchard.

And he let him have it:

"Blanchard's program of job creation is deceptive and destructive . . . It's a phony . . . " "There's no way Blanchard can do what he has said he will do without a massive tax increase . . . " "The election of Jim Blanchard (as Michigan's governor) will serve notice on the investment community that Michigan's economic environment is going to be worse . . . " etc., etc.

But there was more, and some of it was mixed with nostalgia -- especially at a press conference Tuesday in Lansing For example:

An old ERA flap

Romney said the women's issue -- especially the ERA -- which has bedeviled Headlee in the 1982 campaign is "secondary," "diversionary" and "a political myth." And he said he'd been through one just like it in 1979 when he was appointed to a vacancy on the Wayne State University Board of Governors.

"I had my position misrepresented clear across the country," he said, referring to a rousing flap ignited by an interview in which he said the ERA crusade had attracted "the lesbians, the homosexuals and the moral perverts."

Civil rights believer

Romney said the Mormon issue (he and Headlee share active membership in the Church of Jesus Christ of Latter-Day Saints) bedeviled him when he first ran for governor in 1962.

"When I was a candidate for the governorship of this state . . . the big, overpowering issue socially was civil rights for blacks . . . People thought because I was a member of that faith I didn't believe in civil rights for blacks. Blacks then couldn't hold priesthood in my church, so people said, ipso facto, you're opposed to blacks."

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Romney volunteered some thoughts about Sen. Barry Goldwater, R-Ariz., who, when he ran for president in 1964, had been perceived as weak on civil rights by Romney and others.

"I believed (so much) in civil rights for blacks . . . I fought so hard against Goldwater in the Cow Palace (site of the 1964 Republican National Convention in San Francisco) that, as I rode down Pennsylvania Avenue in (President) Johnson's inaugural parade (in January 1965), that the little black children on both sides of Pennsylvania called out, 'Did you straighten Barry out, George?' . . . That's why I didn't endorse Barry Goldwater. I accepted him but I didn't endorse him."

A lot of old stuff

Romney raised the 1968 "brainwashing" issue as an example of political "myths" that bedevil candidates. The issue involved Romney's forthright but politically unorthodox admission that he had been "brainwashed" by generals on an earlier fact-finding trip to Vietnam -- an admission that led to Romney's undoing as a presidential candidate.

"We (Romney and his advisers) believed what Johnson and (Defense secretary) McNamara and (Secretary of State) Rusk and everyone else was telling us about Vietnam . . . and I was brave enough (after he changed his position) to call a spade a spade , and I've tried to do it all my life."

Anyway, Romney, who is 75 but still as tireless, tough and evangelistic as ever, spent three days this week barnstorming Michigan to praise Headlee, raise hell with Blanchard and lecture anyone who would listen on realpolitik -- according to George Romney.

A lot of it was old stuff. And some of it was . . . well, stretching a bit.

But it was great theater . And good politics.

And Headlee knew it.

He took note Wednesday in Detroit of the "phenomenal impact" that Romney's campaigning had on the primary election outcome. And he said he'll be counting on it again next week.

"Lemme tell you, George Romney fires me up," said Headlee.

Understandably.

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KEYWORDS: column

amendment) is bull----!"

The House broke up in laughter.

The amendment was rejected.

And Power was admonished by Speaker Pro Tem Matthew McNeely, D-Detroit, to clean up his act.

The House was still laughing as it voted to kill Runco's amendment.

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GOP'S MODERATES CAUSE A FAINT STIR

The corpse of "moderate" Republicanism winked in Lansing last Saturday, but just barely.

Still, it caused a stir.

The occasion was the Michigan Moderate Republican Conference, organized by a handful of party irregulars struggling to maintain the liberal (they would call it "progressive") GOP spark for the post-Reagan era -- probably 1988.

Not everyone approved.

For example, Chuck Yob, a party regular and GOP chairman in the 5th District, which includes Grand Rapids, most of Kent County etc., fired off a critical letter two weeks ago to Spencer Abraham, the state Republcian chairman, suggesting that the conference would prove counter-productive.

"I am real unhappy to even hear of the Michigan Moderate Republican Conference," Yob wrote. "All we need in the State of Michigan in the Republican Party are more and more fragmentations and parts of our party pulling away so that we can be sure to loose the governor's election the next go around."

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That wasn't the end of it.

GOP 'dogmatism'

Yob sent copies to other Republicans, including Jean Laug, an outspoken Ottawa County commissioner who helped organized the conference.

Laug wrote Yob back, noting that "dogmatism" by conservatives who have taken over the Michigan GOP has led to "an alarming number of moderates . . . quietly dropping their physical and financial support of the Michigan GOP."

"In my view," Laug wrote, "the center core of the GOP has always been the majority but has become the silent majority . . . "

That still didn't end it.

Peter Secchia, Michigan's GOP National Committeeman who had received copies of the Yob and Laug letters, sided with Yob and sent Laug's letter back to her with comments critical of moderates scribbled in the margins. He noted, for example, that "the financial support has been weak from the Millikens" and adding the cryptic equation: "Millikens = 0 $." And he wrote that "the nasty stuff, the bad comments have come mostly from moderates," singling out as examples Peter Fletcher, his predecessor as committeeman, and Maxine Swanson, former GOP chair in the 10th District who lost the office after endorsing Democrat Jim Blanchard for governor in 1982.

The conference itself -- which drew about 100 Republicans, including candidates, party functionaries and curious conservatives -- was comparatively free of such rancor, but many participants walked a fine line. Workshop leaders such as Helen Milliken complained about a national Republican agenda that includes school prayer but leaves out the equal rights amendment. And speakers such as U.S. Rep. Jim Leach, R-Iowa, made references to party leaders "who look for simplistic answers" and to "12-figure deficits that reflect neither compassion nor prudence."

No Reagan attack

But nobody beat up on Ronald Reagan by name or launched frontal attacks on the state party's new, conservative leadership.

Still, there were buttons like "I am a Republican woman and I want my party back." And in the hallways there was lots of sotto voce about how long the moderates would have to wait.

John Field Reichardt, a moderate from Grand Haven, summarized the feelings of many in the audience during his conference remarks, saying moderates who have been critical of conservatives for not supporting moderate candidates in the past, should not make the same mistake this year with respect to

Ronald Reagan.

"We have a president of the United States who some people in this room don't like very much," he said, "but we cannot stay out of the fray. We have got to stay behind the president this year."

Later in the hallway, he was more direct.

"Some people," he said, "may have to bite their tongues and vomit in their sleeves as they vote for Reagan."

But he said they should do it.

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GOP SENATOR STANDS HIS MIDDLE GROUND

State Sen. Paul Henry, R-Grand Rapids, who soon will be running for Congress, deserves a medal.

He was the keynote speaker Saturday in Lansing at something called the "Michigan Moderate Republican Conference."

The, ah, what?

That's right -- a conference of moderate Republicans.

Moderates, of course, are very much on the outs these days in the Michigan GOP, and their numbers and energies have dwindled to the point where, on Friday, the day before the conference, John Field Reichardt, one of its participants, confessed only half-humorously that "we're busy pulling people out from under rocks."

Attendance -- 100 or so at Long's Convention Center south of Lansing -- wasn't so bad, but it may have been misleading. That's because the audience was sprinkled with conservatives like Mark Koldys, chairman of the Michigan Conservative Union, and Paul Gadola, chairman of President Reagan's Michigan re-

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HERE'S ELLY AGAIN, FOR THE GOP WOMEN

Uh, oh.

Now comes the Michigan GOP's version of Typhoid Mary, a.k.a. the Republican Women's Task Force, planning a June 9 tribute to party matriarch Elly Peterson who, it will be recalled, endorsed Jim Blanchard for governor the last time out.

Party unity will be sorely tested.

The liberal Women's Task Force is scorned by GOP conservatives and has no formal party standing, and Peterson, who served as state GOP chairman (that's what they called her then) from 1965 to 1969, has been long retired from active party service. But Elly, who was known as "mother" to co-workers during her heyday, is venerated by Republican moderates, and the tribute dinner at MSU's Kellogg Center is sure to turn 'em out.

Already, for example, organizers have lined up Bill and Helen

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Milliken and Bob and Marge Griffin as honorary co-chairs for the evening, and Bill McLaughlin, who succeeded Elly as state chairman, will be the emcee.

And it's likely that other erstwhile party regulars who served with Elly -- Keith Molin, Bill Ballenger, Bob Teeter, Joyce Braithwaite, maybe even George and Lenore Romney etc. -- will show up, too, joining members of the task force's so-called network that includes, among others, Maxine Swanson, Margie Cook, Pat Short, Connie Murray-O'Neal and Peggy Frazier.

Uh, who are these network people?

GOP credentials

Well, for openers, they all have in common respectable credentials in and out of the party. For example:

Maxine Swanson of Alma heads the Republican Women's Task Force and the Grand Valley State College Board and is a former 10th Congressional District GOP chairwoman.

Margie Cook of East Lansing is a longtime party worker, now director of the Michigan Women's Commission.

Pat Short of Jackson is a teacher from Jackson and former chairwoman of the state GOP teachers' caucus.

Connie Murray-O'Neal is a former vice-chairwoman of the Ingham County Republican Party now serving as a Peace Corps executive in Africa.

Peggy Frazier of Marquette is a former Marquette County Republican chairwoman, former co-chairwoman of Milliken for Michigan in 1978 and chairwoman of the Ferris State College Board.

They also have something else in common.

On Oct. 5, 1982, they were among the Republican women who joined Elly Peterson in endorsing the Democratic candidate for governor, Jim Blanchard.

They did so publicly, showing up amid fanfare at a "Women for Blanchard-Griffiths Luncheon" in Detroit.

They offered all sorts of reasons for their defection, but the principal one was that, in their collective opinion, Dick Headlee, the Republican, was lousy on women's issues, especially the Equal Rights Amendment.

'Don't even smile'

Headlee, who knew the defections were coming, had attempted a pre-emptive strike or two, saying in September, for example, that "there are only nine women in the state who don't like me. They're members of the Republican Women's Task Force . . . These

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women are irrational . . . so obsessed with this that they've become hardened. They don't even smile. They're unhappy."

It didn't work. Headlee lost, and, arguably, it was because of defections by normally GOP women.

The loss, however, did not prevent the state party takeover by Headlee loyalists early in 1983. And in the ensuing 15 months, little has been done to diminish the rancor between the new leaders who remained loyal to the party and the group of the task force women, led by Elly Peterson, who did not.

Now comes Elly again, turning 70 on June 5 and, still with lots of GOP friends, returning for a tribute dinner at Michigan State University's Kellogg Center on June 9.

Tickets at $35 ($125 for patrons) will be available in May. Proceeds will be earmarked for the Republican Women's Task Force.

Spencer? Peter? John Engler? Dick Headlee?

Don't hold your breath, ladies.

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EX-GOVERNOR'S LEGEND NEEDS NO GARNISHING

Chase Salmon Osborn, governor of Michigan in 1911 and 1912, is one of those larger-than-life historical figures who prompt latter-day cliches about how "they don't make 'em like they used to."

Indeed, they probably don't.

Comparisons across decades, especially by amateur historians, can be treacherous, but some people -- like Osborn -- stand tall with or without embellishment from adoring friends and relatives or casual journalists.

Osborn lived to the ripe old age of 89, so, in a sense, he

Senator RIEGLE. So, roughly around May 1 then, you sent this letter off. Did you send it to some other papers too? Do you recall what other papers it would have been sent to?

Dr. SEGER. Yes. Again, I don't have the whole list. I sent it to different papers around the State. I know I hit the two Detroit ones.

Senator RIEGLE. The two Detroit papers and some sprinkling of other papers around the State?

Dr. SEGER. Yes.

Senator RIEGLE. So I guess what you decided to do, you wanted to state these views, and so you wrote the letter and you sent it to several papers simultaneously and some printed it and some have not?

Dr. SEGER. Right. There were several articles that ran back in, like, April, rehashing the 1983 election, and that's what triggered this whole thing.

Senator RIEGLE. OK. Well, I think for now we can leave that. I think we've discussed that, and now I want to go into some economic policy areas that are complicated ones, but I want to talk them out with you and get your views on the record and let you have a chance to discourse on them.

IMPACT OF DEFICITS ON INTEREST RATES

What do you see as the relationship between the deficits of the size that we now have and interest rates? In other words, what is the degree, in your mind, that deficits at the $185, the $200 billion level, in that range, what impact do they have in terms of interest rates, as you see it? Is there a connection? I mean, do you think there's a connection between the deficits and interest rates? And if so, what would that connection be, in your mind, when the deficits reach this kind of level?

Dr. SEGER. Two ways, basically. One is that when we engage in deficit spending, whatever the amount, it is stimulative to the economy, and so you have the impact on the aggregate demand in the economy, which presumably will drive the economy toward a more rapid rate of growth and that will often generate more credit demands. Just having the economy grow faster would be one way it would have influence.

In fact, there are three ways. The second way would be the connection between financing the deficits and interest rates which means, as I see it anyway, that the Government has to issue new securities in the amount of the deficit, whether they be T-bills, or notes, or bonds, and when that happens, then there is a direct market impact. You're just in the market for 1 month or 2 months issuing these new obligations, which does absorb dollars, and it does represent an increase in the overall demand for funds.

Thinking back to the capital markets course I just taught last semester, one of the things I pointed out to the students is that if you look at interest rates as prices of loanable funds, which to me is the easiest way to understand them, then any factor that contributes to increasing the demand for those funds will have the effect of putting upward pressure on interest rates.

Senator RIEGLE. Let me ask you this. In terms of deficits of this size and having now run as long as they have and sort of caused a spurt in growth in the economy, driving up the GNP, to what extent do you think there is now, in the sense an interest rate premium, that interest rates have risen, as a result of either or both of the factors that you mentioned? Are rates higher today because of the deficits, in your view? And if so, how much higher than what they might otherwise be?

Dr. SEGER. May I just mention the third factor that I think connects them, because I think it will tie into the question you just asked.

Senator RIEGLE. I understand.

Dr. SEGER. The third connection involves what I would call market psychology. The professionals on Wall Street and in some of the big banks have been very, very alert to the so-called deficit problem, and their reaction to the deficit has influenced their judgment of where interest rates are going in the future. It has influenced how they forecast interest rate movements in the future. In that way, there is sort of a feedback into current interest rate levels, because, again, if you expect certain things to happen in the future, you can sometimes, through anticipation, get those effects.

Senator RIEGLE. Right.

Dr. SEGER. Moved up to the immediate term.

Getting back to your second question then, in terms of tying the size of the deficit to rates or looking at how much higher rates are now, because of the deficits than they would have been, I honestly don't know an exact number. I have not seen an exact number. Again, there probably is some differential.

Senator RIEGLE. But you have been in the economics business and forecasting business a long time, and this is partly a judgmental matter.

Dr. SEGER. Oh, yes.

Senator RIEGLE. And different economists will differ on it, and so forth. But what would be your judgment? What's your intuition? What is your sense for it? What would you think in your mind is the interest rate premium that we may be paying today for the size of the deficits?

Dr. SEGER. As I said, I don't have a nice handy-dandy single number, but the combination of the deficit and the future inflation concerns, which might be tied to the deficit might add—I don't know—between 1 and 1½ percentage points, something like that. I underline that this is strictly a very, very rough guess.

Senator RIEGLE. Right.

Dr. SEGER. A rough estimate.

ECONOMIC DOWNTURN COULD RAISE DEFICIT

Senator RIEGLE. Now some people said if we don't solve the structural deficit problem, and if we stay at a deficit level that's in the $200 billion range, maybe $185 billion, in that range, suddenly we have an economic downturn, which no one wants, but the business cycle does tend to assert itself at certain points. And if we have an economic downturn, we might find that what would happen is that a new cyclical deficit will come piling in on top of the structural deficit, and maybe we would end up going from $185–$200 billion structural deficit, and suddenly we might have another $100 billion cyclical deficit added on to it, and then maybe a $300 billion deficit problem, rather than a $200 billion deficit problem.

And as I talk to people in the financial markets, this sort of falls in the expectation area to the point you made a minute ago, and people get very nervous about that, because they wonder whether the system can take it, manage it, what does it do to interest rates.

How would you evaluate the ability of the economy at this stage of the game, if those sequence of events were to happen, to manage and to tolerate a deficit that ballooned up to, say, $300 billion?

What do you think the consequences would be? And is that manageable, in your view, to handle that, if we had to?

Dr. SEGER. If I go back to the original points you made about the developments that would produce this—that is, slipping into a recession—typically, when the economy goes into a recession, the demands for credit by various parts of the private sector diminish. It could be consumer demands for installment credit; it could be demands for mortgage loans; it could be demands by corporations for short-term business loans; those kinds of things.

In a recession, or as you go into it and are into it, I would typically expect those kinds of demands to back off, because that has been the pattern in the past.

To some extent, using your numbers, which I think was to run up the deficit in about a 100 in round numbers——

Senator RIEGLE. Right.

Dr. SEGER. Probably some of that, $100 billion plus, would be offset by a diminishing of these demands in various parts of the private sector and maybe even State and local governments would back off.

It probably would not represent a net increase in the demand for funds of $100 billion. It would be something less than that. In terms of the impact that might have, we have not experienced this exact event. We're sort of sailing in uncharted waters.

Senator RIEGLE. Let's hope we don't.

Dr. SEGER. Yes. So I don't think any economist can say emphatically what the $300 billion deficit would do or would mean, because, as I said, none of us has really lived with it. We can speculate about it, but just looking at the impact on the demand for funds, as I said, I really think a part of that would be offset, another part probably would not be and would represent a net increase.

Senator RIEGLE. My time is up.

The CHAIRMAN. Your time is not up other than we have a vote.

Senator RIEGLE. I was just handed a little note.

The CHAIRMAN. Well, all I was saying was all your time is up temporarily. We got a vote.

Senator PROXMIRE. Could I question her until it's time to go?

The CHAIRMAN. Sure.

Senator RIEGLE. Before you do, may I just make one point. I will be very brief and say the reason I asked the question is that if the view is we shouldn't really test the outer bounds of $300 billion deficit, it would mean maybe we should take policy actions now to forestall that. If a person thought the $300 billion deficit was manageable—then a person might necessarily conclude that there wasn't much that had to be done right now to forestall it—and that's the point I want to get to when my chance comes back around.

Senator PROXMIRE. Dr. Seger, you are replacing Nancy Teeters as a Federal Reserve Board member. Dr. Teeters served, among other things, as the Feds expert on the Truth in Lending Act. How important do you regard the Truth in Lending Act as a matter of consumer protecting?

Dr. SEGER. May I just make a comment about Nancy Teeters, because she is a long time friend of mine. We both went to the University of Michigan. I was a couple of years behind her. She was a graduate student when I was finishing up my undergrad work. We both worked together at the Fed in the 1960's and she went on to other things in Government and I went on into banking. She has handled all these consumer issues and they probably will be assigned to me, assuming I get on the Board.

Truth in lending is one of those activities. I think that making sure that individuals who are applying for credit of any kind have information on which to make rational decisions is very important. I am told by some people who are making the loans—I have never been a loan officer; even though I had 10 year's banking experience, I wasn't making loans—that the specifics of the Truth-in-Lending Act, particularly the rules and regs, could be sorted out a little bit and made a little more clear, a little more simple, just to do the job better. But I do think that providing the information, getting the material to prospective borrowers, is very, very important.

The CHAIRMAN. Senator Proxmire, I've been trying to simply do that for years. We have failed so far.

STIPULATION OF SENATE RESOLUTION

Senator PROXMIRE. A few months ago the Senate passed a sense of the Senate resolution declaring that the next nominee—I guess it was a couple of years ago—OK, March of this year—a resolution that the next nominee of the Federal Reserve Board should be a person with substantial small business or agricultural experience. The author of that amendment, in introducing his amendment, emphasized the special and peculiar vulnerability of both small businessmen and farmers to high-interest rates. Both live and die on borrowed money. When interest rates rise thousands of small businessmen and farmers literally go through the wall and fail.

That resolution designed to commit the Senate to a small business or farmer nominee passed the Senate decisively after the last Federal Reserve Governor was approved. Frankly, I voted against it. But this committee is accountable to the Senate on this score. What experience have you had as a small business person or as a farmer?

Dr. SEGER. Starting with the farmer, first. I am not a farmer. My mother was born on a farm in Ohio. Our family homesteaded down there. My father's family owned a couple of farms in southeastern Michigan. He himself lived in town but he ran a dairy which is a farm-related activity. It's also a small business.

As I said, as for my own experience, I was born in a small town called Adrian.

Senator PROXMIRE. But you have no specific small business or farming experience yourself?

Dr. SEGER. That is what I said.

Senator PROXMIRE. You see, that's a problem because that was the decision of the Senate very recently.

Well, I see that's our 5-minute bell. So, we'll have to come back. I hope I can come back.

The CHAIRMAN. I would just say, I also opposed that on the floor, as you remember. However, this nomination process was well under way before that occurred. As a matter of fact, I stated on the floor that I had already blocked one nominee in the process for Nancy Teeter's position because of not complying with the geographical function of the law and so the Senate did pass a nonbinding sense of the Senate. But your name was already one of those being considered before that was passed.

Senator RIEGLE. Mr. Chairman, just as you are leaving I want to say the letter I took over the phone was transcribed over the phone earlier from Helen Milliken and Elly Peterson. It contained one mistake and one word was wrong down in the second paragraph on point No. 2, the word "adopted" was in that paragraph and the word should have been "recommended," rather than adopted. I have crossed it out, corrected the copy and I just wanted to make that statement now and as a matter of fact, let me also give one to you so you have it. it's not a major change, but nevertheless that change needs to be made.

The CHAIRMAN. The committee will recess long enough for us to go vote and then we will return.

[Recess.]

The CHAIRMAN. The committee will come to order. Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman. The number of the people that are visiting Washington and using the subway cars is just extraordinary, so getting back from the Capitol is not as simple as it may seem. Thanks for the patience of the chairman.

When we were discussing earlier, we were talking about the effect of a big increase in the deficit coming from a downturn in the business cycle and what happens if the interest—I should say if the deficit widened out to $300 billion, which is unprecedented. I would like to ask you a slightly different question about that, and that is rather than try to make an estimate as to what might happen to the interest rates under that condition, I think they probably will go higher and that's a very worrisome situation.

I'm wondering at what point you think deficits at the $200, $300, $400, and $500 billion level start to take us over the edge in terms of areas that we should not test and should not go beyond. What do you set as sort of the outer bound in your own mind? I realize this is an impression, but it is an important impression because you have been in this business a long time and I'd be interested in knowing how you see that?

Dr. SEGER. As you said, I have been in this business a long time but I remember when a $50 billion deficit was a big one, so our reference points change. There probably is some outer limit. I really don't know what the exact number is. Obviously if you can cut off at a $300 maximum, it's better than $400 for the economy, and $400 would be less troublesome than $500. I can go through all that, but in terms of the exact point at which chaos takes place——

Senator RIEGLE. Where do you start to get very nervous as an economist?

Dr. SEGER. Getting back to my three points about the impact, I guess what has made me very nervous is to see how magic the $200 billion was. The deficit has been growing for some time, certainly. I think in my working career we have had about 2 years in which there were surpluses—I believe 1960 and 1969 are the two—and so obviously these deficits are not new. But what seemed to be newsworthy to the Time magazines of this world was the $200 billion mark, and that seems to have triggered a lot of concern on the part of other people. Once it becomes newsworthy in the general press rather than in just the Wall Street Journal or the Journal of Finance whatever, it triggers a lot of concern.

$200 BILLION DEFICIT STARTING TREMORS

In a way, we have made this $200 billion mark a very critical point and it certainly, as I said earlier, has sent tremors through Wall Street.

Senator RIEGLE. Are you nervous about it then, as you factor in all of those things, including how the market does? This leads you to the conclusion then that you're nervous about it, that you become very uneasy about a $200 billion deficit?

Dr. SEGER. As I thought I said earlier, I would rather have smaller than bigger deficits.

Senator RIEGLE. Everyone would, but the question we are trying to get to is of a more qualitative measure. In other words, when they get to the point where they are now, is this something that really alarms you? Are you really concerned and worried about deficits at this level? I mean, what sense of urgency do you attach to doing something about deficits that are this size?

Dr. SEGER. It's alarming me in a sort of a one-stage-removed phase. Because I have a lot of friends who are in the big New York banks or working for U.S. Government securities dealers, when I see their concern then that makes me concerned, as I said, sort of one-step away, because I know the impact that their concern can have on the financial markets simply because they advise people and control a lot of dollars.

I can just sit back as a private citizen or teacher in a small school and be concerned, and yet it's not going to rattle and shake the financial market. But when they find the current level—and also, I think we discussed this in your office, more importantly what they see as extrapolated numbers going out to 3, 4, or 5 years—I think it's a combination of the current number and what they see as sort of a steadily upward creep unless something is done that causes their concern. That's what makes me concerned: I see their concern and I know what they are able to do.

Senator RIEGLE. So, let me make sure I understand you correctly. You are saying that as you talk to people in the financial markets in Wall Street that are in the center of this thing and they express

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their sense of alarm, their great anxiety about deficits at this level and projected deficits, that causes you now to hold the same view that you are alarmed and that you are nervous about these things because other people whose opinions you respect may have come to be alarmed. Is that a fair summary?

Dr. SEGER. It's not strictly a matter of respecting their opinions, although as I said, I have known many of these people for a long time and do respect them as professionals, but it's more a matter of knowing the impact that their views have. They put out these letters, they hold meetings with major institutional investors. Their employers are often big investors themselves. I don't have the clout to make a number important, but I think they do, and if they do, then obviously, it's a significant level.

Senator RIEGLE. Yes, but I think I hear a nuance here. I think I hear you saying that it becomes important and it is a problem because they think it's a problem. I hear you saying that, you know, deep inside in your heart of hearts are not necessarily convinced in the first instance that it is that big a problem, although if they think it is and they do things in response to that it may be like a self-fulfilling prophecy. I hear you saying by omission or by the way you are phrasing it that you are not necessarily convinced yourself that the deficit at this level should alarm them.

Dr. SEGER. No, no, no.

Senator RIEGLE. That's what I want to draw out.

Dr. SEGER. I thought what we were talking about is a critical point; how high can they go?

Senator RIEGLE. Well, we left that and now we are coming back to the current level, the $200 billion level, and so forth.

Dr. SEGER. What I'm saying is that I think deficits do have impacts in several ways; that I personally don't know, based on my own analysis what size deficit we can live with today, whether it's $190, or $195, or $200 billion, or what. Based on the communications I have—personal conversations—there is so much concern among these professional advisers, the major investors, that based on their assessments, there is a problem. They can make it a problem. I'm not saying it's not a problem.

Senator RIEGLE. But have they convinced you, and are you now convinced that it is a major problem and deficit reduction is a critical item?

SUPPORT DEFICIT REDUCTION

Dr. SEGER. I have supported deficit reduction right along.

Senator RIEGLE. Where do you think we have to take it down to, roughly to where? What do you think is the path we should be shooting for or setting for ourselves in terms of deficit reduction?

Dr. SEGER. I don't have any nice, neat, exact numbers. But I think what would register with the folks I am telling you are so influential, what would impress them, would be an effort to reduce the deficit and one that didn't just involve a particular year, but rather one that seemed to address it as a long-range problem, that said, "OK, we're going to get this thing on the right track out here someplace." We have been worried about the deficit soaring this way from where we are now, and it's going to be worse. They would like to say, "OK, here we are now, and we, based on what we hear from Congress and the White House, we think that instead of that, we're going to see a consistent, persistent effort to take these down" I'm not saying that overnight you can go from a lot of red ink to black ink; they don't expect that.

Senator RIEGLE. But what can the Fed do to help lower the deficits, in your view?

Dr. SEGER. Obviously, they don't have direct control over deficits. The Congress does.

Senator RIEGLE. Do you see anything at all the Fed can do constructively to help get the deficit down? Any ideas you have in mind for that?

Dr. SEGER. Tying the Fed into my group on Wall Street, to the extent, let's say, that Congress got something started, it would convince them that we were heading in the right direction, narrowing the deficit, ultimately making an effect on the budget. To the extent that Wall Street believed that that was really going to happen—and I think they can be convinced, by the way—to the extent that that happened, then the expectation would change, and I think that in and of itself would have a favorable impact on interest rates.

Senator RIEGLE. Is there anything the Fed can do along that line here?

Dr. SEGER. To the extent that those people acted that way, that they also tied it into a less terrible inflation problem in the future, then I think this might give the Fed some more latitude to also back off a bit on their monetary restraints, and the combination of Fed action and the conviction of my friends in Wall Street would have a favorable impact on interest rates.

Obviously, the direct way the Fed impacts the budget is that, to the extent that they influence interest rates, as long as we have got the debt outstanding of $1.5 trillion, if you can finance that at 1 percentage point below where it's now being financed, that's a big number per year.

Senator RIEGLE. It sure is. I will try to come back to that. My time is up.

Dr. SEGER. I didn't mean to go on so long.

Senator RIEGLE. No, no; it is complicated, and I don't want you to feel hurried. I wanted to take it on through to its conclusion.

Dr. SEGER. OK.

Senator SASSER. Thank you, Mr. Chairman.

Dr. Seger, as you know, the Federal Open Market Committee [FOMC] directives are now kept secret from the Congress and from the public until the adoption of a subsequent directive. That is what current practice dictates.

Generally, do you agree with that policy of the Open Market Committee's directives being kept secret from the Congress and from the public?

Dr. SEGER. I know that the policy has been to withhold the release of the minutes of one meeting until a couple of days after the next Open Market Committee meeting and then release them. It takes a little while just to get the minutes put together and get them released, but let's say they're announced the next day or 2 days after a meeting, there is concern that just having, bang, an announcement of change, might be destabilizing in the market.

We haven't done this, so I guess we can't prove it would or wouldn't be, but that is a concern.

Another concern is that the people I was just referring to in talking with Senator Riegle, the very influential Wall Street economists who advise major banks and major Government bondholders in New York, even if we announced or released these way earlier than we now do, would probably still try to predict what had gone on that day, even though they knew the minutes were going to come out, because they want to get a jump on everybody else for purposes of positioning their own securities. This is the way some of these people make money, by getting ahead of the pack. It wouldn't give a great advantage to the typical Tom, Dick, or Harry that some of the professional Fedwatchers might have.

Senator SASSER. In other words, what you are saying is the professional Fedwatchers now have the advantage by virtue of their being able to interpret events and what happens, and if the open market directives were made public, then the general public could take advantage of what might be coming in the way of monetary policy—those who didn't have the expertise to sort out intuitively what was coming?

Dr. SEGER. I was saying the pros would still try to get a jump. I mean it would be an advantage to the others, that's true. But I am saying the pros, the very shrewd Fedwatchers, would still try to get a jump by not waiting for the report to come out, but rather trying to speculate about what the Fed was doing and what was going to be in the report when it came out tomorrow or the next day.

Senator SASSER. But they would just be speculating. They would have no objective evidence on which to act?

Dr. SEGER. Right.

Senator SASSER. And as many say, given the present circumstances, the very skilled Fedwatchers can read signals that John Q. Public out there could not read as to what is going to occur with monetary policy, money supply, et cetera.

In general, do you believe that the Federal Reserve should adopt a policy of advising Congress of major changes in the direction of monetary policy as they occur and when they occur, in a timely fashion?

Dr. SEGER. Are you still talking about the FOMC, or do you mean more appearances such as Chairman Volcker makes?

CONGRESS' NEED TO BE ADVISED BY FED POLICY

Senator SASSER. I want to know—it's usually in the Federal Open Market Committee meetings that many of these policies are discussed and decisions are taken. And my question to you is: Should Congress be advised if there are major changes in the direction of monetary policy? You know, we talk to the Chairman, Mr. Volcker, quite often up here, and sometimes it's very difficult to find out precisely what direction he intends to go, from our questions and his statements.

Do you think it would be useful if Congress were advised of major changes in the direction of monetary policy when and as they occur? For example, do you think in the spring of 1981, when we embarked on very substantial tightening of the monetary policy, do you think Congress should have been advised of that at that time? Would that have been helpful? Should it have been done?

Dr. SEGER. I would have to go back and see what he actually told you in that February presentation that he always makes under Humphrey-Hawkins. To be honest, I have not reviewed that back to 1981.

Senator SASSER. Well, do you have an opinion as to whether or not it would be a good policy for the Fed to advise Congress if there are major changes in the direction of monetary policy coming up, to advise Congress in a timely fashion?

Dr. SEGER. On an ongoing basis you mean, not scoop you over the market, but simply give you the more needed information in the same way we're talking about getting the information out sooner or closer to the date of FOMC meeting? Or are you saying you would like to be clued in in advance, 2 weeks before?

Senator SASSER. No; what I am talking about is, if a determination is made that the Federal Reserve is going to make a substantial or a major change in the direction of monetary policy, do you think it's advisable for the Congress to be advised in a timely fashion about that change in direction of monetary policy?

Dr. SEGER. I think it's very important to have this communication between the Congress and the Fed right along. As I said, I supported the move under Humphrey-Hawkins to have the Chairman come up and present, in general terms, what they plan for monetary growth in the year ahead and then, in July, to review what they told you back in February and give you any revised targets, plus a tentative monetary growth target for the coming year.

I support dealing honestly with you, frankly, with you, putting the cards on the table.

If the issue is that you would also like more interim kinds of communiques so that you would be more current on what the Fed is doing, particularly any 45-degree changes or something like that, I have not thought about it particularly, but maybe it's something that could be worked on.

Senator SASSER. Well, you do understand, Dr. Seger, that Congress established the Federal Reserve to be independent of the executive branch and to act as really a creature of Congress. And as a member of the Federal Reserve Board of Governors, would you agree to be guided by the general policy mandates that may be laid down from time to time? I won't say "will be laid down," but may be laid down from time to time by the Congress?

Dr. SEGER. I don't know what you mean by "general policy mandates." You mean——

Senator SASSER. Well, we occasionally pass resolutions here in the Congress dealing with monetary policy. There were some resolutions that were passed in 1981 and 1982, as I recall, and the Congress reacting at that time to the very severe economic conditions around the country. And the relationship between the Congress and the Federal Reserve Board of Governors deteriorated to the point that there were serious conversations about restructuring the entire Federal Reserve Act here.

Dr. SEGER. Yes.

Senator SASSER. And there was developing a bipartisan approach to that. And that was a result of the fact that the Fed did not appear to be responding to the general policy mandates that were emanating from the legislative branch of Government.

And my question to you is, Would you be guided by general policy mandates that might be laid down from time to time by the Congress?

For example, if the Congress should pass a resolution mandating a coordination between fiscal policy and monetary policy, and mandate that they no longer act at cross purposes to each other, Would you feel obliged to be guided by that general policy mandate on the Board of Governors, acting in your official capacity on the Board of Governors?

Dr. SEGER. I will certainly pay attention to what you have said. I didn't understand you to mean—and this is why I asked the question clarified a little bit—sending a directive up saying; "By the way, we think the M1 growth target for 1984 shouldn't range from 4 to 8 percent but it should be from 5 to 9.5," just pulling numbers out of a hat. I didn't know you were talking about what I consider to be very specific ways in which monetary policy is carried out.

You have answered by saying you are talking about more general kinds of directives and more general concerns.

Senator SASSER. Very broad mandates. Do you understand really, Dr. Seger, what it is for the Fed to be a creature of Congress?

Dr. SEGER. Certainly.

Senator SASSER. It was created by this——

Dr. SEGER. Congress passed a law in 1913.

Senator SASSER. By this legislative body here. And in your judgment, could you form your own opinions and judgments on the execution of monetary policy independent of any influence, political or otherwise, from the administration?

Dr. SEGER. Yes, I certainly could.

Senator SASSER. Well, my time is up, they tell me.

HOW NOMINATION CAME ABOUT

Senator SARBANES. Dr. Seger, I'm interested in how these nominations come about. In your instance, I would be interested to know how the possibility of going on the Federal Reserve Board first arose.

Dr. SEGER. I can't remember whether you were sitting in here when I mentioned a little bit of this or not. While I was a regulator in the State of Michigan in 1981 and 1982, I regulated commercial banks, savings and loans, credit unions, and small loan companies. In late 1982, as I was leaving, the Michigan savings and loans said that they felt I had done a very effective job dealing with them, that I was very evenhanded and I worked hard to help them solve their problems.

Senator SARBANES. This is the Home Loan Bank Board; right? Nothing ever came of that, as I recall your testimony.

Dr. SEGER. That's right. Believe it or not, that's what triggered this; that's how they got my name down here. I came down and I was interviewed several times for that job. So I'm just saying——

Senator SARBANES. For the Home Loan Bank Board?

Dr. SEGER. Right.

Senator SARBANES. Nothing came of that, and you then took the appointment at Central Michigan; right?

Dr. SEGER. Right.

Senator SARBANES. That was in August 1983?

Dr. SEGER. Right. I'm saying that's how they got my name down here in Washington.

Senator SARBANES. To start with.

Dr. SEGER. That's right. And then late last year, some economists—you know I am an economist—some colleagues of mine were down in Washingon at a meeting and apparently they were told that Nancy Teeters' seat on the Board was going to be opening up. They were asked if they knew any names of potential people to fill her seat, and were told that the White House was interested in getting some names. I know of at least one person who then threw my name in the hopper for the Federal Reserve Board.

Senator SARBANES. Did you know this at the time?

Dr. SEGER. A friend called me somewhat later; I don't know, perhaps in late November, around Thanksgiving, I would say, and said that he had been there and he hoped it was OK that he dropped my name in the hat for this.

And I said, "Well, I'm not holding my breath. I'm teaching, I enjoy teaching, but OK," and that was that.

Then I went on my vacation in December and when I got back in January I was called by the White House Personnel Office which I had dealt with in connection with the Home Loan Bank Board; they wanted to talk to me. And that's how it came about.

Senator SARBANES. Who was it that wanted to talk to you?

Dr. SEGER. The White House Personnel Office.

Senator SARBANES. I mean——

Dr. SEGER. Do you mean the name George Armstrong?

Senator SARBANES. Yes. He wanted you to come to Washington to discuss the possibility of going on the Federal Reserve; is that right?

Dr. SEGER. Yes.

Senator SARBANES. How did it follow from there? Did you discuss it with other people in the White House?

Dr. SEGER. I was interviewed by several people in the Personnel Office, in their setup.

Senator SARBANES. Do you recall who that was?

Dr. SEGER. There was a woman who works for George Armstrong, and then there was a woman named Becky Dunlop, I think. None of these are pals of mine. I'm just trying to——

Senator SARBANES. Then what happened?

Dr. SEGER. Eventually I talked to John Harrington, who heads the White House Personnel Office.

Senator SARBANES. All on the same trip?

INTERVIEWED AT THE TREASURY

Dr. SEGER. No; I think that was on two different trips. Then I was asked if I could come down sometime to be interviewed by a couple of people in the Treasury.

Senator SARBANES. Interviewed by whom?

Dr. SEGER. A couple of people in the Treasury. Tim McNamar and Secretary Regan.

Senator SARBANES. I see. You were interviewed by Secretary Regan?

Dr. SEGER. Yes.

Senator SARBANES. Aha!

Dr. SEGER. You're asking for the facts.

Senator SARBANES. Yes. Indeed, I am asking for the facts, yes.

When were you interviewed by Secretary Regan?

Dr. SEGER. I don't have my calendar with me. I don't know the exact date, but it was sometime in February.

Senator SARBANES. Sometime in February? And by McNamar at the same time?

Dr. SEGER. Yes, sir.

Senator SARBANES. Together or separately?

Dr. SEGER. No, I went in to see McNamar and then——

Senator SARBANES. He took you over to see Regan?

Dr. SEGER. Yes, sir.

Senator SARBANES. How long did you and Secretary Regan meet?

Dr. SEGER. I guess I don't have the kind of mind that keeps all these details. I spoke with him for a few minutes.

Senator SARBANES. Half an hour? An hour?

Dr. SEGER. Oh, less than 1 hour.

Senator SARBANES. More like a half hour?

Dr. SEGER. A few minutes.

Senator SARBANES. Did he indicate to you at the time, that you were the nominee to go on the Fed?

Dr. SEGER. No, he didn't. I was one of a couple of the so-called finalists. I didn't know who the others were. Also I mentioned when I talked about teaching at the University of Michigan, that the one I subbed for was Professor McCracken, who used to head the Council of Economic Advisers here. So he had recommended me to the President and to Secretary Regan, so he had heard about me through McCracken, but he had not met me before.

Senator SARBANES. So the White House personnel people talked with you first, and they then arranged for you to go and met with the Secretary of the Treasury?

Dr. SEGER. Yes.

Senator SARBANES. And then what happened?

Dr. SEGER. Then, on another trip, I was asked to meet with Preston Martin, which I have already mentioned.

Senator SARBANES. That was subsequent; is that correct?

Dr. SEGER. Yes.

Senator SARBANES. And the White House personnel people asked you to do that?

Dr. SEGER. Yes, sir.

Senator SARBANES. And then what happened?

Dr. SEGER. Then I was back at teaching, and I think it was—again, I don't have a calendar here—something like March 1. I was teaching a night course, and I looked up at the door, and the Dean of the Business School was standing in the doorway of the class, and he said, "the New York Times is trying to reach you." And I said, "what are they trying to reach some person up in Central

Michigan for?" And he said, "Well, the word leaked that you're going to be President Reagan's choice for the Federal Reserve Board."

Senator SARBANES. Did he indicate to you when you met, that you ought to go on the Federal Reserve Board?

Dr. SEGER. Did he say what?

Senator SARBANES. Did Martin indicate to you when he met you, that he thought you ought to go on the Federal Reserve Board?

Dr. SEGER. He was exploring my views on things, my background. It was like a job interview in corporate America where they talk about what the job is, whether or not you would fit in, what you like to do. It was an exchange of that sort. He didn't twist my arm. That isn't how I got my broken arm.

Senator SARBANES. Did Regan or McNamar explore the same questions?

Dr. SEGER. Yes.

Senator SARBANES. What your views were, what position you would take?

Dr. SEGER. No, that's not what I'm talking about. I'm talking about my occupational views and what I wanted to do, and more general things, not whether or not I think M1 is growing too fast or too slow. It was more general things: What do you like to do, do you think this type of assignment would appeal to you? I have been to a lot of job interviews in banking and business, and it was comparable to that.

Senator SARBANES. Did they discuss with you any of your views about policy and economic matters? Any of the sorts of questions that have been addressed to you here today?

Dr. SEGER. We were mainly discussing the business recovery. Again, because they knew I came from the Midwest, that had its major problems with the recession. We were talking about recovery, and how it was benefiting those of us out in that area. It was more in that tenor.

Senator SARBANES. Now about this letter, the subject of the questioning this morning that appeared in the newspaper—I didn't quite get the distinction you made, because while they published it as an article, I take it you would have had no objection had they published it as a letter over your name.

Dr. SEGER. As I say, it should have been handled as a straight something in as a letter to the editor and having it appear as a signed column, which is the way this was presented. It makes me wonder about their motivation. They put a picture in——

Senator SARBANES. If they had published it as a letter with your name at the bottom of it, you would have had no problem?

Dr. SEGER. As I say, it should have heen handled as a straight letter to the editor, because that's what it was.

Senator SARBANES. It was a statement of your views, though, and continues to be a statement of your views?

The stenographer is not going to be able to get a nodding of the head.

Dr. SEGER. Yes.

Senator SARBANES. Now, when did you send that letter to the papers?

Dr. SEGER. Sometime the first week in May.

Senator SARBANES. The first week in May? And you knew the first week in March, I take it, that you were going to be nominated to go on the Federal Reserve Board?

Dr. SEGER. I was told that I was—I'm trying to think of the term—a prospective nominee for the Federal Reserve Board.

Senator SARBANES. When did they start asking for your papers, and so forth? The White House personnel people?

Dr. SEGER. A couple of weeks into March.

Senator SARBANES. A couple of weeks into March?

Dr. SEGER. Yes.

Senator SARBANES. For this nomination?

Dr. SEGER. Yes.

DELICATE TIMING OF LETTER

Senator SARBANES. Do you think, as a member of the Federal Reserve Board—let me just go down the road a little bit—do you think that as a member of the Federal Reserve you ought to engage in the kind of polemics in the letter that was the subject of discussion this morning?

Dr. SEGER. I was not a member of the Federal Reserve Board.

Senator SARBANES. No. No. I understand that.

Dr. SEGER. I was a private citizen.

Senator SARBANES. I'll get back to that in a minute.

As a member of the Federal Reserve, as a hypothetical question.

Dr. SEGER. If I were a member, no, I wouldn't have been sending letters to the editor.

Senator SARBANES. Why not?

Dr. SEGER. Because I think it is different when you're a private citizen, which I was and still am, than when you have an official capacity.

Senator SARBANES. What is the difference?

Dr. SEGER. The big difference is, we don't have censorship in this country, and I think as an individual citizen, sending letters to the editor of a paper is satisfactory.

Senator SARBANES. Assuming I agree with that, why shouldn't that continue to apply after you go on the Board?

Dr. SEGER. Once you are identified as a member of the Board, then I wouldn't want people to think. "Well, she's speaking for the Board," because I don't think that would be the proper conclusion to draw.

Senator SARBANES. No one would think you're speaking for the Board. Why wouldn't they think you're speaking for the university when you sent this letter?

Dr. SEGER. I think people at universities traditionally have had a lot of freedom to express themselves. That's why a lot of people teach.

Senator SARBANES. So you think that as a member of the Board, you should not send letters of this sort?

Dr. SEGER. That's what I indicated.

Senator SARBANES. Do you think members of the Board ought to involve themselves in political matters, speak out politically?

Dr. SEGER. No, I would say it is a nonpartisan job, and you ought to behave in a nonpartisan way, which I would, if and when I put a different hat on.

Senator SARBANES. Why wouldn't that apply to you as a nominee to the Board? If this letter had been sent, say, on January 1 or on December 1, then I think the question pertaining to it would have been of the sort that Senator Riegle raised this morning. But at the time you sent this letter you were, for all intents and purposes, going to be the nominee to the Federal Reserve Board?

Dr. SEGER. That's not the way it was explained to me. They said I wouldn't be the nominee until the President formally sent my papers to the Senate. That's the way it was explained to me.

Senator SARBANES. But you were not only under consideration, you were the one they were preparing to nominate.

The CHAIRMAN. Senator, if you would yield? At that time there were three different names, including hers, that had been sent up to me as prospective nominees.

Senator SARBANES. Mr. Chairman, she knew she was in the running and I think if her reasoning on the need for a Board member to be objective and nonpartisan and not to engage in political activities has any validity of the Board, it also has some validity at the very time that she is one of the leading candidates to be a member of the Board. I'm trying to get this nominee's judgment with respect to engaging in this kind of polemics.

The CHAIRMAN. Senator, I was only making the distinction between—you asked the question if she was a nominee and knew she was a nominee, and all I was saying, if you want to further stretch it, indicate that, as a potential nominee she should not, but that's your choice to make. All I'm saying is that at the time, as chairman of this committee, and being advised by the White House personnel, after I had personally rejected two potential nominees as unacceptable for geographical reasons, they sent me a list of three names, all of whom they were checking on and she was in a round of three but she was not the nominee at that point. That came sometime later.

I don't remember exactly when but when I got the notification that they had sorted the three, it was sometime in May. So you can make that distinction and I appreciate your yielding, but she was a potential Federal Reserve Board nominee at that time but certainly not a nominee in March.

Senator SARBANES. Well, what sensitivities do you think a potential nominee ought to reflect? None on the line of answers I've been getting to my questions; is that correct?

Dr. SEGER. As I said, maybe it's because of being on a college campus, but I guess I didn't feel that it was inappropriate for an individual to talk about the campaign of 1982, which was ancient history. I wasn't getting involved in anything in 1984; I was commenting on a past campaign, one in which I supported the Republican candidate for Governor; I was looking back over my shoulder.

The letter was prompted by a couple of articles that ran in the newspapers in April that rehashed the 1982 campaign. I guess I didn't think that, as a college professor, I had a muzzle on me.

Senator SARBANES. But you do think as a member of the Board you would have a muzzle on you; is that correct?

NEED TO BE SENSITIVE OF POSITION

Dr. SEGER. I would not use that word "muzzle," but I think you have to be sensitive to speaking out when it might be made to look as if you were speaking out for the whole Board.

Senator SARBANES. But you don't think you have to be sensitive to that when you are clearly one of the leading candidates to go on the Board?

Dr. SEGER. I didn't feel——

Senator SARBANES. I'm trying to get some sense of your judgment. I in fact am very much in favor of people participating politically, wherever they participate on the spectrum. I think too many people just stay out of the political process. In that sense I have no difficulty with a lot of your political involvement that took place earlier in your career, and I gather that has been fairly extensive and fairly intense; is that correct?

Dr. SEGER. I have done some.

Senator SARBANES. All right. Well, my question is a matter of judgment. Now, as a matter of judgment you recognize that if you are on the Board you ought not to be engaged in this kind of political polemic. At least that's how I understood your answer—you said because, as a member of the Board, you felt that you would need to be seen as being objective and nonpartisan, concerned with the substance of the issue and not with the political matters; is that correct? The difficulty I have is your failure to recognize that the same kind of reasoning would apply to that period subsequent when it was already clear that you were a leading candidate to go on the Board. In your mind I think you anticipated you were going to be the nominee; did you not?

Dr. SEGER. I knew I had to have all the various checks done on me.

Senator SARBANES. Security checks?

Dr. SEGER. I knew I was the nominee on May 31, when the White House called me that morning and asked me to come to Washington, because the President wanted to announce it.

Senator SARBANES. Did you have any apprehension you wouldn't clear the security check?

Dr. SEGER. Not particularly.

Senator SARBANES. And were you familiar with the various articles that appeared in the press, not only in your own State but across the country, you know, the American Banker, the Bond Buyer, Financial Times, and so forth? In fact, the American Banker says you agreed to accept the post after your meeting with the Treasury Secretary Donald Regan.

I gather from the questions——

Dr. SEGER. I don't know where they got that. Not from me.

Senator SARBANES. I gather from the question you don't regard that as accurate. But you are familiar with those articles that were suggesting that you were the person who was going to be the nominee. Was that the purpose of the New York Times call that you mentioned to us?

Dr. SEGER. As I said, it never reached me. It was 10 at night and, as I said, he talked to the dean and the dean said that he got word, or the word leaked in Washington that I was going to be the one. I did not talk to the fellow myself.

Senator SARBANES. Upon reflection here today, do you think it was ill-advised to engage in this kind of politcal polemic at a time when you were under very serious consideration to go on the Board of the Federal Reserve?

Dr. SEGER. I guess I didn't associate it directly with this because it just seemed to me, as I said, to be a historical thing.

Senator SARBANES. That's you explanation of your thinking then. I'm inquiring as to your thinking now, whether you continue to feel the same way or whether upon reflection you feel——

Dr. SEGER. Now that I see your reaction, I guess if you can live life over, obviously you make some changes, but——

Senator SARBANES. I wouldn't want you to change your view just because of my reaction. If you are going to change your view it ought to be because of a deepening of your own perception about the appearances that are involved, and the recognition that the questions which would arise, if in fact you were on the Board, would also apply in that period leading up to your nomination.

My own assertion would be that you were the leading contender and, for all intents and purposes, the nominee. Now the chairman says he had a list of three, but I would apply the same reasoning to any one on the list of three. So it's not only you. Even if you assume a list of three, I don't think any of the three during that period of time should have been engaging in activities which they recognize they ought not to be engaging in if they were on the Board.

I take it you don't perceive that here today.

Dr. SEGER. As I said, obviously if you allowed me to do it over, knowing what the reaction is, I wouldn't have said it.

Senator SARBANES. My time has expired on this round, Mr. Chairman.

The CHAIRMAN. Senator Proxmire.

POWER TO ISSUE AND REGULATE MONEY

Senator PROXMIRE. Dr. Seger, are you acquainted with the money power provision of the Constitution that specifies that the Congress, not the Executive and not the courts, but the Congress has the power to coin money and regulate the value thereof?

Dr. SEGER. Yes, sir.

Senator PROXMIRE. In your view, is the constitutional source of the monetary power exercised by the Fed?

Dr. SEGER. I thought that the Fed got its authority from the passage of the Federal Reserve Act in 1913.

Senator PROXMIRE. I'm talking about the constitutional authority, not the statutory authority.

Dr. SEGER. I'm not sure. I don't know that.

Senator PROXMIRE. You see the distinction?

Dr. SEGER. Yes.

Senator PROXMIRE. The fact that the Congress has that money power and does not allocate it to the Executive gives the Congress in the view of some people—and I'll indicate in a minute who—a special authority with respect to the Fed.

Years ago, Senator Paul Douglas, a former member of this committee and, in my judgment, the only truly great economist ever to serve in the U.S. Senate and president of the American Economic Association——

Dr. SEGER. Professor from Illinois, I think.

Senator PROXMIRE. You recall him—told Chairman William McChesney Martin to write on his bathroom mirror so he would see it every morning when he shaved these words, "I am a creature of the Congress." How do you react to this conception by Senator Douglas of the relationship between the Congress and the Federal Reserve?

Dr. SEGER. I agree. I said that.

Senator PROXMIRE. You agree with that. What should be the relationship between the Federal Reserve and the President?

Dr. SEGER. The Federal Reserve is in my judgment an independent agency.

Senator PROXMIRE. So the Fed is independent of the President but it is a creature of Congress. We have the authority to pass resolutions or to take whatever action we would take and we have that power?

Dr. SEGER. Yes, sir.

Senator PROXMIRE. Dr. Seger, you have a long academic background. You have taught and you have served many years in the Government but you have written almost nothing. You have left no paper trail that might be convenient——

Dr. SEGER. Because I'm too lazy to write everything down verbatim. I just use little short outlines.

Senator PROXMIRE. Well, it's just in this one area you have not offered reasoned expressions and opinions that could be evaluated, judged, and challenged by other scholars and experts. It also suggests that you have not contributed as someone with your background would be expected to contribute to our understanding of monetary and banking problems.

How do you explain that shortfall in your record? In the years I have been on this committee and the Congress the people who have come before us with backgrounds like yours have some body of work that they have done that we can look at and evaluate if we want to.

Dr. SEGER. First of all, in the 10 years I spent in commercial banking I was dealing with managerial problems within the organizations, as a bank economist.

Senator PROXMIRE. You have a Ph.D. from Michigan?

Dr. SEGER. Yes, I do.

Senator PROXMIRE. Did you have to write a dissertation for that?

Dr. SEGER. Yes.

Senator PROXMIRE. What was the subject of the dissertation?

Dr. SEGER. Bank mergers in Michigan. But it was not published in a book.

Senator PROXMIRE. It is available for——

Dr. SEGER. Yes, it is.

Senator PROXMIRE. Have you written anything else besides that?

Dr. SEGER. I was a coauthor of a study on small loan companies, which I listed for you some place.

FED AS A LENDER OF LAST RESORT

Senator PROXMIRE. Just one other area I would like to ask you about. The Federal Reserve Board has had a crucial role to play as a lender of last resort to our banks. It saved the Franklin National Bank some years ago. Recently, they have bailed out the Continental Illinois Bank. Yet it has not done this for small banks they have allowed to fail.

Do you favor the Federal Reserve Board rescuing big banks in trouble or not?

Dr. SEGER. Starting first with the matter of being lender of last resort, this is one of the most important provisions, as I see it, of the Federal Reserve Act. As I recall the history of why the Fed was set up, it was an outcome of these recurring financial crises, when there was no lender of last resort, and you would get a couple of bank failures which would then trigger a chain reaction; other banks would fail, and others, and pretty soon you had a full-fledged economic debacle and a major depression.

Senator PROXMIRE. Are you bothered by the discrimination involved here where the Federal Reserve bails out the big banks but lets the smaller banks fail if they're not competent?

Dr. SEGER. I was just going to tie this in to that. They have been the lender of last resort for other kinds of institutions. The most recent, and certainly the most highly publicized one, has been Continental in Chicago.

If you're talking about using the lender-of-last-resort power to curtail any sort of financial crisis or prevent it, then the facts are that a $40 billion bank, when it goes under or if it were to fail, would create a much bigger splash than, say, a $20 million bank which might fail.

In terms of monetary stability, in terms of the impact on the overall economy, I think that's the way that you can——

Senator PROXMIRE. But don't you perceive an inequity here? In other words, you have a situation where you're big, you're saved; if you're small, you're allowed to go down. Does that bother you?

Dr. SEGER. Again in the context of monetary stability——

Senator PROXMIRE. Well, no, in the context of simple equity. You're a stockholder in a big bank; you can take all kinds of risks because you'll be bailed out if necessary. But if you're a small bank, you can't do that; you're at a disadvantage competitively, and it seems that you're not treated justly or fairly, equally.

Dr. SEGER. It might look unjust, just as it did back in the State of Michigan when Chrysler was bailed out. I knew people who had fairly small businesses, drycleaning establishments, and so on, who said, "How can the U.S. Government justify bailing out Chrysler when we are failing, too?" The argument, as I recall, involved the fact that Chrysler operated big in about five States, one of them being my own——

Senator PROXMIRE. I sure didn't buy that argument. In fact, I was one of those who opposed it, as did the distinguished chairman of that subcommittee. And the man on my left was the principal person fighting for it, and he won.

Senator SASSER. And he sold me on it, too, I might say, Senator Proxmire.

Dr. SEGER. I am not getting into whether or not it was a good idea. I am just saying there are times when being big does bring your problem to the attention of the——

Senator PROXMIRE. It gives you political clout, it gives you influence with the Federal Reserve if you're a big bank. It gives you influence with the Congress if you are a huge automobile company in an election year.

Dr. SEGER. Also I think it was a matter of arithmetic that there are a lot of jobs tied to a big company, and in the case of——

Senator PROXMIRE. You see, I can't win on that one.

Senator RIEGLE. Before you leave, can I ask a question?

Senator PROXMIRE. Sure.

Senator RIEGLE. I thank you for yielding. I don't think the analogies necessarily work very well, because we're talking about the bank regulatory system and we're talking about the deposit insurance protection.

Dr. SEGER. I just meant lender of last resort. I was taking that narrowly.

Senator RIEGLE. Well, perhaps he was. But my concern would be this: If the regulators come in and insure the deposits of just the big banks above $100,000, if they tell the small banks, whether they be in Wisconsin, or Michigan, or elsewhere, that any depositor that keeps over $100,000 there is not going to have the amount over $100,000 protected, then that person is not going to keep their assets in a small bank because they're not going to have the same protection. It's unequal, and so they're going to move that excessive amount of money into the big bank where you know there's complete protection.

Now, that is a fundamental inequity between large banks and small banks, and it doesn't have anything to do with anything except their size. Do you accept that? Are you comfortable with that?

Dr. SEGER. I misunderstood the question. I thought he was talking about lender of last resort, and lender of last resort refers, as I recall it, to allowing banks that get into trouble to come into the Fed and use the discount window and to deal with the liquidity problem.

Senator PROXMIRE. Right. I was talking about it in two ways. I was talking about it in that way, but I was also talking about the consequences.

Dr. SEGER. I am sorry, I didn't hear "insurance."

Senator PROXMIRE. The dimensions of the big banks having advantage, and I wondered what you thought about that and thought about what we might do to make this more fair.

The CHAIRMAN. If the chairman, former chairman, would yield for a moment. After 4 years, I still have respect for you as chairman.

BAILOUT OF CONTINENTAL CAUSED HUE AND CRY

Believe me, as soon as Continental had problems, I started hearing it. There are no big banks in Utah. They're all small. I started to hear a hue and cry. But really, it's not very fair to make that.

First of all, you can make the argument, which I think is valid, that a bank like Continental, the ripple effect—the next week, we had problems with MNHA when nothing was wrong, just because of rumors. So the implications weren't just a matter of Continental Illinois and their stockholders and their depositors. It could have created a run; it could have caused incredibly serious consequences not only in domestic banking but international banking as well had the faint heart, pulled out \$3–\$4 billion a day in hot money.

Most of the banks of this country are not dealing in hot money. Most of them are in checking accounts and NOW accounts, mortgage loans and things of that nature. But if you go back to the 1981–82 period, more that 75 percent of all the problem banks were little and were handled with assisted mergers. So to say that this is one just being guaranteed over \$100,000, that's the way the vast majority of them were handled. It was an advantage to those small institutions, and particularly thrift institutions, in 1982.

But it also saved the FDIC and the FSLIC a great deal of money, as it did with Continental. If you simply made a decision that we are going to go in and pay off everybody that counted up to \$100,000, you wouldn't have an FDIC fund left. And the net cost was so much lower that the FDIC fund since 1981–84 has increased from \$11–\$16 billion, even handling all those assisted mergers.

So there are some that have not and should not. But when you find poor management, mismanagement, fraud in some cases, then I think you do need to just let them go. But more than 75 percent have been handled in a similar manner. I think you have to consider them on a case-by-case basis, and that's what I think has been done by the insurance fund.

Senator PROXMIRE. Let me move on to my last question because I understand the chairman is going to have a proposition for us very quickly.

The last question is this. The Federal Reserve Board is a major factor in international financial stability; it can encourage or discourage banks in lending abroad and the terms the banks provide. It can urge a cap on the interest rates banks charge foreign-country borrowers. It can rescue banks that have gotten into trouble lending to foreign countries that default on their obligations.

What role do you feel the Federal Reserve should play in foreign loans by American banks in assisting friendly foreign countries that are in financial difficulties?

Dr. SEGER. I think the Fed's role should be one of communicator, of keeping the parties speaking with each other, encouraging patience, encouraging reasonable behavior, because I think, myself, a lot of these problems can be worked out if given some compromise, adequate time.

I think that maybe the Fed is in a good position to be the one that sort of keeps things——

Senator PROXMIRE. But again you have a conflict. I am not going to get back into an argument on this, but you have a situation where by making it possible for our banks to loan to Argentina, for example, or some other country, reducing our interest rates and so on, don't you see that there may be an inequity, an unfairness to domestic borrowers? They don't get that advantage. They have to meet whatever the market requires, whereas we put a cap on the loan to foreign countries. They have that advantage, plus the fact that they have the assurance that there is less risk because the Federals step in and maybe bail out Argentina, bail out Mexico.

Dr. SEGER. I misled you. I didn't mean the Fed should come in and set the terms. I am just saying their role should be one of keeping the negotiations going between the lenders and the borrowers; they should not, in fact, set the terms on the loans.

Senator PROXMIRE. Except this actually does develop, unfortunately, where you have a country like Argentina that's in such serious straits that unless the Fed steps in with the capital or some assurance to the lending institution, it can't continue. It's not a matter of negotiation or being a little patient.

CAP ON INTEREST RATES

At any rate, this is the only other question I have—how do you feel about a cap on interest rates? Do you think that that's wise, or do you think that it's a wash, or do you think that interferes with the marketplace and is counterproductive for foreign loans?

Dr. SEGER. My preference would be to see the lender just make straight fixed-rate loans, because to me a cap could result in negative amortization, the same way as some mortgages are set up with negative amortization. And when that happens, if interest rates rise, then the principal builds up, which, as I see it, does not lead to a solution of the problem but could as a matter of fact worsen the problem later on.

My own preference would be to encourage the lenders—I don't mean set the rates—but just encourage them to go to some sort of a fixed rate.

I just saw some numbers yesterday which indicate—I think of Mexico as one example—they have made some progress in the last 1½ years getting their house in order; they have gone from a big trade deficit to a trade surplus. The lenders feel more comfortable with the loans that are outstanding and so they are cutting back on the size of the fees that they charge. They are cutting back on the width of the spread or whatever it is that they're tying them to, because the risk as they view it is diminishing.

So I think we have passed the peak of this problem, and that again given some time, and maybe a little dose of good luck, that we can get through this.

Senator PROXMIRE. Thank you very much, Mr. Chairman.

The CHAIRMAN. First of all, Senator Riegle has some closing remarks he wishes to make, and I do too. However, we are not going to be able to complete the hearing today, and I would ask you if it is possible for you to come back at 9:30 in the morning.

Dr. SEGER. Yes, sir.

The CHAIRMAN. We are in technical violation of the Senate Rules. We are meeting without unanimous consent 2 hours after the Senate has convened, and the minority has been good enough to let us continue this long, and although there is nothing they can really do to us except charge me as chairman for the cost of the committee record, we are not taking any action or any votes that could be challenged. Nevertheless, it has been by mutual agreement that we continue this long. But after these closing remarks, I will close the hearing for today and reconvene at 9:30 in the morning in Senate Russell 485. This committee room is being used by one of the subcommittees of the Banking Committee, and extensive preparations have been made for that hearing. Apparently, they have some witnesses that must be hooded and have to have the room inspected for bombs and all sorts of things, so it is necessary for the full committee to move out and have the hooded witnesses in here.

So we will reconvene at 9:30 in the morning in Russell 485.

Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman. Just one final thing today, and that is this—that earlier today you had the opportunity to receive and read the letter from Mrs. Milliken and Elly Peterson that was sent to the committee in response to your published letter to the editor which we have talked about off and on today, and you have had some time to think about it since, because of the interruption in the committee hearing and so forth. I'm wondering now in light of having received the letter and having some time to think about it, if you want to modify or withdraw today any of the assertions that are in your letter to the editor.

Dr. SEGER. I have not had a chance, as I imagine you would know, running to lunch and back, to check up further on what I heard about the appearance before the platform committee. I'm perfectly willing to accept the fact that what they're saying is accurate, but I would like to have a chance to check back. If what I said about it this morning is inaccurate, I certainly will retract it.

On the question of whether it was a press release or a news release, I think that is semantic. I'll give you a copy of the release tomorrow; I'll try to get it. It is on the letterhead of the Women's Assembly. It isn't anything I made up. In terms of indicating that Helen Milliken supported Jim Blanchard, maybe there is a difference between what she thinks the word "support" means and what I think it Based on, again, the press coverage that followed this whole thing, or her activities and those of Elly Peterson, I view that as support.

Senator RIEGLE. So I guess that leaves us this evening at this point, at least as I listened to what you just said, and you correct me if you disagree—but I gather that you are saying that you basically stand by what was in your letter to the editor.

Dr. SEGER. Subject to a finding of other information.

Senator RIEGLE. But based on what you have here, in terms of this letter that's come today, it hasn't changed your thinking on this, and you would stand by your original assertions, is what I gather you're saying to me.

STANDING FIRM

Dr. SEGER. As I said, and Senator Garn said, many people look at the same facts and see different things. But I was in Lansing in the fall of 1982 and this was, you know, a front-page news item all the time.

As I said, if I find out I'm wrong, I'm willing to retract the whole thing.

Senator RIEGLE. But you haven't found anything today?

Dr. SEGER. I haven't had a chance to go and look.

Senator RIEGLE. No; but you have the assertions of the people you have addressed, and you're not prepared to accept those on their face, because you're still of the mind that your original views are correct?

Dr. SEGER. Certainly; as I said, on the question of support, I think that's probably semantic, of what she's saying support means and what I'm saying support means. On this press release thing, I've got a 2- or 3-page 8½ x 11 document that came from the Womens Assembly and has Mrs. Milliken's name on it as cochair, as a matter of fact. I have that.

Whether or not, technically, it's a press release or news release, I don't know the fine distinction. I have already commented on the platform thing. As I said, I'm willing to retract the whole thing, if someone——

Senator RIEGLE. Well, I don't think that's really the issue. The issue is, you have written a letter to the editor and it contains assertions that you have made.

Dr. SEGER. That's right.

Senator RIEGLE. That you believed at the time. It addresses itself to these individuals. They have responded in a letter in their own behalf, asserting that what you have said about them and their position is not correct, and so we have this difference of opinion, and I gather as we bring down the curtain tonight, we still have a difference of opinion. In other words, your view is what you have said before is what you still believe now, notwithstanding this letter.

Is that a fair summary?

Dr. SEGER. Yes.

Senator RIEGLE. I think that's straightforward. I guess we'll be back, Mr. Chairman, at 9:30 in the morning.

The CHAIRMAN. Yes. I have a few closing comments, and I hope you can stay, because I don't want to talk without you being represented.

Let me go back to the beginning of the hearing, and say I agree with what Senator Riegle has said and other members of this committee, that we should examine nominees thoroughly. Often, we do not. And Senator Proxmire has not been one of those. Normally, he has been very thorough over the years with nominees for anything from either party, and sometimes we go through them in a very cursory manner, so I don't want to be misunderstood. I agree with that.

Certainly, any line of questioning, in my opinion, that deals with subject matter of the Federal Reserve, monetary policy, your opinion on fiscal policy and so on are fair game. We need to ask tough questions and try and find out what your views are, so we can try and determine how you think you will perform on the Board. But I do feel and want to repeat at the closing of the hearing, that I think the evidence on some of the questions that you are asked—and not in a hostile way, but a 14-year term situation, as I have looked through more—and I am not going to take the time to go through more hearing records—really it's overwhelming that the average is far, far less than 14 years; far, far less than 10 years and recently has been even less than that, if you look at the last few nominees.

It is also true that those I read before talk about serving a full term, most of which have not done so, but I don't question their credibility. They meant it at the time. Things come up. I committed to serve a full term in the Senate and I intend to do so, but something could come up that would alter that. Something nearly did, the first part of my first term. When my wife was killed in an automobile accident, I very nearly resigned at that time.

So, I don't think there's any insincerity there. Also, the comment about paper trail—and Senator Proxmire made it once again in his last round of questioning. There's no paper trail. With the exception of people like Paul Volcker and most of these, there is very little paper trail either, as you go back into it.

I look at the nomination of Emmett J. Rice, who I said before, served very well, and I have been very pleased with his performance on the Board, but his background isn't very much different than yours. Eight years at a commercial bank, staff of the New York Federal Reserve, and so on. If you remove names and places, it isn't too much difference. And he also gave no opening statement, and his paper trail, again, from his own disclosure, lists titles published, dates, books, articles, and so on, only contributions to institutional publications, articles, annual reports, commission reports, of which he could not claim full credit, even full credit for those institutional publications. No paper trail at all. That doesn't disturb me with him, or with you, or most of these others that don't have a long list of published articles. Maybe they have good ghost writers. Some of them do. I don't.

Senators have a paper trail, most of which none of us have written. A bright, bright staff have written for us. Hell, I've got a paper trial after 10 years in the Senate, you wouldn't believe. I didn't write it all. Some day my grandkids will say "Isn't that wonderful what my grandfather said? Isn't that wonderful, that article he wrote for this publication?"

But in any event, there is a little difference here in the nomination of Emmett Rice who, again, did not make an opening statement and the chairman, Senator Proxmire.

> You have a remarkably fine background. I'm very impressed. It is good to have a nominee for the Federal Reserve Board with the kind of qualifications you have. You have been an academic economist. You have doctorate in economics?
>
> Dr. RICE. Yes, sir.

And he asked about what his dissertation was.

> And you have been an adviser to the Central Bank of Nigeria and on the staff of the Federal Reserve Board, the Federal Reserve Bank of New York for 2 years, 2 years as adviser over at Treasury, 2 years at the World Bank, and 8 years as a commercial banker.

And Dr. Rice explains his 8 years employment in two paragraphs, the National Bank of Washington, and now we're into not quite a full range of testimony.

The Chairman says:

> As I say, I'm very impressed. I wonder where you've been all these years. We should have appointed you years ago to the Federal Reserve Board with the remarkable background you have. All the years I have been on the Banking Committee—

and I've been on the committee for more than 20 years—I can't recall a better qualified candidate. I really can't.

Well, I don't doubt Senator Proxmire's sincerity at all. There's no closer friend I have or anybody I worked with as close, not a single Senator, even in my own party. We sat here together on one side or the other for 10 years. I don't doubt his sincerity at all. I just say there is no paper trail. There's eight and a half pages of testimony, similar background. Somehow, some things that weren't there, now are important in your case, whether you have a paper trail or not.

You're here to answer the questions, and you should answer them as forthrightly and directly as you can. But I hope, as we continue tomorrow that we will discuss issues pertaining—I also am not persuaded that the letter to the editor has a great deal to do with this.

I would also agree with you that it would not be appropriate for you to engage in any type of partisan politics as a member of the Federal Reserve Board. I think that would be entirely inappropriate, but I cannot agree with Senator Sarbanes that the minute you are being considered, as one of three potential nominees, that at that point, you should start to observe standards that ought to be observed by a member of the Federal Reserve Board. I think that is different. I may not have been good judgment on your part to write at that point, but as far as any lack of credibility, I just don't see that.

DIFFERENCES OF OPINION

I think what I said earlier is appropriate in talking about differences of opinion, whether it's on the Senate floor, whether it's out on the campaign trail, whether it's people of good faith in business who make statements that they are absolutely sincere about and believe at the time. I certainly, over the years, have been very strong, and have had opinions on something and found out many times years later that I was wrong. But it wasn't a question of my credibility at the time. I believed sincerely what I was saying. I'm sure that the two ladies who have challenged your testimony believe that they did not support—they believe that they did—differences of issues of very fundamental issues which, as Senator Riegle knows, whose side I was on in that race. It was Dick Headlee, and on those sorts issues, Dick and I would agree overwhelmingly. I know Governor Blanchard well from when he was in Congress, and I have great respect for him. We disagree on some of those issues.

So I just wanted, in closing, to say that I don't think some of these side issues—at least that is my opinion and my assertion today—difference of opinion. But because my colleague feels differently, I don't question his credibility for bringing them up, and even though I may feel it does not pertain to this hearing or your qualifications, because you wrote a letter to the editors as a Republican who supported the candidate in the 1982 election.

It is Senator Riegle's right as a member of this committee and a Member of the Senate to ask any questions he wants to. It doesn't make any difference what I think, and I will defend his right to do so at the same time I tell him that I don't know what it has to do with it.

So when we continue tomorrow, we will allow whatever time is needed by my colleagues to ask you additional questions.

Senator RIEGLE. Mr. Chairman, if I may, before you finish here, just two or three quick thoughts. First of all, just as an aside, the controversy here is not across her party line. Certainly not between her and I. This in terms of the other issues that have come up today is between people who are on the same side of the party fence. I'm on different sides of the party fence.

The CHAIRMAN. I understand.

Senator RIEGLE. I have, just quickly, a couple of points to add to what the chairman has said—and I have great respect for the chairman and I think there is a lot of meaning to some of the points that he has made here. I think it's important to note that the witness today has indicated clearly and forcefully her intention to serve for the full 14-year term, some act of God notwithstanding.

I mean you are here to take the term and to serve the term all the way through to the end. I think it's significant that in the course of the interviews that you have had in leading up to this job, being interviewed by Preston Martin and others but not interviewed by Paul Volcker, I think there is a question that has arisen and it's worthy of examination for whatever conclusions people draw.

Both the Evans and Novak piece which is a writing team that's pretty well plugged into the Reagan White House as you know, and they have asserted that there is a meaning to why you were interviewed by Preston Martin and Don Regan and not Paul Volcker——

Dr. SEGER. May I just add, I have talked to Paul Volcker since that article.

Senator RIEGLE. Yes, I understand you have. But this was beforehand, before the decision was made.

Dr. SEGER. I just didn't want you think I hadn't spoken with him at all.

Senator RIEGLE. Right. We haven't discussed it at all today. There are also stories floating around that Paul Volcker had recommended others. There were other names that had been floating around that he thought were nominees that he would favor and they, for whatever the reasons, were not selected and you were selected.

So there is in your case more of a suggestion of some kind of an ideological component to the decision as has been true in other cases that I remember. I mean this may be true or may not be true, but nevertheless these things are being written, they are being said and there is a pattern of activity and events here that would give some weight to that. And then, of course, when you appeared with the President at the announcement you said, "with respect to economics I support everything he's doing."

Well, that's a pretty broad support to give someone——

Dr. SEGER. They didn't go on to the rest of the comments. You are just getting it out of the paper.

Senator RIEGLE. Pardon?

Dr. SEGER. I said you are just getting it out of the paper. They didn't go on to the rest of the comments.

Senator RIEGLE. Well, then we should get into that tomorrow. There are two quotes that I have that you made and you tell me if these are inaccurate and you can add tomorrow whatever you wish. But you were quoted as saying "I support everything he is doing." That's one quote and second, you are reported as having then accepted the nomination with a vow to "uphold the President's economic policies."

So, maybe we ought to get a transcript of what you said if it goes beyond that because I don't want it to be mischaracterized any more than you do. I want it to be just exactly.

Dr. SEGER. It's out of context.

Senator RIEGLE. But I take it you did make these two comments in whatever the context was or are these misquotes?

Dr. SEGER. I referred to supporting his policies to keep the American economy strong and healthy, which I think is a very general statement.

Senator RIEGLE. You did just limit it to economics?

Dr. SEGER. No, but I wasn't talking about minutia on policy. Maybe my language is different than is used in Washington, but to me policies are a big overall approach and not involved with the specifics.

Senator RIEGLE. Well, I guess my point is when you make a statement to the effect that you support everything he is doing in the broadest vein as you now say that also raises a question of independence which is a fair question and I don't think the chairman would disagree with that. I mean that is an issue that we need to take a look at and determine for ourselves if in fact, although you have those views, you also at the same time have the ability to be independent, to disagree from time to time. I mean you don't have any disagreements now but you might in the future and you should be capable of asserting those disagreements.

VIEWS ARE BASICALLY UNKNOWN

And the reason all of this comes up is because basically your views are not known. You yourself were sort of surprised by the nomination and I think it's a great honor that you received the nomination. Everybody here is getting really acquainted with you for the first time and so that is the reason for interest in not only the responses today but anything you might have written, any other information about your background. We want to fill in what otherwise is not known. So I think that's the vein we are moving in and hopefully we can add more to it tomorrow morning.

The CHAIRMAN. Thank you for your patience today and I'll repeat for everyone concerned that the committee will reconvene at 9:30 a.m. tomorrow morning, Wednesday, in room SR 485. That is the Russell Building. The committee is adjourned.

[Whereupon, at 5:10 p.m., the committee adjourned.]

NOMINATION OF MARTHA ROMAYNE SEGER TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WEDNESDAY, JUNE 20, 1984

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

The committee met at 9:30 a.m., in room SR–485, Russell Senate Office Building, Senator Jake Garn (chairman of the committee) presiding.

Present: Senators Garn, Proxmire, Cranston, Riegle, Sarbanes, and Sasser.

OPENING STATEMENT OF CHAIRMAN GARN

The CHAIRMAN. The Banking Committee will come to order. We will begin the hearing, although my colleagues who wish to question are not yet here, so we will temporarily recess until they do arrive.

[Recess.]

The CHAIRMAN. Why don't we start.

Dr. Seger, we appreciate your patience and willingness to return today. Hopefully, you're a little bit better perpared for your arm. It looks like you are.

Let me ask you a few questions. Over the course of the hearings yesterday you were asked several questions that did not relate directly to the types of decisions you will be asked to make as a member of the Federal Reserve Board, and I feel that we ought to explore some of those areas that relate directly to that position. As was mentioned yesterday, you did serve as a commissioner of financial institutions for the State of Michigan for several years, so I'd like to get your views and your ideas on some of the issues you dealt with there, that will apply to your position on the Federal Reserve.

I am sure you are well aware, over the last several years I have urged that we grant banks and depository institutions additional powers. Do you think that depository institutions, particularly banks, should have additional powers, and if so, what criteria should Congress be using in making those decisions?

BANKS SHOULD BE GIVEN ADDITIONAL POWERS

Dr. SEGER. A brief answer: yes; I do think they should be given additional powers. As a regulator, dealing with State-chartered banks and savings and loans and credit unions and small loan companies, I had a broad range of activities. What I observed in connection with this powers issue is that institutions can get into trouble with the existing powers. The first bank that I ever saw fail, which was back in the 1960's, as a matter of fact, put too many home improvement loans on its books and they were of low quality, and the bank eventually failed because of big loan losses.

Most people would not say that was a power that was wrong for banks to have, but it is possible for an institution to misuse or to use poor judgment with existing powers. In terms of adding to the powers, one that occurs to me right off the bat is to give banks the power to underwrite municipal revenue bonds.

When I was in banking, I was a bank economist and I worked with bank investment decisions. We had people in bank investment who underwrote GO's, and the expertise that you have to have to do that is easily transferable to underwriting revenue bonds. And I think that that's one power that I would put at the top of my list.

Another one—because it is so closely related to what they are already doing—I would allow is underwriting commercial paper. Again, I think that's very close to some of the other investment activities, particularly that big banks participate in.

A third power that I think it makes sense for banks to have is discount brokerage, and particularly the bigger banks that do have expertise in the area of investment. In many cases, they have big trust investment departments or bank investment departments, and I believe that they have the kind of management and the kinds of staff people who are knowledgeable and can handle those powers well.

I would start with those. In terms of the criteria to use in evaluating which ones should be given and which ones should not, the first point I would make is, again, how close the new powers are to existing ones, so that you can make the case that, in fact, they have demonstrated ability to handle similar kinds of activities. Second, is whether or not the powers could jeopardize the safety and soundness of the institution. And, if they are very, very far removed, then that could certainly be a concern.

But the three powers I mentioned to you, I don't think would fall into that category. Another criterion I believe has to be used is the sort of big issue of separating banking activities from general commerce, which has been talked about a lot for at least 50 years, and the additional consideration of separating commercial banking activities from true investment banking. Those have to be looked at and considered.

The final criterion I would use is the whole question of equitable treatment. In other words, are our banks allowed to do things that are similar to what other institutions that are competing with them are already allowed to do? I think that's just the equity consideration.

The CHAIRMAN. As a former State regulator, how—well, let me back up. I'm sure you are very well aware of the so-called South Dakota loophole.

Dr. SEGER. Yes.

The CHAIRMAN. And we will have a provision in the Senate bill that would prohibit State-chartered—well, not State chartered but a State legislature from granting any powers outside their State boundaries not allowed by the Bank Holding Company Act currently. So the effect of that would simply be to say you cannot export services or powers beyond your State borders. But with a State chartered institution operating solely within your State, if you decide you want to grant State powers or insurance powers, real estate, that is your business as long as it is confined solely to that State.

The House of Representatives is going much further than that and their proposal seeks prohibiting State-chartered institutions. To me that is an issue of State's rights which we have no business to get involved in and I would assume as a former State regulator, you would agree with that.

Dr. SEGER. I certainly agree with the position that you can draw a line between what you do within your State and what you export. As you say, yes, the State should be making those decisions and should, therefore, be held accountable for them. Within their own State obviously they are going to have to have their own regulators looking at safety and soundness issues. I think it can be their job to do it.

The CHAIRMAN. Well, that's interesting. I'm a former independent insurance agent. That is the way I made my living before I was silly enough to get involved in politics and the insurance industry is one that loves McCarren-Ferguson because it does not allow them to have Federal regulation. They totally enjoy working with 50 State insurance commissioners and don't want Federal regulation. It bothers me in this particular instance.

I think they have gone far beyond what it is their business to go. They are lobbying for that position and for independent insurance agents. I was an independent agent. They talk so much about the free enterprise system and free market and competition. They take the double standard by saying we want to maintain McCarran-Ferguson, but don't do anything to us. Then they come back here begging, screaming, yelling and shouting that they are for the Federal Government to eliminate competition within State government. I'm not just asking a question, I'm sending a message because I'm irritated about it and I think I can say it probably better than anyone having been a member of the National Association of Life Underwriters. That simply is not going to be part of the bill.

CLOSE THE SOUTH DAKOTA LOOPHOLE

We will close the South Dakota loophole. It is not right for a State legislature to make decisions outside their boundaries. That is not within their jurisdiction and the insurance agents of this country are correct in asking us to close that loophole. To go beyond that, to be so greedy and want the Government to solve its comparative problems solely within State is out of the question. I would suggest that they back off that one because it's not going to become law and it doesn't make a former member of their association very happy with that kind of greed. They want to go beyond closing the South Dakota loophole to totally running roughshod over State's rights and the right of the legislatures within this country to make decisions on what goes on solely within the boundaries of their State.

In light of the large number of bank failures that we have had over the last couple of years, do you have any recommendations on how the supervision or regulation of banks could be improved?

Dr. SEGER. I think I have some. Again, I was in my regulatory job in what to me was the toughest period since the Great Depression; namely, 1981 and 1982 when we had, first of all, an economy that was falling apart in Michigan, and a budget crises, and then a financial crisis on top of that. We had to deal with these problems of very weak financial institutions, a combination of banks, savings and loans and also credit unions that were getting into trouble.

Limiting my comments now to dealing with failing banks, I think we can improve the whole supervisory process. By that I mean I think that examiners can be better trained. I think that we can try to get on top of the problems earlier. You shouldn't wait until they are 3 minutes from the graveyard before you start paying attention to their problems.

Also—and this may be fairly controversial—I think we should get the directors of these individual institutions involved earlier on. They are usually met with very late in the game and at that point, when it really becomes clear to them how severe the problems are, it's also a little late to do anything about it, other than decide what kind of a funeral you want to have. I would really encourage the education of directors as to what their responsibilities are, their legal liabilities, make sure they are aware of the kinds of information that they should be asking for as directors on the performance of the institution on an on-going basis. I would encourage that the Fed and other institutions or States should be actually meeting with directors, even of the healthy banks, and showing them the kinds of data that are available, giving them copies of the uniform bank performance reports so they can look at their own institution and see how it stacks up against its peers.

I know there are some technical problems with these reports, but so many bank directors are from completely nonfinancial areas. Maybe the director will own a chain of women's dress shops, or maybe be a furniture retailer or a used car dealer or an undertaker, in small towns particularly. These are very good people. I'm not suggesting that they're not. When times were great they didn't have to look carefully over the shoulder of management, but when times get tough they have to pay more attention, but they don't always know how to do it and if I get to the Fed, that's something I would really hope to work on with the supervisory people: improving the whole process, doing it better, getting involved earlier—preventive medicine, in other words, rather than just dealing with the corpses.

The CHAIRMAN. Thank you. Senator Proxmire.

Senator PROXMIRE. Thank you, Mr. Chairman.

Dr. Seger, I don't have any interest in your position on the equal rights amendment, pro or con, although I happened to favor it enthusiastically.

Judging from your letter to the editor about Mrs. Milliken and Peterson, it seems to be a big issue with you. Since ERA is largely irrelevant to your work as a Federal Reserve Governor, I'm not going to ask you about it, but your apparent strong opposition to the equal rights amendment—perhaps I'm unfair in saying that, but it is suggested we should inquire about other rights issues over which the Fed does have important jurisdiction.

The Fed, for instance, administers the Equal Credit Opportunity Act, and one of the principal reasons for that act was that some of us perceived a discrimination against women in borrowing. As I understand it, you, as a new Governor, would be in a position of administering that act, and therefore, I ask you how you will feel about the necessity of having a law that provides for equal credit opportunity? Do you think it is necessary, or do you think it is not?

Dr. SEGER. Can I get back to the comment on the ERA?

Senator PROXMIRE. Yes, indeed.

Dr. SEGER. I have never been a strong opponent of ERA. Based on over 25 years of working in various kinds of jobs—I have been a professional career woman—I felt that ERA was being overemphasized as an answer to all women's problems. I'm just basing that on my own experience in the workplace.

I have never been out picketing for it or against it. I just think that it's been overblown as a single solution. That's my feeling on it.

EQUAL CREDIT OPPORTUNITY

In terms of equal credit opportunity, again, I am a woman. I am very sensitive to this. When my sister went to buy her condo 20 years ago, she had a hard time getting financing: I ran around, trying to tell her the names of institutions that she might go to. I have seen some discrimination in the past, and I have never opposed that legislation. Assuming I get on the Fed, I don't know what my assignment will be. It has been suggested, as you said, that since Nancy had these consumer assignments, they would probably give them to me. It's not, obviously, decided until I get there. But I certainly believe in equal credit opportunity.

Senator PROXMIRE. At the last, I think Dr. Teeters was the Federal Reserve Governor who handled that, and you might or might not be, but I think it's a good prospect you would be, and it's very important.

Dr. SEGER. As I said, I definitely support it.

Senator PROXMIRE. It has to be administered very vigorously, because of the evidence that I've seen, and perhaps you have seen it too, of discrimination against women in credit. They have to get the approval of their husband and the husband never gets the approval of his wife, or rarely, and it seems to me that there's inequity that we should pursue.

Dr. SEGER. We are on the same side on that, and as I mentioned on truth in lending, which you brought up yesterday, I'm in favor of full disclosure. I just would hope that maybe we could do it better.

Senator PROXMIRE. Yesterday, I asked you whether it was your perception that the Reagan administration has a different economic growth strategy. You replied you felt both the Fed and the administration have the same goal. The implication of your answer is that there may be different ways of reaching these goals.

Do you perceive a difference in the way in which the administration is pursuing its goals compared to the Fed in economic growth?

Dr. SEGER. Based on press commentary over the last couple of months, it seems to me the media has tried to point out differences. Secretary Regan, for one, has indicated maybe at times the Fed was stepping on the brakes too hard, and he would like less. But as I indicated, I think there is room for differences of opinion and a difference in judgment on how you reach certain goals.

Senator PROXMIRE. Well, the testimony of Chairman Volcker of the Federal Reserve Board before this committee has indicated his great concern about the deficit, feeling that that stands in the way, not only of a monetary policy that could bring interest rates down, but also in the way of the kind of economic growth that we pursue. That's his position. It's the position expressed by Treasury Secretary Regan that the deficit is not that important.

Where do you come down?

Dr. SEGER. I believe I said yesterday that my view is that deficits do matter, and I think I pointed out——

Senator PROXMIRE. Matter? How important are they? Are they the most important element now, in your view, in keeping interest rates high and threatening a healthy recovery or not?

Dr. SEGER. I feel uncomfortable just singling out any one factor that control everything.

Senator PROXMIRE. What's more important than the deficit?

Dr. SEGER. I just think there are a lot of things that influence interest rates.

Senator PROXMIRE. Well, name one or two that you think are more important than the deficit is.

Dr. SEGER. I'm not saying they are more important. I am saying I think there are a whole bunch of factors that influence interest rates. The deficit certainly is influencing it directly because of the problems of financing the deficit. That's a direct market impact. The psychological effect on Wall Street people of the deficit is also——

Senator PROXMIRE. I take it—I don't mean to interrupt, but I take it you feel that the deficit is no more important than some other issues are. If so, what are they?

Dr. SEGER. The general concern about a resurgence of inflation. Whether that's a concern a touch above the deficit or about level with it, or a touch below, I think they're really tied in together.

Senator PROXMIRE. Don't you think the size of the deficit is one of the elements—one of the most important elements in provoking a public concern about inflation?

Dr. SEGER. That's why I said I think that these are two factors, but they are tied together.

Senator PROXMIRE. I am curious about your interview with Secretary Regan. As you know, Secretary Regan has been critical of the Fed's monetary policy from time to time. Did he bring up any of these criticisms and ask you how you felt about them?

Dr. SEGER. No, he didn't.

Senator PROXMIRE. He did not. Did you discuss the Federal Reserve's monetary policies at all with Secretary Regan?

Dr. SEGER. No. He was mainly talking about the kinds of things I did as a regulator. Professer McCracken, who is a former professor of mine at the University of Michigan—I was his research assistant, and I have been in contact with him over the years—followed my career in Lansing as a State regulator also. Secretary of the Treasury Regan had talked with McCracken about some of the things I had done careerwise. We discussed that and the fact that McCracken thought I had performed those chores well. It was not a lengthy meeting, as I indicated yesterday.

CREDIT LIFE INSURANCE

Senator PROXMIRE. On credit life insurance, as one of the most unconscionable ripoffs perpetrated by creditors on their customers, when the banking commissioners in Michigan—when you were banking commissioner, you wanted to remove the cost of credit life from the State usury ceiling. Why did you want to do that?

Dr. SEGER. I don't know where your research people get the information, but I'll tell you what the facts are. This had been done a certain way for a long time, not just while I was in Lansing in 1981 and 1982; usury applied to interest rates, to direct interest charges. All of a sudden, the Attorney General of Michigan issued an opinion saying that you would have to factor in the cost of credit life and that, plus the true interest, would have to be below the usury ceiling. It isn't anything I did; there was a change of view on how this was to be treated.

Senator PROXMIRE. But you wanted to remove the cost of credit life, as I understand it. Is that correct or not? The usury ceiling.

Dr. SEGER. After his decision on this. Usury ceilings, even without the credit life issue, were very, very onerous in Michigan in 1981 and 1982, when interest rates were at these historic highs.

Senator PROXMIRE. Now maybe you can answer this charge that appeared in the "Detroit Free Press" on Tuesday, February 16, 1982.

It said the following:

> Martha Seger, Commissioner of the State financial institutions bureau, is a strong backer of the measure to remove the cost of credit life insurance from usury ceilings. It disappoints us to report Dr. Seger is more often found on the side of the lenders lately than the consumers. In pursuit of what she believes to be her mandate, she has vowed to lift this limitation from everything, and is even now encouraging lending institutions to defy State law and the attorney general, on credit insurance.

Is that accurate or inaccurate?

Dr. SEGER. I wasn't encouraging them to defy them. As I said, after this decision came out, the attorney on my staff and I—and we worked with someone in the attorney general's office about how to adjust, based on that recent opinion. I have forgotten the exact date, but it was sometime in 1981 or 1982; it was when I was in Lansing. As I indicated, the usury laws were a big issue then, even without that complication, because the lenders were being asked to make loans at rates that were below what they were paying for their funds. When you are dealing with a very sad case of weak institutions and problem institutions, the way to get them well is to not force them to lose money on every loan transaction.

Senator PROXMIRE. Well, my time is up. Let me just point out, Dr. Seger, something that really concerns me.

The Detroit Free Press has a reputation as a fair and reasonable newspaper, and they say that you are more often found on the side of the lenders rather than the consumers.

In view of the fact you would have the position in the Federal Reserve as the Governor more responsible for consumer protection than any other Governor, I think that's a matter that does concern us, and I hope you can dissuade me from the view that this may be a serious mark against you.

Dr. SEGER. I would like to comment on that without throwing you way off schedule. When you take these jobs as commissioner or banking supervisor, you take an oath to regulate these institutions, and the main concern in our banking code is that you deal with the safety and soundness of the institutions you are supervising. I took that very seriously. As I said, we were dealing in a crisis environment, and I did work on usury legislation. We did work on trying to get the usury ceilings first removed, and then, when that didn't work, we worked on getting them to float with market rates of interest.

This issue of credit life insurance came along as a side issue, but I did not consider myself aligned with lenders or aligned with any one group. As I said, I was trying to deal with keeping the financial system afloat.

Senator PROXMIRE. I see my time is up, but I just don't see the connection between safety and soundness on the one hand and the consumer interest on the other. It seems to me they are not in conflict.

The CHAIRMAN. Well, I would point out to the Senator from Wisconsin—during the same period of time that we are talking about here—this committee and the Senate continually passed State override laws because of the very problems she is talking about, particularly at the request of the two Senators—Senators Bumpers and Pryor from Arkansas—where Arkansas had a constitutional provision of 10-percent usury.

SAFETY AND SOUNDNESS LAWS

This committee continually supported, particularly during that period of time, because we had savings and loans. It was an issue of safety and soundness because they simply could not make loans at losing rates. I suppose we could have been accused in saying we are taking the side of the institutions over the consumers. That would be an accurate description. We did so because we had a savings and loan industry with more than 1,000 institutions on the trouble list down at the Federal Home Loan Bank Board.

We passed two titles of Garn-St Germain that were totally and completely industry oriented. Their capital maintenance section and the new regulators bill—totally in the interest of those institutions—attempted to save them and cut down their problem. So I really do think Senator there is a connection and maybe I'm wrong, but as I understand your description of it, it had not been included before.

Dr. SEGER. That's right.

The CHAIRMAN. So your intent was not to remove it but to keep it as a practice——

Dr. SEGER. Exactly.

The CHAIRMAN [continuing]. That had been. The attorney general put a further squeeze on a usury which this committee over and over again hasn't passed because Congressman Annunzio in the House felt quite differently even on a business and agriculture credit. That was a severe problem. We had Senators from various States literally begging to offer amendments on the floor of the Senate to relieve their States and institutions from that squeeze which was placing them in 50 to 60 percent rates in the marketplace when prime was at 20 to 21 percent. So I guess we could all be accused of the same thing during that timeframe.

Senator PROXMIRE. If the Senator would yield and I'll just take one more position here. I'm not complaining about lifting the usury ceiling. As the Senator knows I have consistently, from the very beginning, been opposed to usury statutes. I think they are wrong, they are a mistake. But at the same time I think the credit life is a ripoff and it seems to me exceptions to credit life was what concerned me.

The CHAIRMAN. Well, I agree with my colleague and he knows I agree. As a former insurance person I thought credit life was a ripoff. It still is. It is unusually high priced and so on. That's a separate issue from if you have a usury ceiling.

What Dr. Seger is telling us—and I agree with her—you've got a usury ceiling which you and I have never supported. I thought it should have been taken off, when suddenly at a period of time in 1981 or 1982, whenever it was, that the attorney general's decision plugged in another factor that had to be included under that ceiling, which compounded the problem. If there had been no usury ceiling, then I would agree with your position. I would have no objection to it being included in the disclosure. It has compounded that problem of having a usury ceiling. If our way had been held, wherein there was no usury ceiling, then it would not have been a problem having the attorney general change his opinion.

Senator SARBANES. Dr. Seger, what was the interest ceiling in Michigan?

Dr. SEGER. It took 22 pages, 8½ by 11, to describe the usury ceilings. It's very complex. It's based on the type of loan, the type of lender.

Senator SARBANES. Well, maybe I can get an answer. Recognizing all of that, what was the general figure that was understood to be the interest ceiling under the usury law?

Dr. SEGER. Let me give you one example. On a new car loan made by a bank it was 16.5 percent. I wasn't in charge of credit life, sir. That wasn't the issue.

Senator SARBANES. Do you agree with the chairman and Senator Proxmire that credit life is a ripoff?

Dr. SEGER. I'm not an expert on insurance but I certainly have heard it characterized as that.

Senator SARBANES. It has been characterized as that by two Senators here this morning. I didn't ask whether it had been so characterized. I asked what you thought. Do you think it's a ripoff?

Dr. SEGER. I don't think I would use that term myself.

Senator SARBANES. What term would you use?

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Dr. SEGER. I'd say it's probably a very expensive type insurance, but for some people it's the only kind they can get when they borrow and want to have some sort of coverage to pay the loan off if they expire during that period.

Senator SARBANES. So I take it you don't think something should be done about it; is that right?

Dr. SEGER. You mean eliminated? I certainly believe in making the disclosure of how much it costs. I don't think I would support just issuing an ultimatum that there couldn't be such a thing.

Senator SARBANES. Well, let's not cast it in terms of ultimatum. Will you support any effort to control credit life?

Dr. SEGER. In Michigan they are already controlled. I don't know about other States, but there already are controls on credit life. That was done in the insurance bureau, not by me, but there were controls on credit life.

Senator SARBANES. I was asking for your view, not a description of the situation, but your own position on it. And I must say, when I get to my own questions I'm going to pursue this distinction. As I reviewed your earlier testimony the answers are generally a description of the situation or a reference to how it's been characterized, but not an expression of your own position with respect to it. Now, what is your own position on this issue?

Dr. SEGER. I would——

Senator SARBANES. Both of these distinguished Senators here characterized credit life as a ripoff. I'm being led by your responses to the conclusion that you disagree with that. Do you think credit life has a role to play? I take it your only approach to it would be disclosure; is that correct?

Dr. SEGER. I said I certainly believe in disclosure and I believe in the kind of regulation we have of it in Michigan.

The CHAIRMAN. It is Senator Riegle's turn. I would say once again, credit life is now before this committee. It is not an issue. It is a State issue. It is not controlled by the Federal Government and I think it should be further controlled and regulated as to rates, but that is a function of State legislatures, unless we decide to make some changes in McCarran-Ferguson.

Senator Riegle.

The CHAIRMAN. Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman. I want to clarify in my mind a response that you made to Senator Proxmire earlier. I don't ask this because I want to get into this issue, but I just want to understand what your answer was.

EQUAL RIGHTS AMENDMENT

Senator Proxmire asked whether you were a strong opponent of the ERA to which you responded, no, you were not. Do I take it to mean, then, that you favor the ERA?

Dr. SEGER. I said that I have never been deeply involved in the ERA issue because, as a career woman, working all my life, I never felt that there was a single answer to helping women make it in the business world.

Senator RIEGLE. What I would like to clear up is what I feel is an inaccuracy on the record because when you simply leave it by saying you're not a strong opponent that could leave the inference that, in fact, you are a supporter. You're not a supporter, are you?

Dr. SEGER. I'm just saying I'm neutral. I am neutral on the issue in terms of what ERA would accomplish.

Senator RIEGLE. I want you to understand that what I'm interested in is an accurate and an honest answer. You are entitled to your position, wherever it happens to be. Are you saying you have not taken a public position on that issue? You're not known or perceived of as having stated a position in opposition to the equal rights amendment?

Dr. SEGER. That's right. As I say, I haven't been out carrying picket signs for it or against it.

Senator RIEGLE. So you're absolutely neutral; you have no position on that issue?

Dr. SEGER. I'm in favor of equal rights for women and equal pay for equal work. As I said, I lived with those issues. But in terms of supporting or disagreeing with a single way to go to get it, based on my own personal experience, ERA is not the single solution.

Senator SARBANES. This goes again to the question I was putting to Dr. Seger. I take it, then, that you have a position on support of or opposition to the ERA?

Dr. SEGER. What I thought I indicated was——

Senator SARBANES. I understood what you indicated. You are concerned. But on the amendment itself, do you support or oppose it?

Dr. SEGER. I said I'm personally neutral on it.

Senator SARBANES. And you have not taken any public position on it?

Dr. SEGER. I haven't as I said——

Senator SARBANES. If I found a report somewhere that you had taken a public position on the ERA, would I then be justified in feeling that you had not been candid with the committee this morning in responding to these questions, since you have indicated you have no position on it? Is that correct?

Dr. SEGER. That's right. I said that I don't think that ERA will solve all of women's problems.

Senator RIEGLE. When I went through your background statement I noticed that you had not served on any corporate boards. I gather you do not serve on any corporate boards?

Dr. SEGER. No; I put down a bank board.

Senator RIEGLE. You serve on a bank board now? Which bank is that?

Dr. SEGER. It's Comerica.

Senator RIEGLE. Have you ever served on any other board of directors at any time?

Dr. SEGER. Yes, before I went to Lansing. Obviously, I gave up everything in 1981-82. Once I got off, in late January 1983, I went on the board of Comerica, which used to be the joint bank and trust; that's the bank I was employed at some time ago as an economist. Before I went to Lansing, for a couple of months I was on the board of a small bank named Pontiac State Bank. I resigned from it as soon as Governor Milliken appointed me to Lansing.

I was on the board of Blue Cross/Blue Shield, which is a nonprofit health group, back in the early 1970's.

Senator RIEGLE. Were you ever offered a position on any corporate boards that you turned down?

Dr. SEGER. No, I haven't.

MEETING WITH TREASURY SECRETARY

Senator RIEGLE. I want to be very careful about going through the discussion. I want to clarify in my own mind what you said to Senator Proxmire on your meeting with the Treasury Secretary Donald Regan. I assume the witness is under oath today as she was yesterday, Mr. Chairman. I assume that just continues.

The CHAIRMAN. Yes.

Senator RIEGLE. I want you to be very careful about thinking about your responses, because I want them to be accurate, and it's in your interest that they be accurate.

You indicated that he did not ask your views on monetary policy, is that correct?

Dr. SEGER. If you mean whether what the Fed is doing now is right or wrong or if we had a discussion on monetary policy; no, we did not. We talked about my training in college, was I a Keynesian, was I a monetarist. The kinds of things I've been asked by other people in interviews. In fact, I remember saying to him: "I'm a garbage collector," meaning I pick up various pieces from various theories, and I try to look at a broad number of factors. I have never felt comfortable being labeled as from any one school of thought.

Senator RIEGLE. Did he ask your reaction, for example, to any Fed policies in the last few years or recently?

Dr. SEGER. No.

Senator RIEGLE. Did he offer any of his views on Fed monetary policy?

Dr. SEGER. Not that I recall.

Senator RIEGLE. I want you to think carefully about it just for a second. There was no point in the conversation where he indicated to you how he felt about how the Fed was proceeding in terms of monetary management?

Dr. SEGER. I remember we talked about the tremendous respect that Wall Street had for Chairman Volcker, and I remember he said something about a towering 6-foot-7-inch person smoking cigars, who really makes quite an impression. I remember that coming up. But again, I didn't take notes, and I don't have——

Senator RIEGLE. But your response, then, in thinking about it is that there was no point in the conversation where he discoursed on his views on Fed policy and would have given you an insight as to his thinking, or his concerns, or his reservations, and it was all general and all generic; it was just a very broad gauge?

Dr. SEGER. That's the way I remember it. As I said, it was not something that went on for hours.

Senator RIEGLE. How long were you together, would you say?

Dr. SEGER. As I said, I went in and saw Tim McNamar first, and then went in to Regan. The whole interview, McNamar and Regan together, I don't think was even an hour. I honestly didn't take exact notes on what the split of time with each was.

Senator RIEGLE. But maybe an hour total with the two?

Dr. SEGER. Yes; it was a little less than an hour for the total.

Senator RIEGLE. Now I want to move into an entirely different area, and I want to move to the question of the auto industry today, which, as we both know, is the principal industry in our State. You grew up in Michigan, as I have, and so we have seen it over our lifetimes.

Bill Brock, the Trade Representative, recently said, in effect, the auto industry was out of the woods—high sales, profits, bonuses, et cetera—and therefore sort of clear sailing ahead. He said there was no need, necessarily, for continuing restraint on Japanese imports. But generally, a very upbeat assessment of the auto industry.

What is your assessment of the auto industry at the moment and what do its prospects seem to be as you try to look forward?

Dr. SEGER. As I said when we chatted in your office a week or so ago, I'm obviously very concerned about the auto industry, being a Michigander and from the Detroit area. I happen to have gone to a retirement dinner a couple of weeks ago for a market research person at Cadillac; at that social event, we were talking about its fact that people were smiling again, not like a couple of years ago.

BIG IMPROVEMENT IN AUTO INDUSTRY

I do sense from my friends a big improvement over the terrible times of 1979–82, and I don't think I'm being extreme or far out when I say that. Auto sales definitely have come back. The auto companies themselves, based on these conversations, have taken tremendous steps internally to try to tighten things up. They have really gone after productivity hammer and tongs. They have stripped out—I hear various numbers—millions and millions of dollars of overhead, so that they can make money or break even at a lower production level than they used to.

All that is true, and I think all that is positive. In terms of saying that they're out of the woods, I guess I don't want to get in a semantic fight.

Senator RIEGLE. I guess the question here, as you look at the industry, having gone through these changes, and as it faces future prospects on all levels—interest rates, strength of the economy, trade, competition, and so forth and so on—what is your sense? Do you have a feeling of concern—deep concern, mild concern, about what the automobile industry will be facing, say, in the next year, or the next 2 years? What do you foresee? What is your sense as an economist, for where the auto industry seems to be heading and what level of concern do you have about that?

Dr. SEGER. What I see—and I have not done a thorough study—but what I tend to see is that they are trying desperately to take fundamental steps to redo manufacturing plants, to address the productivity problems, so that they can compete successfully, primarily with the Japanese. I think they have identified them as very tough competitors. That is the way I read the sales statistics, by the way, that they are, and that they have very high-quality cars, and that's their reputation, and that appeals to a lot of Americans. The auto companies realize that if they are going to survive long term, they've got to meet these standards, basically, and to put out cars that have good fits and finish, hold together, and all that.

They are doing more, I understand, with robots and——

Senator RIEGLE. But you're really not addressing my question, if I may say so. That's right, all that is going on, but in looking ahead, what is your level of concern about the whole mixture of circumstances facing the auto industry? Do you have a deep degree of concern about what their prospects look like for the next 2 or 3 years? Do you have mild concern? Basically, no concern? Do you think the problems are basically squared away?

In other words, you're an economist, and you live in Michigan. I would like to have a sense of what you see happening, because until I understand something about that, it is awfully hard for me to gauge how you might view monetary policy and how you might act on monetary policy, in terms of one of the basic industries that presumably you would know best, you're right in it, right in the center of it. You're an economist. So I want to know what your personal sense is, as an economist, for what you see for the auto industry out over the next 1, 2, 3 years, and how apprehensive you are about that, if you are at all.

Dr. SEGER. On the fundamentals, which I call the production, on those I'm very optimistic, because I think they are addressing the basic problem. Then there is a second layer, which would be considered environmental things that might give them some problems; that could be another oil embargo; it could be another shot of high interest rates. As I said, I lived through 1981 and 1982; it hurt the auto dealers and made it more difficult for individual consumers to buy cars. I saw that every day.

If that were to happen again, then obviously the auto industry would feel it. Another environmental thing that—will come up, as a matter of fact, in a matter of months—is a major labor negotiation this year. I don't have a good feel for whether there is going to be a strike, if there is one, a major strike. If a couple of the Big Three are struck, that will not only damage some of the companies, but will also have fallout in the areas where the production is.

Senator RIEGLE. Let me try to finish, because my time is up, and I don't want to stop right in the middle of it, until we've got a conclusion from you.

But if you add up all these second tier effects—all these outside or environmental factors, as you say—if you take them all together as a batch and come to a bottom line, you see all of these things working in combination, does this bottom line give you reason to be concerned about the future of the auto industry, deeply concerned? Do you think those packages of outside forces are of an aggregate size significant enough to cause you, as a person from Michigan, to really feel that the auto industry is in some very considerable jeopardy from these things? Or that basically these are things the industry can take in stride, and that it's no big deal, and not something that we really have to get all that concerned about?

I mean, that's sort of the view that Bill Brock takes, and I want to know what your view is.

Dr. SEGER. I do have concerns, but it's not to the point of, let's say, nail biting; I'm not lying awake at nights.

I am very concerned about their health. Believe me I would like to see them continue to get back to the old days.

Senator RIEGLE. I take it then——

Dr. SEGER. But I'm not saying that it's a rose garden, that all the problems are behind them. I have never felt that.

Senator RIEGLE. But I take it, then, you're not, as you said, biting your nails about it or lying awake at night. I take it from that—and I'd rather you say it than me try to say it for you—but I take it from that that you're saying you think the auto industry is going to be able to manage through this period ahead, and that there's no reason for us to really stop now and devise new strategies or weapons to try to help them in this period for the next, say, 1, 2, 3 years.

Dr. SEGER. Based on what I see right up to today, as I said, I have some concerns, but they're not violent concerns. I really think that management themselves have positioned their companies to go through a period of economic turbulence—not as bad as what we have been through, but some type of turbulence, and to survive in better shape than they would have before, just because they have worked on their own operations.

Senator RIEGLE. All right. I'll come back to that.

My time is up.

Senator SARBANES. Before I pursue a subject that I wanted to take up in my opening round here, I want to follow up on some of the earlier questions.

Do you believe that the States affected should repeal the various usury statutes?

SUPPORT STATE DEREGULATION

Dr. SEGER. I supported State action to deregulate. A lot of States have either deregulated entirely or have raised their rates or have made them float. Michigan has not addressed this problem yet.

Senator SARBANES. Do you think they should repeal them altogether? Is that essentially your position?

Dr. SEGER. I worked on the deregulation of usury ceilings.

Senator SARBANES. Does deregulation mean that you think they should repeal the usury statute?

Dr. SEGER. The deregulation I supported was to repeal usury statutes except criminal usury.

Senator SARBANES. Is that your position, that the States should repeal the usury statutes except for criminal usury; is that correct?

Dr. SEGER. I am not telling other States how to do it. As I said, in Michigan that was my advice.

Senator SARBANES. What is your view on that? It is asserted on your behalf that you are a respected economist and that you are an experienced regulator and, therefore, your views are supposed to have some weight to them. Now, what is your view on the repeal by the States of their usury statutes?

Dr. SEGER. I'm saying each State makes up its own mind, and being in Michigan——

Senator SARBANES. If the State does make up its own mind what——

Dr. SEGER. That's what I said. In Michigan, for Michigan, I recommended removing the usury ceilings, except criminal usury.

Senator SARBANES. What do you recommend to other States?

Dr. SEGER. I'm opposed to usury ceilings. I have not been asked to recommend but I would recommend if they asked me, that they remove usury ceilings.

Senator SARBANES. All right. Good. That's a direct answer to the question. I thank you. I had to work a little bit to get it.

Now, what is your position on whether the Federal Government should in effect preempt States' decisionmaking and eliminate the usury statutes?

Dr. SEGER. As a philosophical matter, I should think that the States should handle that, each in its own way. The financial institutions are right in the middle because the Federal Government did step in through the DIDMCA legislation to deregulate financial institutions gradually on the cost of funds side and yet did not on the asset side so that there are limits on how much lenders can charge for different kinds of loans. This was a real problem. As a last resort, if the States do not deal with this issue, then I think, if the Federal Government is going to deregulate on one side, then it is going to have to step in and override those States or preempt the usury ceilings in those States that have not addressed the problem themselves.

Senator SARBANES. So, in other words, you believe the Federal Government should come in and override the State government?

Dr. SEGER. If the States don't deal with the problems themselves, yes.

Senator SARBANES. What do you mean, "if the States don't deal with the problem themselves?"

Dr. SEGER. A lot of States did back in 1981 and 1982 change their usury ceilings. They did——

Senator SARBANES. Are you saying that you would give the States the leeway if they make a decision to repeal the usury statutes, but if they do not that the Federal Government should then come in and repeal them for them. Is that correct?

Dr. SEGER. Preempt them.

Senator SARBANES. The answer is yes to that question?

Dr. SEGER. Yes, it is.

Senator SARBANES. Now, Senator Riegle pursued some questioning about the nature of your exchange with Secretary Regan and I wanted to put the same questions with respect to your exchange with Mr. McNamar. Did you all discuss monetary policy?

Dr. SEGER. No, we didn't.

Senator SARBANES. Or the various roles the Fed had played? Did he indicate any views to you about monetary or fiscal policy?

Dr. SEGER. He basically was just chatting with me before I went in to see the Secretary. He showed me a TV screen behind his desk. He knew I was interested in numbers on interest rates, and he showed me how they could bring up different information on computer, page by page. We talked about a mutual friend we have from California who used to work with him; it was that kind of discussion.

Senator SARBANES. Now, you had an hour's conversation with McNamar and Regan put together; is that correct?

Dr. SEGER. I said I didn't time it exactly, but it wasn't over an hour for the two combined, yes, sir.

Senator SARBANES. As I understand the response now, and the earlier responses, you only talked a few minutes to Regan and that was generally about your past experience; and with McNamar you chatted while you were waiting to go in to see Regan. Is that correct?

Dr. SEGER. Yes. I was waiting out in McNamar's office.

Senator SARBANES. And you just chatted? You had not substantive discussions with either of them in the course of an hour?

Dr. SEGER. I didn't say I didn't have any substantive discussion with Secretary Regan. I said we were talking about my background, how being a regulator ties in to the Fed's regulatory activities. The Fed does things other than monetary policy; they do a lot with regulation and supervision. As I said, he was talking about my background.

Senator SARBANES. What aspects of the Fed's work with respect to regulation and supervision were the subjects of your discussions with either McNamar or Regan?

Dr. SEGER. The whole process of supervising banks, the whole process of dealing with problems, dealing with failures, what my experiences were, what my experiences with thrifts were.

Senator SARBANES. Did the issues of deregulation come up?

Dr. SEGER. Not that I recall.

DISTINCTION BETWEEN COMMERCIAL AND INVESTMENT BANKING

Senator SARBANES. Do you support the distinction that's been in the Federal law between commercial and investment banking? Do you think that distinction makes sense?

Dr. SEGER. I think in general it makes a lot of sense to draw a line between commercial banking and investment banking. There are certain activities that are on the fringes of investment banking that I think I can make a case for making available to commercial banks.

I think I mentioned one earlier, the underwriting of commercial paper. Some people would say it's strictly investment banking, therefore, it's a "no-no" for commercial banks. I think it's very closely related to some other things the commercial banks do. It is not underwriting corporate bonds; it's not underwriting corporate stocks, those kinds of things I think are clearly over that line. But some of the more closerly related things—again, underwriting municipal revenue bonds—I think while you could put that in an investment banking category, you can also make the case that when Glass-Steagall was passed 50 years ago the only reason that this underwriting of municipal revenue bonds was not dealt with was that they really didn't have municipal revenue bonds then. I don't think the law was intended to be a direct prohibition. I think it was just not discussed or not handled in the act. The general obligation bonds were, because that was the typical way that municipalities financed at that time. Banks obviously can underwrite those. In fact, when I worked in Washington in the 1960's at the Fed, I remember a lot of articles at that time; some academic economists were arguing in the midsixties for banks to do the underwriting of revenue bonds because they said that it would help governmental units to get a better deal on their financing and would mean more competition and more bids for those various issues and the governmental units would benefit.

Senator SARBANES. I take it you said in your conversation with Secretary Regan that he asked you whether you were a Keynesian; is that correct?

Dr. SEGER. Yes. We were——

Senator SARBANES. He also asked you whether you were a monetarist?

Dr. SEGER. What brought this up was, as I said, a former professor of mine, Professor McCracken, had seen Secretary Regan and had recommended me as a former professor. He used to be here at the Council of Economic Advisers. Secretary Regan considers McCracken sort of an eclectic, and so he said to me, "As a former student of his, basically do you consider yourself a Keynesian, or a monetarist, or something else?"

Senator SARBANES. What was the something else that Regan asked you about, besides Keynesian and monetarist?

Dr. SEGER. I guess "supply sider" would have been the third possible niche, and I remember exactly, in this case, what my response was. I said, "No, I call myself a garbage collector, because I think I have picked up bits and pieces from all of these areas." As I indicated yesterday, the economy that I see out there is very complex, very big, very fast moving, and I have not been able to find a single theory that adequately describes what's going on out there. Therefore, I prefer to say there are many, many things that influence the economy, including the Keynesian approach of Government spending, taxes, and that money matters. And, I think that looking at the supply side arguments, Art Laffer and some of those people's arguments, that you have to consider the matter of providing incentives for the economy.

Senator SARBANES. All right. But essentially the Secretary asked you, "Are you a Keynesian, a monetarist, or a supply sider?" Was there any other category?

Dr. SEGER. Not that I recall.

Senator SARBANES. Not that you recall. Your response to that was not to put yourself in any of those categories and to say you were a "garbage collector" in a sense?

Dr. SEGER. That I subscribe to different parts of difference theories.

Senator SARBANES. My time is up.

The CHAIRMAN. Senator Sasser.

Senator SASSER. Dr. Seger, you have been queried this morning as to whether or not you are a monetarist and whether or not you are a supply sider.

Let me ask you this question. Did you believe in 1981 that the tax cuts that were passed that year would unleash such a surge of savings and investment and work effort and increase in productivity that there would not be a sharp rise in the deficit, as the result of these cuts? It obviously hasn't happened, but did you believe it would?

SUPPORTED TAX CUTS IN 1981

Dr. SEGER. I said yesterday, I did support cutting taxes in 1981. I did think we needed some incentives. As to the second part of your question, I did not say and never believed that the incentives unleashed would immediately cover the revenue decline and that there would be no adverse impact. That never came from me.

Senator SASSER. If it would not immediately cover the revenue declines, did you think it would, at some juncture in the future—2, 3, 4 years out—feel that the tax cuts in the outyears would generate such a vigorous economy that we would not suffer from a large deficit?

Dr. SEGER. I expected the tax cuts to have a favorable impact on the economy. In fact, I think we're seeing it right now. We're seeing——

Senator SASSER. We're not talking about a favorable impact on the economy. My question to you is, did you think that these tax cuts would generate such a vigorous economy that we wouldn't suffer from the revenue losses and that we would not have to have these large budget deficits? That's the question. Certainly, we know tax cuts will stimulate an economy. That's an old Keynesian theory that's been around a long time.

Dr. SEGER. Because of that, though, I think we are seeing additional tax collections; now it has not been adequate to make up to cover the deficit.

Senator SASSER. Well, did you think in 1981, when these cuts went into effect, that they would be generating enough economic activity that we wouldn't have a problem with deficits, that there would not be a sharp rise in the deficit as a result of them?

Dr. SEGER. In the summer of 1981, I did not expect the kind of terrific recession that we ended up going into, and that would run through 1982. I did not have the impact of a severe recession factored into that equation, and I don't think a lot of people did.

Senator SASSER. Well, had it not been for the recession, do you think the tax cuts would have generated enough economic activity that there would have been no sharp decline in revenues and been no enormous increase in the deficit?

Dr. SEGER. I think without a recession, that's probably fair to say.

Senator SASSER. Well, that puts you more on the supply side, I would say, than on the monetarist side; is that a fair statement?

Dr. SEGER. I didn't say I disagreed with everybody on the supply side. I just said I didn't like to be labelled, because I am not in a single category. I think each group, each category, each school, has something to say that I agree with or something to say that I happen to support, and I think that there are parts of the supply side argument that have some merit. I just don't think that that's the only thing going.

Senator SASSER. But you do buy enough of the supply side theory that you thought the tax cuts would stimulate enough economic activity that this would generate enough revenues to cover the tax cuts and the deficit would not soar, as it did, absent a recession, as I understand your statement?

Dr. SEGER. Yes. With "absent the recession" underlined.

Senator SASSER. Well, now we're in a recovery situation, and we have no recession, but we have a structural deficit, we are told, in excess of $100 billion. That is, if we get to a full employment economy, and you get to the natural rate of unemployment, which yesterday you defined roughly as somewhere between 6 and 6½ percent, we're still going to have a structural deficit, according to what I read and see in my calculations, in the neighborhood of $100 billion. Do you disagree with that?

Dr. SEGER. I'm sure there is a structural deficit. Again, I don't know the exact number.

Senator SASSER. So even though supply side is going full blast here and we're experiencing a very substantial recovery, and "America is back again," as we see in the TV commercials, we still have this nasty old deficit of $100 billion hanging around—well, $200 billion, as a matter of fact, $180 billion projection hanging around this year.

Dr. SEGER. Yes. But the point is, we did go through a recession, and we went through a very severe recession, and you cannot just wipe that impact off the books. It set the economy back for probably almost 2 years. It added a lot to the expenditure side, with the usual kinds of programs that are triggered by the recession. We had a lot of them in Michigan that were triggered—unemployment compensation, things like that—which is fine, but we got those larger expenditures.

At the same time, because we did experience the recession, corporate profits slumped, many corporations lost a lot of money, individuals were laid off, their incomes dropped, they didn't get bonuses. Personal tax collections dropped as well as taxes based on corporate profits.

History is cumulative, and what we see today is based on this whole past experience. Maybe we can theorize the recession out of existence, but what we see today is based on the fact that it did, in fact, happen.

Senator SASSER. Let me move on to something else, Dr. Seger.

DO DEFICITS AFFECT INTEREST RATES?

In recent months, the Chairman of the Council of Economic Advisers, Dr. Feldstein, and the Treasury Secretary, Mr. Donald Regan, have engaged in a running battle in the press, and I suppose in the councils of the administration, over whether deficits really matter, and particularly whether deficits affect interest rates.

Now Secretary Regan has maintained that there is no association between deficits and interest rates and demanded that those who allege that fact should come forward with proof; and he was criticized by some of his colleagues at a recent meeting of the European nations economic meeting in Western Europe for those views. Now yet you testify that in your view, deficits do affect interest rates and you gave a seat of the pants estimate, which I thought was accurate—fairly accurate—that present and projected deficits are adding, perhaps, 2 percentage points to the interest rates at the present time.

Now would it be fair to say then that you subscribe to the Feldstein position in this argument as opposed to that of Secretary Regan?

Dr. SEGER. I don't think I really heard the argument. I don't think I want to get in the middle of it.

Senator SASSER. Well, if you have been reading the newspapers, Dr. Seger, over the last 2 or 3 months, you could not have missed it, particularly someone who is interested in economic matters.

Dr. SEGER. I did read accounts of it, but I wasn't there to hear it. I don't know the whole discussion. As I said yesterday, I do think that deficits are having an impact. In fact, I think I gave Senator Riegle three ways that I could think of in which they were, in fact, influencing interest rates; I didn't change my mind overnight.

Senator SASSER. Well, it appears to me, Dr. Seger, to be a simple matter here, to indicate whether you would agree with Dr. Feldstein's position or the Secretary of the Treasury's position, and judging by your testimony yesterday, you agree with the Council of Economic Advisers, as do most economists, but you're saying today you can't take a position on that, you don't know.

Dr. SEGER. I'm just saying I don't know if Secretary Regan really said that deficits don't matter; I don't know if that's what he said.

Senator SASSER. Well, I don't mean to quibble with you or argue with you, but this seems to be so apparent that I would like very much to get an answer from you on this question.

Are you telling us you don't know whether you agree with Dr. Feldstein that deficits do, indeed, drive up interest rates or not?

Dr. SEGER. I said yesterday and I have said again today, that deficits do, in my judgment, influence interest rates.

Senator SASSER. Right. And you said yesterday that in your judgment, the present deficits are probably pushing interest rates up approximately 2 points.

Dr. SEGER. One and one-half to two points.

Senator SASSER. Right. And so my question to you is simply, don't you agree with Dr. Feldstein's position, as opposed to Secretary of the Treasury, who is indicating that there is no linkage between deficits and interest rates? That appears to me to be fairly straightforward and fairly apparent.

[Pause.]

Senator SASSER. Well, I think the answer is obvious. And Mr. Chairman, they tell me my time is up, so I'll yield back.

The CHAIRMAN. Dr. Seger, I do have some additional questions for you. My colleagues don't have to listen, because they have heard my opinions so many times over the years, that they can give them to you for me and save me the time of speaking.

Senator SASSER. Mr. Chairman, we always enjoy your views reinforced by your own statements.

The CHAIRMAN. Well, I'm a supply sider, an unashamed, unabashed supply sider, and I also agree with Marty Feldstein. I also disagree that Secretary Regan totally thinks, as is characterized, that deficits are not important. He does. It's a matter of degree between the two. I choose and have publicly many times stated Mr. Feldstein's view of the nature of deficits. I happen to feel that deficits are the No. 1 cause, overwhelmingly the No. 1 cause of our problems. I happen to think you can't carry a $1.5 trillion national debt. You can't have a $125 billion interest on the national debt, more than $100 billion of it on past debt that was created before a good part of us were even here. Certainly, before this administration was here.

It's also a matter of record that the President's recommendations for tax cuts were delayed. I happen to think the recession would have been much softer had the original recommendation of 10 percent retroactive to January 1, 1981, rather than being cut in half and delayed until October 5, might have had a stimulating impact on the economy. I believe that. That is a personal opinion. I also happen to believe that the cause of deficits is primarily overspending, not undertaxation. For those tax cuts, we were being taxed at a higher percentage of the Gross National Product than was necessary to finance World War II.

TAXES AT RECORD HIGH LEVEL

Even after the so-called Reagan two big tax cuts, we are still being taxed at a record high level as a percentage of gross national product compared to other years. We continue to spend like a former friend of mine, who it didn't matter how much he made. When he made $10,000, he spent $15,000; when he made $25,000 he spent $35,000; when he made $50,000, he spent $75,000. And now he makes a quarter of a million and he's broker than ever, because he spends $300,000.

If you get an old-fashioned accountant who has never heard of partisan politics, Republicans, Democrats, liberals, or conservatives, and he wears green eyeshades and has the black arm band, and you say, "Analyze the Federal budget for us, would you, please, and tell us where you think the problem is." We would get an objective opinion of the budget. That kind of an analysis without regard to politics would simply indicate that the problem is in the entitlements programs, and overspending, also the automatic indexing programs that the Appropriations Committee has no control over, cannot touch, increase the deficit and rob the discretionary programs that in many cases have been cut too much. It happens in my subcommittee—veterans' programs. I'm a card-carrying member of the VFW, the American Legion, and the whole bit.

And I get a budget allocation, a 302(b) budget allocation from the Appropriations Committee and the Budget Committee. What do you do when you get a $1.5 billion increase for veterans? Where does that come from, when you've got a ceiling that you're bumping up against? I'll tell you where it comes from. It comes from housing; it comes from EPA; it comes from the other discretionary programs in my subcommittee. The entitlements get theirs first. Congress doesn't have the courage to attack those.

So we say the problem is loss of revenue. Revenue has gone up dramatically this year over last and the deficit increases. If revenues are going up at record rates over the past year, then obviously spending is going up fast, or isn't it? I think the facts are rather clear on this particular argument. I voted TEFRA. I voted for TEFRA, because 2 years ago I was convinced deficits were really a problem—really a problem—and although I didn't like the tax cuts, my philosophy was as I have outlined to you, I figured the $98 billion tax increase was worth it to reduce the deficit by $98 billion, I would swallow withholding at source, which, as chairman of the Banking Committee, I had unholy hell in voting for withholding at source on interest and dividends. It was worth it, because the deficit was such a big problem.

You know what Congress did? We spent the whole $98 billion and more. There was no deficit reduction. That's why we're trying to hold the package together again. Tax increases will not solve a deficit problem, unless you restrain spending at the same time. The spending cuts that were recommended, along with tax decreases have not been enacted, for the most part. Spending decreases to go with tax increases as a combination have not been enacted, In the conference, we have not been able to accomplish that yet. Yet the tax increase is fine, that's easy. Take more money away from people, but don't have the spending cuts to go with them.

We can increase taxes forever, and until there is a combination of restraint on spending, the budget will never balance. It will get bigger and that has been the history of the decade I have been in this body. We have had several tax increases, all in the name of reducing deficits, for 10 years. But if you take the entire tax increase and then spend that and more, deficits get bigger.

In answer to my colleague's questions, which he has heard 1 million times and Senator Riegle has heard 1½ millions, at least, maybe 2 million, I'm an unreconstructed, unreprentant supply sider, who happens to believe if you let the American people keep some of their money, they will spend it a lot more wisely than we do.

I'm willing to vote for another tax increase, if spending reductions go with it, so we actually get reductions in the deficit. To those who advocate tax increases, alone, without spending restraint, you'll take more money away from the people and the deficits will continue to grow.

For whatever time I have left, I would only say that, don't be hesitant to say, if you lean one way or another. For instance supply sider. A majority of this committee, who has to confirm you, are supply siders. There is honest dissent and disagreement by my colleagues with that opinion, at least on this point and, hopefully, in the near future, a majority of this committee will believe the philosophy that I have described to you.

Dr. SEGER. As I said, I accept the incentive arguments from the supply side, but I am saying. You can't look at that exclusively.

The CHAIRMAN. I understand that you're a "garbage collector."

Dr. SEGER. I am a garbage collector.

The CHAIRMAN. There's your answer.

Chairman Volcker says that monetary policy is directed at achieving a sustained growth in the economy, consistent with price stability. According to GNP numbers released by the Commerce Department this morning, growth in the second quarter has slowed markedly from that of the first. In your view, is the economy expanding at a rate of growth consistent with the Fed's targets?

FIVE-PERCENT GROWTH RATE ON TARGET

Dr. SEGER. The growth in the first quarter was a little above 9 percent, I believe, based on revised numbers and came down to a little over 5 percent in the second quarter at an annual rate. I think that if we go along at around 5 percent or so, that that would be consistent with the Fed's growth targets. As I indicated yesterday, the objective is to have a moderate rate of growth and to maintain it at a noninflationary pace. I think that the Fed's present targets of 6 to 9 percent on M2 and M3 are consistent with that kind of noninflationary growth.

The CHAIRMAN. As you mentioned yesterday, and we all know, the Fed is required twice annually to report to Congress on their monetary aggregate, you feel that these targets are an appropriate guide for monetary policy?

Dr. SEGER. I think they really are appropriate, because it does give a way to quantify some objectives or some targets. It provides a way to communicate with people in the investment community, with the Congress, with the world at large, about what your general approach is going to be, whether you will tamper with bank reserves, financial institutions reserves to the extent that it is needed to produce that kind of monetary growth.

The problem is that you can come up with what you think are good monetary growth targets and yet, all of a sudden, for some technological reason or some innovation that's going on in the real world, velocity will be impacted and, therefore, this amount of monetary growth that you thought was going to have the right impact on the economy does not materialize.

There are other problems involved, and these have to do with the lags—that when the Fed influences reserves and monetary growth we don't know exactly when that is going to impact on the real economy.

The CHAIRMAN. What do you think about the addiction of people to the weekly release of M data? I happen to feel that it is inaccurate, misleading.

Do you feel the publication of weekly data is useful in the market, or would a monthly release be better?

Dr. SEGER. Going back to my days in banking, when people would hang around the ticker every Friday waiting for this great number to come out, I think it is vastly overemphasized. There are sentences on the release saying, "Do not emphasize or do not pay a lot of attention to a single week's statistics." Nevertheless, a lot of attention is paid to them, and I agree with you, they are not that meaningful. They are not that accurate. They're often revised the next week and there are very major revisions in all the money supply series each year. I just think it's too bad that we are making this available and that the investment community is picking it up, using it in an unwise way, and providing extra volatility to the financial markets with it.

The CHAIRMAN. So you feel it would be better to do it on a monthly basis?

Dr. SEGER. I do.

The CHAIRMAN. Have you made any commitments to anyone in the administration with regard to the positions you would take on monetary policy as a member of the Board of Governors of the Fed?

Dr. SEGER. No, I haven't.

The CHAIRMAN. I personally feel very strongly about the independence of the Fed and the lack of politicizing it. So I hope, if you are confirmed, that you will stick to that and make independent judgments and not be forced or feel committed in any way to this administration, or another one, or to Congress. I think that is highly important that the Fed exercise independent judgment without regard to political pressure from any direction.

Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman.

Dr. SEGER, I want to pick up where we were before on the auto industry, since the auto industry is sort of a proxy for industrial base problems.

As you know, one of the reasons that you have been selected is to provide the proper geographic representation on the Board, and so you are here as a representative of the upper Midwest and of our region, therefore, presumably would take with you on to the Board a keen sense of the nature of the problems in our region of the country, and it's very important I think that those special problems of the upper Midwest, the industrial base, be understood, be factored into Fed decisions, be thought of in terms of what the impact of sharp monetary policy changes might be and so forth.

That is really what undergirds my line of questioning the last round on this, if you will again, this time. Now, from the general discussion we had about your view of the auto industry at this point, the internal factors, the drive for efficiency, the external factors that sort of bear in on the industry, I would conclude and I want you to adjust this if you think this isn't right—I would conclude from your answer that if we were to take a scale of 1 to 10, with 10 being a real instance of jeopardy and concern and sort of crisis state of the industry and a 1 being basically clear sailing, that you have some problems there but as you say you are not biting your nails over them. I would sort of say, based on the way you described your view of it, that you would see the auto industry at about maybe a 3½ or a 3 or a 4 on a 10 scale.

Dr. SEGER. I'm at about a 5, I'd say.

Senator RIEGLE. About a 5.

Dr. SEGER. About a 5.

FINANCIAL MARKETS ASSESSMENT OF AUTO INDUSTRY

Senator RIEGLE. You and I agree on something, I think very strongly, and that is the free market system and what markets tell us. What would be your sense as to how the financial markets are judging the future problems of the auto industry, and how do you think the financial markets would be answering that same question of their sense of the uncertainties on a scale from 1 to 10? Would you say the financial markets are at about a 5, what is your view on this?

Dr. SEGER. Obviously this is a guess because I haven't talked to any auto analysts lately, but I would say their immediate assessment is probably around 5.

Senator RIEGLE. OK. Now——

Dr. SEGER. May I just elaborate on that?

Senator RIEGLE. Yes, please do.

Dr. SEGER. I think what is influencing the P/E ratio on stocks of the Big Three, which is sort of the next step, is that, again, people are looking out further. Analysts have a bad habit—or maybe it's a good habit—of looking into the future and they try to predict what the impact will be on these companies, these industries in the future. And therefore the opportunity to make money in those stocks. I think they are looking down the road apiece, and maybe they're not as convinced as I am, based on some of these personal contacts, that the companies have taken the steps internally to get their products in better position to compete with the Japanese.

Maybe I'm overestimating.

Senator RIEGLE. This is a very important distinction here. You are saying you think in general the financial markets, as they look at the auto industry, probably come out at about a 5 which is about where you put yourself. Is that correct?

Dr. SEGER. In terms of today. But I think the reason the auto stocks are selling at relatively low P/E's is that the auto analysts don't see this nice profit recovery that we have seen at GM, Ford, and even Chrysler lasting on into the future. They say, yes, a tremendous rebound now.

Senator RIEGLE. Do you see it lasting on into the future?

Dr. SEGER. Not at this rate of improvement. Obviously when you go from practically zero to a big profit number just the arithmetic gives you a very tremendous rate of earnings growth. I don't expect that same number to be maintained into the future. But I do expect, barring a disaster of some sort, the auto earnings to continue to tip up.

Senator RIEGLE. OK. Now this is very important and I want you and I to make sure we really have an understanding as to this issue, and as to where we are and what your views are and that they are on the record. I think this is a key issue and I want to tell you that now so that you will know we are going to take some time on it. And I want to make sure in the end that what you are saying is exactly what you believe.

Now in terms of the financial markets today, the financial markets are looking at the auto industry and the auto stocks, and they are obviously not betting on what's happened in the past. They are betting on what they think is going to happen in the future and so they take a look at it in the future, today, tomorrow, the next day, the next 2, 3, 4 years, and so forth, and their sense of the future is reflected in the prices they are willing to pay today. Now I want to be sure that I understand your answer of a moment ago, when you talk about the financial markets. I'm not talking about analysts who do auto stocks and who are buried somewhere in a brokerage firm. I'm talking about people that are paying money to buy auto stocks. I'm talking about the financial markets.

I understood you to say before that you thought the financial markets, assessing the future of the auto industry, would rank their sense of the future prospects of the industry at about a 5 on a scale of 1 to 10.

Dr. SEGER. Then you misunderstood my comment.

Senator RIEGLE. That's what I want to get clear.

Dr. SEGER. What I thought I said was that I felt that a 5 would be about the right number to use to describe how they felt about the industry today. There is a distinction, though, between their feeling about the present and their view way out in the future, and that is the view that is producing what we discussed as the tiny P/E ratios.

Senator RIEGLE. That's what I would like to compare. I would like to compare your sense of the future prospects with the financial markets sense of the future prospects. So, what I'd like you to do if you can, is give me the bottom line and then the basis for the bottom line, because I think we can get there quicker. What I'm wondering is, I understood your earlier comment when I asked in the last round about your assessment of the future prospects of the industry, that you responded now by saying about a 5 on a 1 to 10 scale.

Dr. SEGER. Right.

Senator RIEGLE. And I'm asking you the same question about the financial markets. Do you think they are at about a 5 on a 1 to 10 scale, or are they at a different point on a 1 to 10 scale?

Dr. SEGER. No. Looking way into the future I'd say they are down—again, this is a rough guess—a 7, something like that.

Senator RIEGLE. Well, it would be the other way around. So there is a 7 alarm level.

Dr. SEGER. Yes. I thought you said 1 was the least.

Senator RIEGLE. Oh, you are exactly right. They are at a 7 and you are at a 5 and this is what I wanted to pursue because this is an important question. It's an important question that will be a reflection of your judgment, and it's a reflection of how I think you might participate in decisions on the Board. I look at what the financial markets are telling us and I put a lot of weight in it, not absolute weight, but a lot of weight. And I take a look at other Michigan entities that we are both familiar with. K-Mart selling at 8 times earnings; Kellog selling at 9 times earnings; Dow at the moment selling at 16 times earnings; Burroughs selling at 11 times earnings; Upjohn, 11 times earnings; Detroit Edison which is in a tough industry that's got its problems right now with variable multiples in the utility business and especially in regions like ours, only 6 times earnings.

EXTRAORDINARY SITUATION WITH AUTO INDUSTRY

But then I move to the auto industry and I find what I consider to be a remarkable situation, an extraordinary situation, especially in light of the recent sales levels of the industry, the underlying strength of the economy, the surge that the economy is in, and profits in the industry. I find that in the auto industry companies based in our State, General Motors, the premier company, accounting for half the domestic industry—is selling at four times earnings. This is substantially below even the lowest of the low in a broad range of other Michigan companies and industries that have their own problems. But GM looks good in comparison to Ford and Chrysler. They are selling at three times earnings and actually closer to two times earnings in one of those cases.

I must tell you that I don't know, nor can I find or recall a contemporary example of this contradiction, this anamoly, where the auto companies with this strong current performance have been valued so low in terms of the market's assessment of their future prospects as it shows up in the price. And I say to myself the markets are telling us something.

The financial markets are flashing a great big danger sign and you say that you are in accord with what they are saying as maybe expressing an alarm level at a 7 on a 1 to 10 scale. I think it's probably higher than a 7. I mean, we just would have a difference on that. I think it's probably an 8 or an 8½. But when you start to get up into that high range and close to a 10, there's a very, very powerful message in that.

Now, maybe the financial markets are wrong—and I hope they are—but my experience has been that more often than not they tend to be more often right than wrong because they are betting their own resources and, therefore, they are pretty cold and calculating in how they make these judgments and it seems to me I want to understand—and its difficult during these 10-minute time segments—why the markets see this differently than you see it and I want to understand better why I also see it differently than you see it because I'm going to really need to understand that. I want to track through the relationship as to how your judgment about this is likely to affect decisions that you will be called upon to make on monetary policy. I'll make it just crystal clear in terms of what I'm driving at here. And that is that we are moving into kind of a credit crunch at the moment.

Interest rates have gone up. There is a tremendous pressure on the supply of available credit. Interest rates would be even higher if we weren't getting an influx of foreign money. And so in a sense that's artificially keeping interest rates lower than they might otherwise be.

They could even be higher than that but for all that foreign money flowing in here. I see a situation here where the auto industry is beset by a number of very serious challenges in terms of its future prospects. A very important one is interest rates and what the monetary policy is likely to be and what I don't want to see happen and what I'm not prepared to see happen to the extent I can prevent it is I don't want to see the Fed miscalculate with monetary policy decisions at some point along the line here that really crunch the auto industry and crunch the housing industry as they have done before and which we have seen just in the recent past because I'm not convinced that the industry can take it again—not this soon in conjunction with other factors.

You can talk about the eternal efficiencies and you know I spent as much time working on that as anybody, and we had made considerable progress, but we haven't made nearly the progress in the aggregate sense that we need to make, and that's why the financial markets don't want to buy the auto stocks today. That's why they are cheaper than they have ever been in terms of their price earnings ratio in relationship to their current performance and so I see sort of red warning light flashing all around here and so far, at least in terms of what you said to me, I don't sense that you see it the same way. Not that you have to.

I mean you are entitled to your view and that's what I wanted to get on the record. But in terms of drawing whatever difference of opinion there is, I want it clear cut in terms of what you see that is likely to be the basis for your judgment if you are there making these decisions. Because we can't afford to miscalculate because our State I don't think, can go back through the grinder again of the kinds of situation that we were in the last time the roller coaster went down and expect to come through the same way we have come through this time. We are in our 52d consecutive month of unemployment, above 10 percent in Michigan, as you well know.

We have been battered, so when we get back into this I want to pick it right up again. I'd rather not do it in 10-minute segments, but I want to take it right out to the absolute end of the discussion with respect to the auto industry and the factors that bear on it at this point, and I hope that helps illuminate where I am going because I want you to see the line of discussion so that you can think about it in those terms so it isn't a question of my trying to not give you a clear sense of what I'm driving at.

Mr. Chairman, my time is up.

The CHAIRMAN. Senator Cranston.

Senator CRANSTON. I'm glad to have a chance to see you and ask you a few questions. I'm sorry I wasn't able to be here at earlier stages of this.

Yesterday you testified you supported the 1981 tax cuts at that time. In retrospect, given the size of the deficit, do you now think that a smaller tax cut, foregoing, for example, the third installment of Kemp-Roth would have been wiser?

DIDN'T ANTICIPATE SEVERE RECESSION

Dr. SEGER. I still think that the 1981 tax cut was a good idea. I certainly didn't anticipate, in the summer of 1981, that we would have this very, very severe recession, and I think that that was what caused the deficit to explode as it did, more so than the fact of the tax cut Senator Garn argued a few minutes ago that if the tax cut had been bigger and had been legislated earlier, that we might even have avoided part of the recession. That wasn't my argument, but it is sort of an interesting one. I did support the tax cut and today I still think it was a good idea.

Senator CRANSTON. Do you think that a tax increase now, given the strength of the recovery is needed to reduce the deficits?

Dr. SEGER. I think that the deficit has to be reduced and I guess my proposal would be for a combination of tax hikes and expenditure cuts.

Senator CRANSTON. You referred to an unexpected recession. Do you think that the money policies of the Fed were a major factor in producing that recession?

Dr. SEGER. Yes, I do.

Senator CRANSTON. What policy do you think the Fed should have followed then at that time to avoid that recession?

Dr. SEGER. I said I thought the tight money policies had a lot to do with it, but at the same time, I would add, I don't think they had a lot of choice about what to do because of the tremendous inflation problems of the late 1970's, 1979 and 1980, when inflation was running at a rate in excess of 12 percent per year.

Senator CRANSTON. Would you have followed that tight money policy as a Fed Board Member despite the fact it would predictably produce a recession?

Dr. SEGER. I would have. As I think back to what was going on, the chaos in the credit markets, the concern overseas about our economy, the lack of faith in our dollar. These are tradeoffs, I understand, but it seems to me the inflation issue had to be dealt with. It was a painful way to deal with it, but I don't know of any alternative.

Senator CRANSTON. It seems to me there are many alternatives in long-range terms in ways of dealing with the lack of productivity in our economy that would get workers and plants in a position where they would be more competitive and more productive and I don't think we're going to deal with inflation in any long-range term by turning on and turning off the money supply.

That may deal with immediate problems but it doesn't deal with the long range problem. Are interest rates too high at the present time, in your judgment?

Dr. SEGER. Interest rates have risen since the beginning of the year, but they are not back up to their peak. I believe in market forces determining interest rates and, having said that, I'd say they are about right.

Senator CRANSTON. You think they are likely to go up or down during the course of the remainder of this year?

Dr. SEGER. Again, there are a lot of forces that influence interest rates that I don't have control over. I'm not sure how they are going to work out, including what steps will be taken in the remainder of the year on the budget. But my best estimate would be that there will be a modest upward rise in interest rates for the rest of the year.

Senator CRANSTON. I expect, too, some increase. Under present conditions, would you rule out any easing of monetary policy intended to lower interest rates, assuming there's no action in Congress to reduce deficits other than the so-called downpayment? Should the Fed, in other words, ease up somewhat in order to prevent interest rates going up which could produce another modest or conceivably a strong recession?

Dr. SEGER. As I indicated earlier—probably before you arrived—I think the Fed is interested in pursuing a monetary policy that provides a continuation of this economic recovery, and furthermore maintains it at some sort of a moderate, noninflationary rate. I think that's the real goal and the real desire.

If you look at where the economy stands today, we have had a nice recovery for about 1½ years if you look at where business activity is now relative to the capacity of our economy to produce, then I think that you have to be looking at the total economic policy picture. If the deficit is dealt with by Congress, if there is this cut and if the cut materializes soon, then I think that, again, if you look at the overall economic policy picture, a little more fiscal tightness would allow for some sort of adjustment in monetary policy in the other direction, toward somewhat more ease. But I think you have to look at it, too, as part of a package.

Senator CRANSTON. Do you believe that the Fed can have significant impact on interest rates?

Dr. SEGER. I think they can, short run. But we've got very smart people in the financial markets. Senator Riegle and I have just agreed, these people are following everything that the Federal Reserve does. They are following everything that goes on in Washington in terms of fiscal policy. If they saw the Fed taking some steps, short term, to tamper with interst rates, to push them down, when the basics didn't call for it, then I think the response in the financial market very quickly would be to get all riled up about inflation—about very severe inflation—and that concern in itself—sort of anticipating what the impact of the Fed efforts to lower interest rates would have on the economy—that that anticipation itself would have the effect of pushing interest rates right back up. The Fed could do something immediately, but I don't think they would have long-term control over that.

Senator CRANSTON. Do you think the deficits are the principal factor or at least a principal factor in our high interest rates?

Dr. SEGER. I have indicated, yes. I'm not willing to cite any one factor as the only or the most important one, but I think the deficit is certainly a very important factor.

HIGH EMPLOYMENT/LOW RATE OF INFLATION POSSIBLE

Senator CRANSTON. Do you believe it's possible to have high employment and low rates of inflation?

Dr. SEGER. I think that's what we are all aiming for right now. In fact, as I read the numbers, I think in the last 1½ years that's exactly what we have gotten. The employment rise has been very dramatic; the unemployment decline, even in States like Michigan, has been very significant.

As Senator Riegle and I both agree, it's not down to the absolute levels we'd like to see, but in the last year or 1½ years, the drops in the unemployment rate in our various industrial cities in Michigan has been very dramatic and it's dramatic nationwide. It's over 3 percentage points. Yet we have managed to bring the rate of inflation down from above 12 percent in 1979–80 to a little below 4 percent in 1982 and 1983 and in the last 12 months, inflation, as measured by the Consumer Price Index, is probably running a touch above 4 percent; and the producer price index, in the last 2 months has shown no change at all.

I think what we are seeing right now does demonstrate that it may not be possible forever, but there are times when in fact you can accomplish both. If business people and the individuals who are making the hiring judgments have confidence in the long-term future of the American economy, and if they have confidence that we are going to really keep inflation under control, I think that they, in turn, will be willing to make those decisions to expand, to enter new ventures, and to create still more jobs.

Senator CRANSTON. Unemployment has come down, but it's still unpleasantly high for a great many people. In your judgment, if we didn't change any policies, but just followed the present course, would we be able to arrive in a reasonable time to a reasonably low unemployment, or full employment, with inflation still checked?

Dr. SEGER. People have different views about how much slack there is in the economy and whether the slack is at the manufacturing end of the economy or whether the slack is in the labor markets. In my own judgment, there is still some room to maneuver and we can, in fact, get the overall unemployment rate down still further before we run into this sort of "hard core" at the bottom, which is basically structural unemployment.

To deal with that problem, we've got to do things like getting people retrained, taking individuals who are in industries that have been technologically outmoded and getting them geared up for other kinds of jobs. I happen to have been talking to someone last week who was laid off from a tire plant in Jackson, MI, and now he is learning to be a manager for a Domino's Pizza. This is the kind of thing that we have to do, get people moved out of the industries that are declining or having trouble and get them trained and get them willing to move into those areas where the opportunities are, and, you know, that isn't done over night.

Senator SASSER. Would the Senator yield for just a moment in order that I might make an inquiry of the chairman?

Senator CRANSTON. Sure.

Senator SASSER. Mr. Chairman, I have an engagement at 11:30 which I very badly need to keep and I would like to inquire what the chairman's plans are for the remainder of the day or the remainder of the afternoon. I say that in the context of some additional questions I'd like to ask Dr. Seger.

The CHAIRMAN. The committee will not be able to meet beyond noon. We do not have access to this room beyond noon so we'll close this morning at noon and we will reconvene in the Senate Banking Committee hearing room at 9:30 in the morning.

Senator SASSER. I thank the chairman.

The CHAIRMAN. And we will meet each and every day—Monday, Tuesday, Wednesday, Thursday, and until my colleagues are satisfied with their questions. So, however long you wish to ask questions, I will accommodate you, but we will meet each day.

Senator SASSER. Well, I don't think my additional questions would be that extensive I'll say to the chairman. Another 30 or 40 minutes probably will wind me up.

The CHAIRMAN. I have just been talking to Senator Cranston and mentioned to him we would accommodate any members of the committee who wish to ask questions. In response to your questions for the outline, we will hold hearings as long as necessary to accommodate you or anyone else who wishes to ask questions.

Senator Sarbanes.

Senator SARBANES. Thank you, Mr. Chairman, and also thank you for outlining the procedure we will be following.

I have three or four subject areas additionally that I want to cover and will possibly complete my questioning.

FED POLICY IN 1981 AND 1982

Dr. Seger, I understood your answer to Senator Cranston to be that you thought the policy that the Fed followed in 1981 and 1982 was the proper policy, in the sense that you felt that that was the only choice that they had.

Did I understand that answer correctly?

Dr. SEGER. That's also what I said yesterday when I indicated they were between a rock and a hard place, that they were running out of options.

Senator SARBANES. I have here a UPI report of July 1981, and I'm just quoting it.

It says:

> In an interview to be shown on WXYZ TV, the head of the State Financial Institutions Bureau

Which was you—

> Also said the Federal Reserve Board must loosen its tight monetary policies in order for the auto and construction industries to recover.

How do you square that statement of your position on the appropriate policies for the Fed with your responses that you have just given to the question posed to you by my colleague, Senator Cranston?

Dr. SEGER. I wasn't on the Fed. I thought Senator Cranston's point was what would I have done as a Fed member at that time.

Senator SARBANES. In other words, you had one position as a head of a financial institutions bureau than if you had been on the Fed?

Dr. SEGER. It would have made our life easier in 1981 to have had somewhat easier money. I don't remember this interview that he's referring to. I don't have a perfect memory. But I'm saying that I think for the people that had the decision to make—which was the Federal Reserve Board—that they probably had to look at the tremendous inflation that they had to deal with.

Senator SARBANES. But you said this money you thought they pursued the right policy.

Dr. SEGER. As a Board.

Senator SARBANES. And yet you're quoted here at the very time, as saying that that was not the right policy for them to be pursuing.

Dr. SEGER. As I said, I don't even remember that interview.

Senator SARBANES. Are you denying that this was your position at the time?

Dr. SEGER. I said that I was sure that in Michigan in the summer, whatever the month was that you indicated——

Senator SARBANES. July 31, 1981.

Dr. SEGER. In the summer?

Senator SARBANES. The UPI ticker, "In an interview to be shown on WXYZ TV, the head of the State Financial Institutions Bureau also said the Federal Reserve Board must loosen its tight monetary policy."

Dr. SEGER. As I said, I don't even remember this interview. But as I indicated, in Michigan in that summer, I am sure that with high interest rates and the severe problems with financial insitutions, and the unwillingness of the State to deal with our usury problem, that probably, at the time, it would have seemed nice if monetary policy had been somewhat easier.

Senator SARBANES. In other words, you're saying that is the position you took at that time?

Dr. SEGER. I'm saying I don't remember exactly what I said in July of 1981.

Senator SARBANES. Were you surprised after you had interviews with McNamar and the Secretary of the Treasury and with the Federal Board member Martin, that you did not have an interview with Chairman Volcker—did not meet with Chairman Volcker?

Dr. SEGER. I've never been considered for this kind of job before. I have no idea to whom one normally speaks and by whom one is interviewed.

Senator SARBANES. Well, let's proceed on the assumption that you're not an unintelligent person. Operating on that assumption for the purposes of this question, didn't you find it somewhat amiss that you talked to virtually everybody except the Chairman of the Federal Reserve Board?

Dr. SEGER. As I indicated yesterday, I didn't call the shots. I didn't ask to be seen by certain people and not by others. I had no idea what the usual procedure is. I had no idea if Chairman Volcker was away. I honestly didn't know.

Senator SARBANES. You didn't wonder to yourself why you were seeing everybody but Volcker?

Dr. SEGER. I didn't. In fact, you know, maybe it would have been presumptuous.

Senator SARBANES. Did it occur to you, that there might be some reason for that? Did you have any idea in your own mind what that reason might be, why you weren't meeting with Volcker?

Dr. SEGER. Maybe being in the real world for 10 years did something to my judgment, but I know a lot of people who are hired—including executives at big banks—who are not interviewed by the chairman of the board. I guess it occurred to me that what they want to do is to have various people look you over when you're being considered for any job. They don't just want it based on the judgment of one person in the personnel office; therefore, they ask various people to talk with you.

As I said, I hadn't gone through this before.

Senator SARBANES. No, I wasn't asking whether it was appropriate that you be seen by others, as well. I was just wondering, asking, did it not seem somewhat strange to you that you were not seeing the Chairman of the Federal Reserve Board when you were being considered for appointment as a member of the Federal Reserve Board?

Dr. SEGER. That's what I'm saying. I guess it didn't seem that strange, because when I have been hired by a couple of different banks I wasn't interviewed by the chairman of the board or the president. I was interviewed by high-level people, but not the top banana. And so——

Senator SARBANES. On the theory, the top banana may be too busy and too involved?

Dr. SEGER. Or maybe I wasn't important enough or he was out of town. But I just know——

Senator SARBANES. Assuming the Chairman of the Fed is a pretty busy person, what about the Secretary of the Treasury? How come that top banana was not too busy and the Chairman of the Fed, I guess on your assumption, was? Do you have any idea?

Dr. SEGER. I didn't say that the chairman was too busy. I said I didn't know.

Senator SARBANES. And it didn't seem strange to you?

Dr. SEGER. No, it didn't.

Senator SARBANES. No, what is your view of the independent role of the Federal Reserve Board in the making of economic policy in this country?

FED IS A CREATURE OF CONGRESS

Dr. SEGER. As I was discussing with Senator Proxmire yesterday, obviously, the Fed is a creature of Congress. Your predecessors passed the law in 1913 creating the Federal Reserve System, so, obviously, the Federal Reserve is ultimately yours to structure. It's structured now under a certain law and other laws obviously can be passed to change the structure. There's no doubt about it.

As I read the history of the Fed, it seemed that they took steps when they did structure the original system to select seven Governors, first of all, and to have their terms end in alternate years and to give them long enough terms to supposedly remove the Federal Reserve from everyday political pressures. But that doesn't mean, as I see it, that they are or should be completely immune to Congress, because, as I said, ultimately the Fed is your creature.

Senator SARBANES. Leaving aside the relationship of the Fed with the Congress and your observation that it should not be completely immune to Congress, what is your view of what the relationship should be between the Federal Reserve Board and the other departments in the executive branch?

Dr. SEGER. Again, I believe in an independent Federal Reserve System and, as I understand it, the deliberations at the Fed are based on analyses that their staff members prepare. When I was a low-level staff member in the 1960's, I could see what was going on then, but I have not been involved with it recently in person.

There is independent judgment there of economic developments. They do their own forecasting, look into the future and try to decide what the appropriate moves are to take. At the same time, we do, in this country, have certain general economic objectives, as I recall them from the Employment Act of 1946, which indicate that all of our economic policy—at least, ideally—should be directed toward having the economy move at or increase at a sustainable rate, that we should have high levels of employment, and that we should have price stability. I think that goes back to that piece of legislation that an earlier Congress passed. I think that, again, the financial community would be much more satisfied if they thought that everybody in Government was shooting toward the same goals, and that even though they have differences of opinion about the exact way to get there and the exact amount of tinkering to do to hit those goals, that everybody was in the same ballpark and playing the same game.

I think that we do need to have some communication, let's say, between, the Council of Economic Advisers we should hear what their concerns are and, have the Fed aware of what the CEA's concerns are. Not that they're bossing the Fed, but that you are communicating with each other. I don't think that necessarily damages the independence of the Fed. The CEA's not calling the shots.

Senator SARBANES. Mr. Chairman, my time is up.

I don't know if you have some questions, but if Senator Riegle, perhaps, would defer while I'm on this subject, I'd like to pursue it further.

The CHAIRMAN. Well, if the Senator would not mind yielding for today, I do have a conference with the House Banking Committee on an issue with Congressman St Germain and the only time we could find was to start at noon with the Conference, and we lose the room at noon as well.

I would come back and would again repeat, that we will reconvene at 9:30 in the Senate Banking Committee chambers.

Senator Riegle has indicated he cannot be here until 10 am. If you could be here at the beginning, you could certainly be first to pick up your line of questioning at the beginning of the hearing.

Senator SARBANES. I don't know my schedule, but I'll make every effort to be there. Fine. Thank you.

The CHAIRMAN. Also let me just ask unanimous consent. For the record, I do have a large number of letters of support from various individuals in Michigan in support of your nomination, including one from Paul McCracken. I'll just quote one paragraph out of that letter.

In my judgment, Dr. Seger would be a natural for the position. She has intellectual ability, tough mindedness and experience in the realities of banking during her period as commissioner of banking here in Michigan. She could hit the ground running in the Federal Reserve Board.

I would ask unanimous consent that all of these letters of support be included in the record at this point.

[Letters in support of Dr. Seger's nomination can be found in the appendix.]

The CHAIRMAN. We do appreciate your patience, and I have neglected to ask one thing, as I have announced arbitrarily here the time. I suppose it would be nice and kind if I would just ask you if you could come back at 9:30 in the morning?

Dr. SEGER. I'll be here.

The CHAIRMAN. All right. We'll look forward to seeing you in the morning. Thank you very much.

The committee is adjourned.

[Whereupon, at 11:50 a.m., the hearing was adjourned, to reconvene at 9:30 a.m., Thursday, June 21, 1984.]

NOMINATION OF MARTHA ROMAYNE SEGER TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

THURSDAY, JUNE 21, 1984

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

The committee met, at 11 a.m., in room SD-538, Dirksen Senate Office Building, Senator Jake Garn (chairman of the committee) presiding.

Present: Senators Garn, Riegle, and Sarbanes.

OPENING STATEMENT OF CHAIRMAN GARN

The CHAIRMAN. The Banking Committee will come to order.

Dr. Seger, I appreciate your patience. Once again, without even consulting you, we changed the hearing time from 9:30 to 11. The Senate was in session until 4:13 a.m. I remember very precisely we were in until 4:13 this morning, so if I fall asleep in the middle of the questioning I want you to know it is not personal. At 20, it didn't bother me to go to bed at 4 and get up at 8, but at 51, it does. There's no doubt about it.

We do appreciate your patience and willingness to accommodate your schedule with that of the Banking Committee.

Let me start off by once again saying that as we start this session today, I believe the issue before this committee is simply your qualifications to serve on the Federal Reserve Board; there are some other extraneous issues, that I tried to point out in other sessions, I do not think bear one way or the other on whether you are qualified to serve on the Board.

But, the issue does include, in my mind, maintaining the independence of the Board from a partisan point of view, not only from a partisan point of view, but simply Congress and the administration—whether it is this administration or any other.

I feel very strongly that even though the Fed is a creature of the Congress, nevertheless, it is fundamentally important to maintain its independence. I think anyone who objectively views the Federal Reserve Act can see that the intent at a 14-year term was to maintain the independence of the Fed and avoid politicizing the process—I am not talking about partisan politics at this point—the intent was to avoid politicizing the process, so that Presidents, Congressmen, and Senators were not able to dictate monetary policy.

We obviously control fiscal policy. I don't think that anyone would agree that we have a very good job with that. I have often used the example in speeches and here in the committee, that when I was mayor of Salt Lake City and needed a fire chief, I did not go to the Utah State Prison and interview the arsonists out there to find out who should be the new fire chief.

When I look at the record, through not only the 10 years I have been here but a long time before that in Congress with both Republicans and Democrats serving, the record is self-evident that we have done a terrible job with fiscal policy.

We have $1.5 trillion national debt. We have interest on the national debt in excess of $125 billion.

I would hate to have the same people that have been managing that fiscal policy being able to dictate the monetary policy of this country. We have some specific examples of that; 10 years ago, when I first arrived here, Congress was trying to mandate legislatively the monetary targets at various high levels, far, far beyond what Arthur Burns at that time wished to do.

So, it is not really a question as much as a statement that when you are confirmed, I certainly hope you understand my attitude about the independence. I may yell and scream at you as I do with Volcker at times, and I won't be hesitant to express my viewpoint.

The point I'm making is that, as a member of the Federal Reserve Board, any member of the Federal Reserve Board ought to be able to say "I disagree."

I certainly would not want to put controls on anyone expressing their views, but the independent nature of the Fed is very important to me.

I think one of the things that is very important in your background and qualifications for this job is the fact that you have been a bank regulator in a very large and important industrial State. A State, which, as my friend from Michigan has outlined very well, over the last few years has had much more difficulty than a lot of others—certainly more than mine. Higher rates of unemployment, being one of the older industrial States, being hit very, very hard by the recession.

And so I think your experience in that kind of environment in Michigan will be very helpful with some of the difficulties we have with institutions all over the country. And I believe your experience would give you some insight, as a member of the Fed into the supervision and regulation of financial institutions all over the country.

If you can explain briefly, while you were in Michigan, in that position, what experience did you have with failing banks?

STATEMENT OF MARTHA ROMAYNE SEGER

Dr. Seger. During the 2 years 1981 and 1982, which as you indicated, were extremely tough ones for the economy and also for the financial institutions, bank savings and loans, and all other types, we actually managed to contain the damage. We had one bank failure. That was a small bank, a little under $20 million, in a small town near Ann Arbor, MI. We worked very diligently—obviously, we had other problems—we worked very diligently to get another bank to acquire it before it actually went the full route toward failure.

Various banks backed out of the deals or the regulators decided that the bank that had shown an interest really should not acquire this bank, because it might have some problems of its own; the Federal regulators were concerned that adding these problems on top of the acquiring bank's own problems might be the straw that would break their back.

Consequently, we ran out of all of our options and had to end up getting this bank declared insolvent and placed into receivership. The FDIC, of course, was made the receiver.

We had a number of others that were in very bad shape, but we were able to arrange "shotgun marriages" for them, we were able to get them acquired by holding companies, and therefore prevented the newspaper impact of showing a failure. I think when you are already depressed and the psychology in the entire State is very negative, you don't want to add insult to injury by having still more emphasis put on our problems.

What impressed me though, at the time, was how very difficult it is to contain these problems. Once a bank gets into trouble and these problems stack up, there is a cumulative effect; and it is like the momentum that builds, I guess, in many other aspects of life. The momentum is positive as you go forward. If it is a negative momentum, it is always hard to stop that. It took a lot of hard work. It took a tremendous amount of telephone calls, personal contact, running around trying to get the various people involved so as to contain the damage.

That was the basic experience that I had.

NEED DUAL BANKING SYSTEM

The CHAIRMAN. As a former State regulator, I would assume that you would strongly support the dual banking system. From that experience, what role do you think that the Federal Government should play in the supervision and regulation of State-chartered institutions?

Dr. SEGER. You are right that, as a former State regulator, I do have views about this philosophy; we certainly need a dual system and we need to have more input to regulation than that coming just from the Federal Government.

The Federal role at the moment for State banks is, of course, that if you are a State bank and a member of the Federal Reserve System, then you have two sets of regulators to deal with. You have the individual State and then you also have, of course, the Federal Reserve examiners to deal with.

If you are State chartered, but are not a member of the Federal Reserve System, then you deal, again, with two sets of regulators, those at the State level and with the FDIC. That is the current arrangement.

If the bank is a part of a holding company, then even though it is not a member, the holding company has to deal with the Fed.

In terms of my attitude toward changing this and toward improving it, I certainly support the recommendations of the Bush task group report, which would take the FDIC out of the business, basically, of regulating and supervising banks. It would leave them primarily as the insurance agency for commercial banking. It seems to me that there is a lot to do just right there.

The Federal Reserve's role would be changed, in that they would take on the State banks that are being given up by the FDIC, and I certainly think that is OK.

Ultimately, though, the individual States would be given more authority and more responsibility than they now have—at least that is the way I read this recommendation—and the amount of responsibility that would be given to them to regulate and supervise would be based on certain criteria that are set up, and they would have to be certified.

In other words, you don't want to turn this over for straight philosophical reasons, and then find, in fact, they don't have the necessary staff, or they don't have the dollars allocated to them, appropriated to them, by the various State legislatures to do their job.

I think that there is a role for the Federal Government in regulating State-chartered banks. I think it is basically one of cooperation, one of support—again, having the Federal Reserve perhaps work more closely with the States in getting examiners trained, or in suggesting improved ways of doing things.

In a State such as Michigan, in 1981 and 1982, we had terrific budget crunches. One year we had our budget cut 25 percent, and it was very difficult to live with that kind of a cut in a crisis environment. Possibly there would be a way for the Federal Government to inject some dollars in such a crisis to support the system and keep it operating well.

That is my philosophical approach of getting things done well, of having the supervisory process work better.

As I indicated yesterday and the day before, I think we really have to do this in order to get to the bottom of the problems.

The CHAIRMAN. To follow along on that, that general sense, what should we be doing—when I say "we," I mean the Congress, the Fed, the other regulators, State and Federal—what should we be doing to strengthen the banking system?

We are right now in a period when virtually every day we are hearing about the weakness of the system. Continental Illinois has certainly brought that to the forefront. The rumors are far worse than their actuality. But nevertheless, there are some real problems out there.

Generally, what would you recommend to strengthen the system?

Dr. SEGER. I am going to back into that by commenting just a second on what contributed to some of the big problems that we have had in the system the last few years, and that have weakened the system in the last few years, and I think these were basically economic problems.

In the 1970's, going back to about 1973, we had a tremendous amount of economic turbulence and several very severe recessions. We had numerous business failures. The oil embargo was a tremendous shock to the U.S. economy.

Later, in the 1970's, we had this tremendous outburst of inflation. We had interest rates going to unprecedented high levels in the late 1970's, and very early 1980's, and this was an environment in which banks and other financial institutions, as a matter of fact, found it very difficult to operate. They are out there and they operate in a certain environment, in a certain economy, and they cannot isolate themselves or insulate themselves from all those economic tensions and pressures.

CONCENTRATE ON FUNDAMENTAL ECONOMY

Using that to answer your question about improving the banking system and the stability of the financial system, I think we have to concentrate, No. 1, on the fundamental economy and to make sure that our economy does run in a noninflationary fashion. If that is the case, then presumably, we would not see interest rates go through the roof once again, which would put these institutions in a very severe bind once again.

Another way that I think we can improve the system is, through supervisory actions, to urge the management of these various institutions to get on top of things, to get the management thinking in terms of asset-liability management, to get them conscious of the need to match the liability side with the asset side. Interest rate deregulation, going back to 1980, made this more urgent.

Although I still think dereg was a good idea, a number of banks were sort of caught by surprise by that; all of a sudden the interest rate ceilings were being pried off on their liability side, on their cost of funds, and yet they had made these commitments in prior years on the loan and investment side. To the extent those commitments were very long, if they were made at fixed rates, then these institutions were put in a tremendous squeeze.

I think there is such a thing as preventive medicine—by encouraging them to pay more attention now and in the future, in terms of new commitments, and to make sure that they don't continue with this mismatch.

I think, as a matter of fact, some of this is going on, and we are educating bank management to the need to manage in a different way than they used to back in the 1950's and 1960's, when times were much less turbulent, and also when deregulation had not occurred.

There are, I think, some other ways to strengthen the system which involve, for example, revisions in deposit insurance and the way that is handled.

Putting the emphasis on market discipline will feed back presumably to the directors and the active management of these institutions, to do things in a way that will allow the institutions to be profitable but will not be so risky; that will at least stabilize the system.

That is a long-winded answer.

The CHAIRMAN. Thank you. Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman.

How are you this morning? I hope you were not up as late as we were.

Dr. SEGER. No, I was thinking, I am of his generation, and I need sleep, too.

Senator RIEGLE. Yes. We have really been burning the midnight oil around here.

The CHAIRMAN. Midnight wouldn't bother me.

Senator RIEGLE. It is the 4 a.m., that really stops us. So we may be working at slower speed today, as a result of these late hours that we have been keeping here.

Are you familiar with this publication, the "Daily Report for Executives," that is put out by the Bureau of National Affairs?

Dr. SEGER. I don't subscribe to it.

Senator RIEGLE. Well, it is a very widely read, subscribed to, and circulated publication in the Washington area and tracks important legislative developments and business-type matters. It is one of the leading journals that would be widely used here in Washington and I think beyond, but principally here.

This is today's issue, June 21, 1984.

There is a major story here on the Fed which I want to read to you, and then I am going to ask you some questions about it, and your reaction to it, and your feelings about it.

STORY RELATES TO NOMINATION

The story relates, by the way, directly to your nomination and the whole sort of movement of events here, so this is the context in which I present it to you.

The headline on the story on page L–8 of today's issue is captioned, "Federal Reserve, White House OK's GOP Platform Planks Severely Critical of Fed Policies."

I am going to read to you verbatim what it says here, because I think it is a very important thing for us to get into. This will be direct quotation, unless I say otherwise.

> With approval from top-ranking White House officials, GOP platform organizers have drafted a series of planks severely critical of current Federal Reserve Board policies and calling for reforms that would bring the central bank under some control of the present B and A, this organization has learned.
>
> Among reforms in the latest draft of the Republican platform documents are proposals to have the Treasury Secretary made an ex officio of the Federal Reserve, and make the tenure of the bank's chairman coterminous with an incoming presidency, these officials said.
>
> The basis for some of these reforms and the harshness of the proposed planks, according to Republican officials, is a 1983 Treasury Department memorandum that reviewed the mandate of the Federal Reserve Board and how its current policies jibe with administration attempts to shape economic policy.
>
> The conclusion of the Treasury report, the administration officials confirmed, was sharply critical of the Federal Reserve, especially of Federal Reserve Chairman Paul Volcker, whose monetary actions at the time were considered to be inconsistent with the administration's budgetary and tax policies.
>
> Although the 1983 study for Secretary Regan has been kept under wraps within the administration, the basis of the Treasury report has been used to develop a Republican-backed bill designed to make the Federal Reserve more accountable to the public through the White House.
>
> The House version of the bill, H.R. 5459, is sponsored by Representatives Jack Kemp, of New York, and Trent Lott, of Mississippi. In the Senate, the bill S. 2620 is cosponsored by Senators Jepsen from Iowa and Mattingly of Georgia.
>
> Basically, the two bills seek, according to congressional aides, to "modernize" the Federal Reserve by making the Treasury Secretary and the Council of Economic Advisers' chairman ex officios of the Fed, making the Fed Chairman's job coterminous with the Presidency, reducing the tenure of the Federal Reserve members from 14 years to 7 years, and requiring the minutes of the Fed Open Market Committee meetings to be made public within 24 hours. Currently, the Fed releases FOMC meeting minutes available on the Friday following the next meeting of that committee.

The CHAIRMAN. Would the Senator yield for an editorial comment from the chairman?

Senator RIEGLE. I always yield to the chairman.

The CHAIRMAN. As a member of the GOP, I assure you—you were not here for all of my opening remarks about the independence of the Fed—that will never see the light of day while I am chairman.

Please continue.

Senator RIEGLE. That is encouraging, because when I was reading the cosponsors of the bill in the Senate, the chairman's name was conspicuously absent.

The CHAIRMAN. Deliberately absent.

Senator RIEGLE. Well, I think that too, is an important factor for us to weave into the fabric of what seems to be taking place.

To continue, and I am about halfway through here.

The Joint Economic Committee held hearings in mid-May and early June on the Federal Reserve on ways to bring about some reform such as those outlined in S. 2026 and H.R. 5459. Jepsen, who is JEC chairman, called as witnesses before his panel, both Mattingly and Kemp, among others, who have sponsored the two bills and would like to see the Federal system of accountability altered substantially. Currently, the Fed is accountable only to Congress.

Congressional officials said that administration officials were not called to testify before the JEC hearings because of "political fallout" that would have resulted from any criticism of the Federal Reserve. The administration would have been charged with "political sniping" in a political year.

Moreover, an administration official said the White House is attempting to hold down any criticism of the Fed because of concern that it might affect the current economic expansion. The Fed is working "within its monetary targets at the moment," a Presidential assistant said. And while the President and others think there could be some easing of the monetary reins, "We are not going to complain about Fed policy at this rate," he said. At the same time, however, GOP officials contacted by DNA

this organization—

said they feel it's extremely important "to bring more accountability to the Fed" whose policies for the past 2 years have been "at times at odds" with those of the White House and the Congress.

GOP platform drafters say they have drafted language that some may consider as "extremely critical" of the current Federal Reserve Board. However, "It's time that we brought monetary policy in line with fiscal policy" at the highest levels of Government, a GOP leader said. It's time we have a better focus on what is monetary policy and where we are going with it, another Republican official noted, and one way to bring about such direction is to make the Fed accountable to the President, the official said.

This is the last paragraph.

Therefore, the GOP platform will call on Congress to make the chairmanship of the Federal Reserve coterminous with the President, allow the Treasury Secretary to be a member of the Federal Board of Governors, provide staff liaison between the Fed and the White House, and require the Fed Chairman to regularly report to the President on activities of the central bank which are in support of the administration's economic and tax policies.

That is the end of the piece.

Now, this is a pretty important piece of journalism, it seems to me, because assuming that it is accurate, I think it means that an attempt is underway to change the independence of the Fed along the lines described here. And I think one can take that information and look at that, and one could say your nomination has been, I think, handled in a different manner than has normally been the case. In the case of your interviews, the Federal Chairman was not involved in the interview process, whereas the Treasury Secretary and Preston Martin were.

If you take these events, it starts to look as if there may be a pattern of an effort here to try to both change the way the Fed has historically operated, and change the procedures in which people are being presented for membership on the Fed Board. And I am concerned about the possible connections here. You are certainly astute enough as well to be concerned about it, also.

There are several questions I want to ask you. You have previously described your meeting with Treasury Secretary Regan, and I am wondering now as we go through the various topics suggested here, if any of these particular subjects—not in this context as such, but the subjects of changing the term of the Fed members or making the term of the Chairman of the Fed coterminous with the President, or having the Treasury Secretary as an ex officio member. Were any of these matters touched on in your conversation?

Dr. SEGER. The answer is no. But let me just comment.

I haven't seen the article you just read. I have not seen the GOP platform or any of that. I have not seen a paper this morning. But the Fed staff showed me the bill that Congressman Kemp has introduced, so I had seen those proposals. I had heard those from the Kemp bill. I have not discussed them with the executive branch.

Senator RIEGLE. Who gave them to you?

The CHAIRMAN. Senator Riegle, could I interrupt you for just another moment?

What I want to say, so you can continue your line of questioning as long as no one else is here, why don't you just continue for a few minutes?

Senator RIEGLE. At any point, if the chairman wants to come into the act, I will unhesitatingly yield.

The CHAIRMAN. I just thought, since nobody else is here, you might just as well continue.

Senator RIEGLE. Thank you.

You say that someone on the staff gave you the Kemp bill. Who would have given that to you?

Dr. SEGER. I have been given copies of current legislation by the congressional liaison office of the Federal Reserve. Within that package was the so-called Kemp bill, so I have seen the recommendation. I didn't know it was part of the GOP platform. I have not seen that. I am not on the committee. I have seen some of those recommendations from these bills that they have shown me.

Senator RIEGLE. So this was in the packet of materials that you were given, and you had a chance to take a look at the legislation. What was your reaction to it?

FIRM BELIEF IN INDEPENDENT FED

Dr. SEGER. As I thought I indicated yesterday and the day before, I firmly believe in the independence of the Fed. I indicated that before. I also said that I felt at the moment Fed policy was appropriate. Monetary targets—as approved in February—are reasonable and monetary growth generally is within the targets. M3 is a little above the upper band, but the others, M1 and M2 growth, were within the bands. Based on how the economy has been going—which I felt was a good, strong economy with growth of the noninflationary variety—this is the acid test. I was not critical. That was what I said then, that is what I meant, and now I would certainly confirm it at this point.

Senator RIEGLE. Do I take that to mean that you would not think these changes are needed, that you would not recommend the kinds of changes that I was just citing, which are in that proposed legislation?

Dr. SEGER. The one proposal that I have heard recommended far before Congressman Kemp put his bill in—back in the 1970's, even—was the idea of keeping the terms of the members at 14 years, but of making the chairmanship coincide more closely with the term of a President, any President.

Of all the things that you have ticked off, that would be the one item that I guess I can put closer to the top of my list of changes that possibly would be considered. I don't think, myself, that that would be that compromising to the independence of the Fed. I may be wrong. I have not lived with that system, but that is sort of my feeling.

Senator RIEGLE. Let me go through the others specifically.

What do you think of the idea of making the Treasury Secretary an ex officio member of the Federal Board?

Dr. SEGER. I guess I have a problem with that.

Senator RIEGLE. You would not favor that idea?

Dr. SEGER. I would not favor it.

Senator RIEGLE. And what about the Chairman of the Council of Economic Advisers as an ex officio member, would you favor or oppose that?

Dr. SEGER. As I said yesterday and the day before, I am in favor of making sure that all the people involved with making economic policy speak to each other, so we are all heading toward the same general targets of improving our economy. I certainly would back that. But in terms of the particulars, of actually placing them on the Fed or on the FOMC, as I said, I would oppose it.

Senator RIEGLE. So you would oppose this also, making the Chairman of the Council of Economic Advisers an ex officio member?

Dr. SEGER. Yes, sir.

Senator RIEGLE. I might say, I agree with your suggestion about people trying to have more cooperation, and hearing each other's views.

You are new to town but we have had sort of a celebrated hair-pulling contest going on here among the economic advisers.

The CHAIRMAN. I lost on that one.

Senator RIEGLE. As you can see, the chairman came out a little short. So did Dr. Feldstein, who is on his way back to Harvard. I am not sure where David Stockman is, but I know he is in town and still working, but I gather he is sort of on the other side of the argument also.

Dr. SEGER. I haven't seen him.

Senator RIEGLE. You haven't seen him either? Well, that is even more significant than that he has been taken out of public view for some reason or other.

But there is a very substantial argument underway within the administration on the relationship of deficits and interest rates.

Some people think there is a relationship and other people say there is no relationship.

At the moment, the only two people that I can find who think that there is no relationship are the President and Secretary Regan. But they are very important players. So the fact that they may be the last two people who feel that way doesn't mean that this is not a significant fact. Because they probably have more impact on policy, at least with respect to administration policy, in these areas than all the rest of the people put together.

Virtually everyone else has come out the other door now, and there is a very strong consensus of opinion across the spectrum of economics that there is a very substantial relationship between deficits and interest rates.

We are having the largest deficits in our history, and at the same time now we are getting record high real-interest rates, the amount of the nominal interests over and above the inflation rates.

AN ATTEMPT TO CHANGE FED'S COMPOSITION

Given the fact that this struggle is under way and it's been very much reported upon in the national press, this has not been a quiet war or struggle within the administration, it seems to me that that is also woven into the fabric of what may be taking place. Perhaps there is an attempt by the administration to change the composition of the Fed, the term of the Fed, the policies of the Fed. It is even possible that you may be seen as part of that, correctly or incorrectly, because when you were introduced by the President at the White House, and you indicated you were grateful, as any of us would be in your situation, you said, "I would like to thank the President because I support everything he is doing."

Well, everything is a lot. Everything means everything, and it doesn't say most of the things; it says everything.

This also lends itself to the interpretation that, in terms of the policy areas which you are most involved with, economic policy, financial policy, monetary policy, if you make that kind of a blanket statement presumably it would apply most directly to these areas of your work and professional background.

I think it lends itself to the question, and possibly to the supposition that you may very well hold exactly those same views, therefore you would not think there was any material connection between interest rates and deficits. As a result, when you go on the Fed Board, you in a sense become a person who can reflect that different point of view. How do you respond to that?

Dr. SEGER. I don't know where to start; you made so many points.

First of all, regarding deficits, yesterday and the day before, I talked about the connection between deficits and interest rates. I said that the deficits were a factor, and I think I gave you three ways they are connected, so I don't recall denying a connection.

In terms of the President or Secretary Regan saying that there is no connection, as I said, I haven't heard either of them say that to me personally. I have read newspaper accounts of it.

By the way, I had never met the President until I met him in the corridor walking out to the Rose Garden, so we didn't have a chance to chat.

Senator RIEGLE. You didn't get a chance to persuade him that there is a relationship between interest rates and big deficits?

The CHAIRMAN. My colleague invited me to interject.

Let me say that the President was worried about deficits before Senator Riegle and I were born and I happen to be part of the Republican leadership, we have neglected the Rose Garden strategy.

I was in at least twice a week meetings. I have been down there at least once every other week for the last 3½ years. There is no one in this town that is more concerned about deficits than the President. Obviously, we have differences of opinion on how that deficit should be reduced, sharp disagreements among Members of the Senate and the House.

So, how the President wants to reduce the deficits is an issue that certainly my colleagues would disagree on and has been widely publicized for a long time. But I do think it's unfair to indicate that the President is not concerned about deficits or that he does not believe that there is a connection between deficits and interest rates.

All I can say, if I didn't just meet him yesterday, I have been in all of those meetings and I know exactly what he said over and over and over again. Once again an honest difference of opinion between my friend and I on how deficits should be reduced. The President is just as concerned as anyone that I know in this country about those deficits. It is a disagreement on how they should be reduced and he does believe there is a connection between high interest rates and the deficits.

Dr. SEGER. I just want to make sure that people understood that we hadn't chatted for a half hour before. He didn't tell me—in fact he didn't have time to tell me—anything about deficits or interest rates. I just want to get that on the record.

OFF-THE-CUFF SPEECH

In terms of my statement out there, it was not a prepared speech. I didn't think I was going to have to say anything, for a hick from the Midwest, that experience is sort of overpowering, so you have to forgive my lack of composure. I did call over and see if someone had recorded what I mumbled and I was told I said, "I am really grateful. I'd like to thank the President because I support everything he is doing." The rest of the sentence is that I think getting our economy back on the track is the best way to keep America great. If you want the whole thing, the accurate statement, although this wasn't from a text, this is what they recorded. It was in that context, looking at the overall economy; I was not talking about every little single step he had ever taken or might take. I was looking at the big picture, his moves on getting inflation whipped, getting the economy sound.

Senator RIEGLE. I appreciate you reading that and I have the same statement in front of me that you have just repeated. You can see why in the context of your remarks and the event at which you were being introduced, the phrase "because I support everything he is doing"—I mean the weight those words tend to carry——

Dr. SEGER. In the context of the whole sentence, I don't think it's quite as stirring as if you just put the period after "everything he is doing."

Senator RIEGLE. Well, let me ask you then. From what you have just said, there are areas where you do have some differences of opinion. You obviously weren't highlighting on them that day nor should you have been, but you obviously have some differences of opinion.

In the area of economic policy or financial policy, what are these differences?

Dr. SEGER. I wouldn't make a blanket statement that I support every single thing he is doing or has been doing. I just wouldn't be inclined to make that broad a statement. I was talking about the economic area. Maybe in the business world we use the term "policies" differently, but policies are big things and they don't involve looking at every little detail of how you carry things out.

That was the context in which I was making that statement, the direction in which he is trying to get the economy moving, in that context I think his policies are appropriate. I had not cataloged every detail in my mind, 2 seconds before I went up there. Basically, in fact I would say this today, I think we have got the economy heading in a good direction, and I think a lot of his policies have something to do with it.

Senator RIEGLE. Well I think each time you can help shed more light it's helpful.

But I want to say again, you say "because I support everything he does." In a sense you are repeating it now, in that as far as the general thrust of things that you know, you see things as he does. But you have some areas where that is not appropriate, where you have some differences. It wouldn't have been appropriate to say them at that session there in the Rose Garden, but it is appropriate to say them here and that is what I am asking. Because I think the question has to do with the degree to which you do think for yourself. You do have your own ideas, there are times when your ideas are different. You have the strength to express those ideas when they are different. You have the ability in the cross-examination to articulate the differences, and nobody is trying to get you to say something you don't want to say.

The point is we are trying to understand what your views are.

Dr. SEGER. I understand.

Senator RIEGLE. And I want to also say it's in your interest for those things to be known. It's not in your interest for them not to be known. I know it takes a while for me and it takes a while for you, but that's the only way we are going to know.

It goes back to the earlier thing if your views were broadly known, if they were in print or generally known, we wouldn't have to go through all this. But because they are not and because we don't know what you would have said.

Dr. SEGER. I am willing to answer this.

Senator RIEGLE. Very good, please go ahead.

Dr. SEGER. That day out there I hadn't seen the Kemp bill. I honestly didn't know whether the President wanted the Secretary of the Treasury on the FOMC.

I wasn't thinking in particular terms. I indicated a few minutes ago that if it is in the Kemp bill, if it is a part of the GOP platform—which, as I indicated, I have not seen—I do have problems with the Secretary of the Treasury and the CEA being on the FOMC.

Senator RIEGLE. I am going to come back to that and finish my line of questioning and then yield——

Dr. SEGER. I'm sorry.

Senator RIEGLE. I don't want to stop you if you would like to add something.

Dr. SEGER. Those are two immediate examples of disagreement.

Senator RIEGLE. I will come back to the others in a minute.

A second ago when you said that—and I am paraphrasing so you can state it again precisely in your words so the stenographer doesn't have to read it off the record—where you were in general agreement with the President is that we are on the right track, things are moving, you feel pretty good about the economy and the economy is showing strength.

A PERIOD OF RECOVERY

Dr. SEGER. Yes, recovery is in the air.

Senator RIEGLE. I want to ask you then on that front the same question that I asked you yesterday. I asked you on a scale of 1 to 10, the level where you thought the automobile industry was. You said about 5.

Where do you think the national economy is right now on this kind of scale in light of what you've just commented, about feeling pretty optimistic about things.

Dr. SEGER. I don't feel as comfortable with this grading system as I do as a professor grading quizzes. But—10 is the worst, right?

Senator RIEGLE. Yes, and I think we were using 10 as indicating big problems, big alarms, so I think in this instance the lower the number the better you feel about the economy.

Dr. SEGER. Looking at it that way, I would say, if you are talking about where we are right today, we are somewhere between 2 and 1.

Senator RIEGLE. So you feel really pretty darned good about the way things are going overall?

Dr. SEGER. About the ability of the economy to throw off new jobs; looking at our area, certainly I see people smiling again, auto sales are not back up to what they were in 1978–79, I agree with that point but they are much improved.

We have been able to keep inflation down closer to the 4-percent mark than the 12- or 13-percent area, which is what it was in the late 1970's. The GNP came out yesterday for the second quarter which showed an annual growth a little above 5 percent.

As I look at the current state of the economy, as I said, I can't guarantee the grade, but I see it up somewhere between 1 and 2.

Senator RIEGLE. I am going to end with this observation because I talk to a lot of people in the financial markets. I was with some last evening as a matter of fact, some leading people from Wall Street. As I talk to people in the banking system, in the securities business, in other major financial organizations of national consequence, some in New York but scattered across the country, what I am hearing from them daily, almost hourly, is a picture that is directly at odds with the one that you see.

It doesn't mean they are necessarily right and you wrong, but there really is a profound difference between what I am hearing from a broad cut of the financial leaders of the country and what was just described.

I would say that their sense of unease or alarm or concern is up in the area of somewhere between 8 and 9 rather than between 1 and 2. So we have a very sharp difference.

This is what they cite to me when they give me that bottom line judgment about the Federal deficits. They think the Federal deficits are really killing us. The deficits are piling up an impossible burden for the economy now and in the future, forcing up interest rates, overvaluing the dollar, and a whole host of connected problems which they feel are now in such an extreme form that they are deeply alarmed.

They cite this as a basis for why the bond prices have fallen so much, the interest rates have risen so sharply, the uneasiness in the stock market and the fallout of that being the fall-off in housing starts and some of the other areas where higher interest rates are starting to cut in.

Then they take a thing like Continental Illinois, where the massive rescue took place in the name of preventing a worldwide financial collapse. You have got other financial institutions in real trouble. But if the high interest rate period continues we are going to have a lot more.

We are going to have the savings and loan folks right back where they were before we passed Garn-St Germain to try to give them some help.

You have got the foreign debt problem with Argentina and the other countries in very difficult straights. Things are not working out there. You have the merchandize trade deficit continuing to mushroom, now running at the $130–$140 billion annual rate. All that money on the merchandize trade side leaving the United States—and all the jobs that go with it.

SIZE OF MIDDLE CLASS SHRINKING

The front page story in the Wall Street Journal says the middle class is shrinking in this country. I don't know if you have had a chance to see this story. It's the lead story in the Wall Street Journal of yesterday. It shows us that families with annual incomes between $15,000 and $35,000 made up 44 percent of the population in 1982, but in 1970 they made up 53 percent of the population.

This is adjusted for changes in inflation so that is an accurate yardstick. I mean it's an incredible change in circumstance. We are watching the shrinking of the middle class. Then some people say, well, that range of income isn't a sufficient indicator. But if you take a different bracket of income, say between $15,000 and $25,000, and you find that as the middle class you see the same thing happening. By that measure the middle class has declined from 28.2 percent of the population in 1967—down to 23.7 percent in 1982.

So what I am hearing from those prominent individuals in banking and financial circles is that they are greatly concerned. They are coming here in increasing numbers, taking out ads in the newspapers saying cut the deficit, do these things because if you don't, in their view, we run the risk of enormous collapse. I mean a major recession coming in 1985 and a recession of the kind that may be more structural at that particular point. So you get a structural problem or a series of sort of cascading events that you can't manage, that is, what people were saying might have happened if Continental——

Dr. SEGER. What I answered wasn't what you asked. I thought your question was, as I look out the window right now, how do I see the economy doing. I read publications from a lot of these same financial institutions, and their economists I think are viewing things much as I am, if you just talk about how the economic recovery is going now.

If you talk about my worry list, looking out ahead, which I think is what you are saying, I have a worry list, too. I distinguish between current analysis and a forecast. I think we were talking about slightly different things.

Senator RIEGLE. So between the 1 and 2 on the 10 scale would apply to what time period are we speaking about?

Dr. SEGER. The way the economy stacks up right today, I think it looks good.

Senator RIEGLE. How about over the next 2 years?

Dr. SEGER. Now we are out into a forecast period, so I would give you a different answer. That is why I said maybe I answered the question——

Senator RIEGLE. What would be the answer over a 2-year period? It jumps up from a 1 to 2 today to what, if you look out over the next couple of years?

Dr. SEGER. Over the next couple of years I think I would be down. You have to make assumptions about whether the deficit is dealt with. You see, I happen to think that the people in Congress will deal with this problem. If you tell me they won't, then my concern would go from a 5 to a 10. But I happen to think that with all the concern about it, it will be dealt with. Having said that, then that is one item off my panic list.

Senator RIEGLE. Right.

Dr. SEGER. I certainly agree there are problems with the financial institutions. I dealt with some of them in 1981 and 1982. They are not all gone. I don't think that they are unmanageable if we do some things right in the economy. It's a lot easier for financial institutions to be nursed back to health if they are not on some sort of a pogo stick riding down the road.

It's incumbent upon us to keep the economic environment as smooth as we can to help nurse financial institutions of all types back to health. As I said, maybe I am overly impressed with how Washington does things. Not that we want to have another bank failure; I am not recommending that at all. We have had 40 already, and there may be a lot more.

Senator RIEGLE. So over the next 2 years you would say the number you would pick on the 10 scale would be what?

Dr. SEGER. For the next couple of years I would say it would be closer to 5 or 6, but in terms of assessing the immediate shape of the economy, I feel very good about where we are right today. Not that we don't have any problems.

Senator RIEGLE. Well, I hear what you are saying. I think I have a little trouble with that, too, because in the real world of finance and economic and financial decisions, nobody is making decisions based on right now. They are making decisions now that are going to kick in—that will have an effect down the road. So everything is moving, everything is trend lines, everything is the sum total of events. It's a dynamic.

So to take a snapshot of right now and not key that into everything that is propelling it and where we are heading and where we are going, I don't know how useful that is.

Dr. SEGER. As an analytical matter, when I was a Federal economist, we had groups that worked on current analysis, following the economy on an ongoing basis. That is called "ongoing analysis". We had other people that worked ahead on forecasting. If you are doing that, then you ask, what are your assumptions; you have to make assumptions about what is going to happen over the next year or 2 years.

Senator RIEGLE. I am going to finish here. This gets into a kind of rosy scenario problem which we have had before. Because down at the other end of the street, when I hear the President saying everything is fine and dandy, that things are terrific now, and that whatever the problems are, they are essentially self-correcting——

Ms. SEGER. I didn't say self-correcting.

Senator RIEGLE. I am not saying you are saying this. I am saying the President is saying this. That is the essence of the message that I hear coming from that direction.

SENSE OF APPREHENSION

What I hear in the Congress, as a result of what my colleagues are hearing from bankers back home, what they are hearing from financial market people, what they are hearing from small-business people, what they are hearing from farmers, is entirely different. They feel a great sense of apprehension, a great sense of alarm, a concern that this thing cannot last because we have this enormous Keynesian stimulus going on at $200 billion a year. We are spending ourselves closer and closer to impossible situations regarding servicing the debt, borrowing like crazy from abroad to finance it, and not saving enough here, and all kinds of problems we have here. This leads, I think, to an increasing feeling of apprehension and concern in Congress on both sides of the aisle.

There are people that I have heard earlier, who are saying, "We are in big trouble." This is a false paradise, if anybody wants to describe it that way today. Things are not in sync. We are heading for a big fall, hopefully not like the one we got at the end of the 1920's, hopefully one we can manage.

But strangely enough, 4 weeks ago when we decided to bail out Continental Illinois, to the tune of $7.5 billion, the rationale that was given was that if it wasn't done, the world financial system would collapse.

Well, that is a pretty big reality that serious people believe. I think a lot of serious people do believe it. You touched on it, delicately, but you touched on it yourself.

So I am saying that I am concerned about what I understand to be your general sense of urgency about where we are going—what the nature of the mixture of economic policies is, what are the dynamics at work, do they constitute a big problem, are they basically not much of a problem, are they essentially self-correcting? I want to track that all the way through not only in terms of the way you see these problems, but how that would likely come to bear on the kinds of decisions you would be called upon to make at the Fed.

What I am concerned about is: If the great bulk of opinion in the country is that we have serious financial problems and big steps need to be taken now to deal with them, and if this is not your view or if your view is quite different from that—as is the President's, as I understand him—then that would make me very concerned about whether or not this is the kind of thinking we ought to have on the Fed right now.

I will just finish it by saying it this way: It's all well and good for some people in the administration to beat on Volcker, privately, through the platform committee, or whatever other way, to bypass him in terms of interviewing prospective members of the Fed and what have you. But I daresay whether one agrees with him or doesn't—and I don't agree with him all the time, nor does anybody here on this committee probably—if he were hit by a truck in this town—there would be panic in the financial markets—because he is the only central player on these issues that most of the people in the financial markets have any confidence in at this point.

I don't want the confidence eroded at this point, because our problems are serious. I think it's a very fragile situation, and a lot of steps need to be taken; and what I am interested in discerning in you is your sense of urgency about these matters. I would have that regardless of who was sitting there.

What I am talking about is the decision responsibility of the job that you have been nominated to fill. That is what I care about, but in this larger context. So I will have to continue, but I am concerned that I am not getting from you, at least as I have heard it over the 3 days, the sense of urgency about our economic problems and the need for some very substantial steps to be taken quickly and strongly and concertedly.

I am not getting that, at least as it's hitting my ear. Now, if that is not in your mind, then I want you to make—somehow clear that up. So that if I am getting incorrect notions of what you are saying, I want you to change that for me so that I really have it the way that you would like me to hear it.

The CHAIRMAN. We will turn to Senator Sarbanes at this point. Senator Sarbanes, we have not followed the 10-minute rule this morning because there were only the two of us here, so I have asked the clerk to give you another 20 minutes rather than 10.

Senator SARBANES. Thank you, Mr. Chairman. I want to express my appreciation to you for continuing these hearings.

Dr. Seger, I think you need to understand it's in part made necessary by the paucity of any statements by you of your views on these issues. Usually when we have nominees for positions such as the one for which you have been nominated, in fact without exception, there's a bedy of material that members can examine which sets forth the positions that a nonsense has taken, and usually there's a public record of performance in various offices that gives us some indication of the nature of his or her judgment.

The CHAIRMAN. Would the Senator yield for just one quick comment on that?

Senator SARBANES. Mr. Chairman, before I do that, I'd like in that regard to insert in the record the biographies of the current members of the Board of Governors of the Federal Reserve System—in other words, of Chairman Volcker, Preston Martin, Henry Wallich, Charles Partee, Nancy Teeters, Emmett Rice, and Lyle Gramley.

The CHAIRMAN. Well, certainly I would be more than happy to accommodate the Senator and those will be placed in the record.

[Biographical sketches of the current Board of Governors of the Federal Reserve follow:]

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: VOLCKER (LAST) PAUL (FIRST) A. (MIDDLE)

Position to which nominated: Chairman, Board of Governors of the Federal Reserve System **Date of nomination:** 7/25/79

Date of birth: 5 (DAY) 9 (MONTH) 27 (YEAR) **Place of birth:** Cape May, New Jersey

Marital status: Married **Full name of spouse:** Barbara Marie (Bahnson) Volcker

Name and ages of children:

Daughter: Janice Louise Volcker - 24

Son: James Paul Volcker - 21

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Teaneck High School	1939-1945		
Princeton University	1945-49	B.A.	
Harvard University	1949-51	M.A.	
London School of Economics	1951-52		

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

Administration Fellow - Harvard University

Rotary Foundation Fellow

Phi Beta Kappa

Fellow, National Association of Business Economists

William F. Butler Award, N.Y. Chapter of NABE

Fleming Award, Alexander Hamilton Award, Exceptional Service Award (U.S. Treasury), General Leslie Graves Award

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

Organization	Office held (if any)	Dates
Council on Foreign Relations	Bd. of Directors	1975 - present
American Council on Germany	Bd. of Directors	1975 - present
American Friends of London School of Economics	Bd. of Directors	? - present
Rockefeller Foundation	Bd. of Trustees	1975 - present
American National Red Cross Endowment Fund	Bd. of Trustees	1972(?)- present
Mayo Clinic/Foundation	Bd. of Trustees	1979
Trilateral Commission	Member	1975 - present

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

8/75 -	President-Federal Reserve Bank of New York, 33 Liberty St., N.Y., N.Y. Central Bank President
9/74-7/75	Princeton University, Princeton, N.J. - Senior Fellow (Also did consulting work)
1/69-7/74	U.S. Treasury, Washington, D.C. - Under Secretary
1965-1969	Chase Manhattan Bank, N.Y., N.Y.-V.P. & Director of Forward Planning
1961-1965	U.S. Treasury, Washington, D.C.-Dir., Office of Financial Analysis and Deputy Under Secretary
1957-1961	Chase Manhattan Bank, N.Y., N.Y. - Financial Economist
1952-1957	Federal Reserve Bank of New York, 33 Liberty St., N.Y., N.Y. - Economist, Special Assistant
EARLIER	Summer jobs - including positions at U.S. Treasury and Federal Reserve Bank of New York

Government experience:

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

See Employment History

Also: Department of Commerce Balance of Payments Advisory Committee (1967-1968)

Advisor to Commission on the Reorganization of the Government for Foreign Policy ("Murphy Commission") (1974-1975)

Department of State Review Board for Career Ministers (1975)

Published writings:

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

I have had a sizable number of articles, lectures, reports and speeches published as or in books, in professional journals, in other periodicals, or in official publications, but have no current listing.

Political affiliations and activities:

List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

None

Political contributions:

Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

None

Qualifications:

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

See attached

Future employment relationships:

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

Yes, except to extent inherent in new position.

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

No

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

No

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

Yes

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Potential conflicts of interest:

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

Pension rights from service at Federal Reserve Bank of New York.

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

None, to my knowledge.

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

None.

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

None. Congressional contacts have been in connection with official duties.

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

Remove source of concern (none to my knowledge).

Civil, criminal and investigatory actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

Defendant in suit brought by Senator Riegle against Presidents of Federal Reserve Banks serving on Federal Open Market Committee.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None

EXCERPTS FROM
PAUL A. VOLCKER
BIOGRAPHY

Paul A. Volcker, president and chief executive officer of the Federal Reserve Bank of New York, joined the bank on August 1, 1975, completing the unexpired portion of a five-year term of his predecessor, Alfred Hayes. He was appointed to a full five-year term on March 1, 1976.

Before joining the New York Fed, Mr. Volcker, 51, pursued a varied career in public service and banking.

From 1969 to 1974, he was under secretary of the Treasury for monetary affairs. His five-and-a-half-year tenure under three secretaries, covered a period of rapid change in international and domestic financial affairs.

Mr. Volcker played a central role in developing international financial initiatives by the United States during the transition from fixed to floating exchange rates and acted as the principal U.S. negotiator throughout the period.

A number of important innovations were introduced during Mr. Volcker's term of office in the area of domestic financing, including the auctioning of Treasury notes and bonds and greater centralization of U.S. agency borrowing.

After leaving the Treasury, Mr. Volcker became senior fellow at the Woodrow Wilson School of Public and International Affairs at Princeton University for the academic year 1974 to 1975.

Previously, Mr. Volcker served in a variety of positions with the Treasury, Chase Manhattan Bank, and the New York Fed.

His experience with the New York Fed began in the summers of 1949 and 1950, when Mr. Volcker worked as a research assistant in the research department. In 1952, he returned to the New York Fed as an economist in the research department and, in 1955, he became a special assistant in the securities department. Two years later, he resigned to become a financial economist at Chase Manhattan Bank.

In 1962, he joined the Treasury as director of the Office of Financial Analysis and, in 1963, was appointed deputy under secretary for monetary affairs. In 1965, he rejoined Chase Manhattan as vice president and director of forward planning.

As under secretary of the Treasury, Mr. Volcker also served as a member of the board of the Overseas Private Investment Corp. and the Federal National Mortgage Association.

He is currently a member of the board of directors of the Council on Foreign Relations, the American Council on Germany and the American Friends of the London School of Economics. He also serves on the board of trustees of the Rockefeller Foundation and the American National Red Cross Endowment Fund.

Among various awards in the course of his career, he has been named as one of the 10 Outstanding Young Men in Government; received the Alexander Hamilton award, the highest award given officials of the Treasury Department, and received the first William F. Butler award from the New York Chapter of the National Association of Business Economists.

Mr. Volcker earned a master of arts degree in political economy and government from the Harvard University Graduate School of Public Administration in 1951 and a bachelor of arts degree, summa cum laude, from Princeton in 1949. From 1951 to 1952, he was a Rotary Foundation Fellow at the London School of Economics.

He is married, has two children and lives in Manhattan.

September 1978

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

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

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

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

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

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

Education:

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

* Academic year 1955-56 was spent in Germany

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

See Schedule A

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

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

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

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

* On loan to HBC by Library for one year

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

* Refer back to employment record

Part time consultant to the 1970 Advisory Council on Social Security.

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

See Schedule B

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

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

checks signed R. D. Teeters: People for Muskie, May 20, 1972 -- $100.00; Mondale Volunteer Committee, September 1, 1972 --$25.00;

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

See Schedule C

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

See Schedule D

Future employment relationships:

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

Yes

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

No present plans or commitments

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

No

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

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

Potential conflicts of interest:

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

See answer to question 2 below

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

See Schedule E

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

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

See question 4 below and employment record on Page 2.

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

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

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

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

Schedule A
August 17, 1978

Nancy Hays Teeters

Honors and Awards

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

Schedule B
August 17, 1978

Nancy Hays Teeters

Publications:

"Federal, State, and Local Budgets," Methods and Techniques of Business Forecasting, William F. Butler, Robert A. Kavesh, and Robert B. Platt, editors, Prentice Hall, Inc.

Setting National Priorities: the 1974 Budget, with Edward R. Fried, Alice M. Rivlin, and Charles L. Schultze, Brookings Institution, Washington, D. C. (1973)

Setting National Priorities: the 1973 Budget, with Charles L. Schultze, Edward R. Fried, and Alice M. Rivlin, Brookings Institution, Washington, D. C. (1972)

"The 1973 Federal Budget," Brookings Papers on Economic Activity, Vol. I, Brookings Institution, Washington, D. C. (1972)

Setting National Priorities: the 1972 Budget, with Charles L. Schultze, Edward R. Fried, and Alice M. Rivlin, Brookings Instiution, Washington, D. C. (1971)

"Budgetary Outlook at Mid-Year," in Brookings Papers on Economic Activity, Brookings Institution, Washington, D. C. (1970)

"Payroll Tax for Social Security," in Broad Based Taxes: New Options and Sources, Richard A. Musgrave, editor, Johns Hopkins University Press, Baltimore, Maryland (1973)

"Outlook for Federal Fiscal Policy," Brookings Papers on Economic Activity, Vol. 2 Brookings Institution, Washington, D. C. (1972)

"Built-in Flexibility of Federal Expenditures," Brookings Papers on Economic Activity, Brookings Institution, Washington, D. C. (1971)

"Report of the Panel of Actuaries and Economists to the Subcommittee on Bost Estimates and Financial Policy of the Advisory Council on Social Security," with Otto Eckstein, Arnold Harberger, Murray Latimer, and Wendell Milliman, in Reports of the 1971 Advisory Council on Social Security, House Document 92-80, 92nd Congress, 1st Session (1971)

"The Full Employment Surplus Revisited," with Arthur M. Okun, Brookings Papers on Economic Activity, Brookings Institution, Washington, D. C. (1970)

Schedule C
August 17, 1978

Nancy Hays Teeters

Services:

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

Schedule D
August 17, 1978

Nancy Hays Teeters

Qualifications

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

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

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

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

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

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

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Schedule D
August 17, 1978

Nancy Hays Teeters

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

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

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

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: MARTIN (LAST) PRESTON (FIRST) (OTHER)

Position to which nominated: Member/Vice Chairman, Board of Governors of the Federal Reserve System **Date of nomination:**

Date of birth: December 5, 1923 (DAY) (MONTH) (YEAR) **Place of birth:** Los Angeles, California

Marital status: married **Full name of spouse:** Adrienne May Hatch Martin

Name and ages of children: Pier - 20 Gay - 28 Jeffrey - 30

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Indiana University	Sept. 1948-June 1950	Ph.D. Economics	1952
University of Southern CA	1946-1948	B. Sci. Finance, M.B.A.	1948
University of Oklahoma	1944-1945	none	
Los Angeles State College	1942-1943	none	

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

1973 Premier Performance Award, the Turn Table Builders, N.A.H.B.

1972 Alumni Award, University of Southern California

1971 Construction Industry Award, Engineering News Record

1971, 1970 Management Excellence Awards, White House

1969 Top Performer, House and Home Magazine

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

Organization	Office held (if any)	Dates
American Finance Association	none	1950-1967
American Economics Association	none	1950-1967
Lambda Alpha (Urban Economics)	none	1964-present
Beta Gamma Sigma	none	1950-present
Inter. Conf. Shop. Ctrs.	Trustee	1980-present
Lambda Chi Alpha	none	1949-

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

1980-Nov.	1981	Seraco Enterprises, Inc., Chicago, IL, Chairman and CEO
1973	1979	PMI Mortgage Insurance Co., San Francisco, CA, Chairman and CEO
1969	1972	Federal Home Loan Bank Board, Wash., D.C., Chairman
1966	1968	Division of Savings and Loan, California, Los Angeles, CA Commissioner
1965		Professor of Finance, Graduate School of Business Administration, University South.Calif., Los Angeles, CA
1960	1964	Director of Executive Programs, University of Calif., Los Angeles, CA, and Professor of Finance, USC
1951	1965	Instructor to Professor of Finance, USC, Graduate School of Business Administration
1954	1965	Economic Research Group, Los Angeles, CA Proprietor
1956 (mid)	1957	Instituto per lo Studio Organizatzione Aziendale, Torino, Italia, (Professor of Finance)
1977	1980	The Wickes Corp., San Diego, Cal., Director
1979	1982	Centex Corp., Dallas, Texas, Director
1980	1981	Sears Roebuck & Co., Chicago, Ill., Director

Director of the following Sears subsidiaries:

- Searaco Enterprises, Inc.
- Homart Development Company
- Allstate Savings and Loan Association
- Allstate Enterprises Mortgage Company
- PMI Mortgage Company
- PMI Mortgage Insurance Company of California
- Executrans

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

Please see employment record for full time posts held.
Present member, President's Housing Commission
Former member, FNMA Advisory Council
Former member, Federal Home Loan Mortgage Corp. Advisory Council
FHLBB Advisory Committee, 1976
H.U.D. Advisory Committee, "Future of FHA", 1977-1978

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

Contributing Editor, "The Professional Builder", 1974-1979, wrote numerous articles on regular basis

"Principles and Practices of Real Estate", University text, The Macmillan Company, 1959

"The Bureaucrat as Innovator", Report to Management #23 USC, 1970
"Savings and Loans in New Submarkets", Journal of Marketing Research, 1967

"Affluence and Household Liquidity", Journal of Finance and Quantitative Analysis, March, 1966

"Forecasting Southern California Business Conditions", Report to Management #13, University of Southern California, 1965

Political affiliations and activities: List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

National Reagan for President Committee, mid-1980.

My wife Adrienne was an Alternate Delegate, California Delegation, to the Republican National Convention in 1968.

I served as an "Honorary Delegate", California Delegation, to the Republican National Convention in 1972.

Political contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

1978, July or August: Luncheon "Pete Wilson for Governor" (of California), $500.00 Approx.

~~1979, October 31: cocktail party for Ronald Reagan for President,~~ $1,321.00

July 9, 1981: Sears Roebuck Political Action Committe, $500.00

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

see attached sheet.

Future employment relationships:

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

   see attached sheet.

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

   No plans whatsoever.

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

   No

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

   Yes

Attachment, Page 4. Qualifications:

This is to state my qualifications for the position of Member and Vice Chairman of the Board of Governors of the Federal Reserve System. My combination of developing and managing governmental and business organizations is unusual. My experience includes managing several activities of a similar agency, the Federal Home Loan Bank Board, in the formulation and implementation of credit policy (mortgage credit), financial institution supervision (and supervisory mergers), and deregulation.

Most of my working career has been involved with managing small businesses and in the "start-up" phases of ventures, particularly Savings and Loan Associations. My consulting firm The Economic Research Group was active for twelve years in those activities. As a sole proprietor I performed a wide range of activities. Similarly, the founding, staffing, and expansion of PMI Mortgage Insurance Company for eight years and several business cycles in the Housing and Financial Industries taught me about monetary policy's impacts.

My two years at Sears, Roebuck & Co. were ones of responsibility for two small organizations, and three medium sized firms; the planning and restaffing which was accomplished was greatly affected by our outlooks regarding developing monetary, fiscal, and regulatory policies.

Attachment, Page 4. Future employment relationships:

Terminated status as active employee of Sears, Roebuck & Co. on November 17, 1981. Received right to severance benefits through December 31, 1983, and retirement benefits thereafter, but have no obligation to provide any services to Sears, Roebuck & Co. or any of its affiliates or subsidiaries.

Potential conflicts of interest:

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

Terminated status as active employee of Sears, Roebuck & Co., on November 17, 1981. Will receive severance payment of $446,438 prior to taking oath of office and will receive pension benefits from Sears effective January 1, 1984. Will continue as a participant in Sears' non-contributory supplemental life insurance plan for key executives.

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

My wife owns 585 shares of the Cathay Bank, Los Angeles, which will be sold.

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

None

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

None

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

My wife and I will sell our National City Corporation shares and her Cathay Bank shares upon confirmation.

Civil, criminal and investigatory actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

As a member of the Federal Home Loan Bank Board from 1969-1972 and as Commissioner of Savings & Loans of California from 1966-1969, I was named as a defendant in various civil and administrative actions. To the best of my knowledge, none are pending at this time. No criminal or other proceedings.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: RICE (LAST) EMMETT (FIRST) JOHN (OTHER)

Position to which nominated: Member, Board of Governors Federal Reserve System **Date of nomination:**

Date of birth: 21 December 1919 (DAY) (MONTH) (YEAR) **Place of birth:** Florence, South Carolina

Marital status: Divorced **Full name of spouse:**

Name and ages of children: Susan E. Rice, 14
Emmett J. Rice, Jr. 12

Education:

Institution	Dates attended	Degrees received	Dates of degrees
College of the City of New York	1937-1941	B.B.A.	1941
College of the City of New York	1941-1942	M.B.A.	1942
University of California (Berkeley)	1947-1951		
University of California (Berkeley)	1952-1954	Ph.D	1955

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

1950 - Research-Assistant (Department of Economics) University of California (Berkeley)

1951 Teaching Fellow (economics) University of California (Berkeley)

1951-52 Fulbright Fellow (India) Reserve Bank of India

1952-54 Teaching Fellow (economics) University of California (Berkeley)

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

SEE SCHEDULE "A"

Organization	Office held (if any)	Dates

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

1948-50 City Fireman, later fire alarm operator, City of Berkeley, California.

1950-54 See Honors and Awards

1954-60 Instructor, later Assistant Professor of Economics, Cornell University (Ithaca, New York)

1960-62 Economist, Federal Reserve Bank of New York

1962-64 Advisor, Central Bank of Nigeria (Lagos)

1964-66 Deputy Director, later Acting Director, Office of Developing Nations, U. S. Treasury Department

1966-70 U. S. Alternate Executive Director for International Bank for Reconstruction and Development (World Bank), International Development Association (IDA), and International Finance Corporation (IFC). Appointed by President Johnson and confirmed by the Senate.

1970-71 Executive Director, Mayor's Economic Development Committee, on leave from U. S. Treasury Department.

1971 to Present Senior Vice President, The National Bank Of Washington

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

Refer back to employment record.

1971-72 Vice Chairman, Mayor's Economic Development Committee, Washington, D. C.

1976-78 Member, D. C. Mayor's Overall Economic Development Advisory Committee

1976-78 Chairman, D. C. Tax Revision Commission, Government of the District of Columbia

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

Only contributions to institutional publications -- articles, annual reports, commission reports -- for which I could not claim full credit.

Political affiliations and activities: List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

Registered Democrat; no offices held. No services rendered.

Political contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

No contributions of $500 or more.

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

See Schedule "B"

Future employment relationships:

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

   Yes, I will sever all connections.

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

   I have no plans to resume any affiliation.

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

   No

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

   Yes

Potential conflicts of interest:

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

None

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

I own 137 shares of stock in The National Bank Of Washington, which I have made arrangements to dispose of, if confirmed by the Senate.

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

None

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

None

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

I will arrange to sell any property or asset the ownership of which would be deemed to be a conflict of interest. I will also resign from all business profit-making organizations as well as all of those nonprofit organizations from which conflicts might possibly develop.

Civil, criminal and investigatory actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

At the present time, I am a defendant in an action brought by my former wife who seeks to amend or modify the terms of a court approved separation agreement relating to visitation rights and custody of our children. The case is now pending in the D. C. Court of Appeals.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None

Emmett J. Rice

Statement for Completion by Presidential Nominees

Page 2-A Schedule "A"

MEMBERSHIPS

ORGANIZATIONS	OFFICE HELD	DATES
Federal City Council	Washington Trustee	1972 - present
Federal City Housing Corporation	Former President and current Board Member	1972 - present
Greater Washington Business Resource Center	Board Member	1974 - present
Minority Contractors Resource Center	Board Member	1972 - 1974
American Red Cross. D. C. Chapter	Board Member	1975 - present
The Center For Municipal and Metropolitan Research Of the National Capital Area	Board Member	1975 - present
Consortium of Universities, Washington, D. C.	Board Member	1974 - present
American Economic Association	Member	1954 - 1974
Council On Foreign Relations	Member	1972 - present
Atlantic Council	Board Member	1971 - 1976 1978 - present
Metropolitan Washington Board of Trade	Member	1972 - present
D. C. Bankers Association	Member	1972 - present
University Club of Washington	Member	1976 - present
Washington Performing Arts Society	Board Member	1977 - present

BUSINESS

Trans World Corporation	Board Member	1979 - present
Trans World Airlines, Inc.	Board Member	1973 - present
Fort Lincoln New Town Corporation	Board Member	1975 - present
District Communications, Inc.	Board Member	1974 - present

Emmett J. Rice

Statement for Completion by Presidential Nominees

Page 4-A Schedule "B"

QUALIFICATIONS

Except for the years devoted to teaching economics in a distinguished university, nearly all of my professional career has been spent in financial institutions. As a teacher, I had primary responsibility for courses in money and banking and monetary theory on both the undergraduate and graduate levels. Later, as an economist on the staff of the Federal Reserve Bank of New York, I became familiar with the techniques of open market operations employed by the Trading Desk of the Bank in implementing the directives of the FOMC. One of my responsibilities during this time was the initiation of the first draft of the tri-weekly Report of Open Market Operations to the FOMC. I also prepared for publication in the Bank's Monthly Review the article which regularly described and interpreted developments in money and capital markets.

While serving as an adviser to the Central Bank of Nigeria, I had the rare opportunity to participate in the creation of tools and techniques for Central Bank monetary control in a large developing country. I also helped in the development of the research department of the new Central Bank. Later, in the U. S. Treasury Department's Division of International Affairs, I was actively involved in the formation of U. S. financial policies with regard to the developing countries of Asia, Africa, the Middle East, Australia and New Zealand. As U. S. Alternate Executive Director on the boards of the World Bank and the International Finance Corporation, I gained broad experience in international development banking, while taking part in policy decisions relating to economic development assistance.

For the past eight years, I have been a senior officer in a commercial bank working, among other areas, in money trading and investment operations. In this capacity, I supervised daily Federal funds trading, repurchase agreements, certificates of deposit and security purchases and sales for the Bank's investment portfolio. This responsibility, of course, required knowledge of current developments in money and capital markets as well as Federal Reserve monetary policy. I have been a member of all of the policy-making committees of the Bank, including the Senior Officers' Loan Committee and the Management Committee.

Considering my academic background, my experience in central banking, development banking, commercial banking and Treasury international financial operations, I believe I am adequately equipped to perform the functions of a member of the Board of Governors of the Federal Reserve System. If confirmed, I will do my best to serve our country well.

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STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: Gramley (LAST) Lyle (FIRST) Elden (OTHER)

Position to which nominated: Governor, Federal Reserve Board   Date of nomination: March 17, 1980

Date of birth: 14 (DAY) 1 (MONTH) 1927 (YEAR)   Place of birth: Aurora, Illinois

Marital status: Married   Full name of spouse: Evelyn Lucille Wachtel Gramley

Name and ages of children: Alan 25; Lynn 23

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Aurora College, Aurora, Illinois	1947-49	-	-
Beloit College, Beloit, Wisconsin	1950-51	BA	1951
Indiana University	1952-55	MA Ph.D	1952 1956

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

PHI Beta Kappa

Fellowship, Indiana University, 1951-52

Honorary Doctor of Law, Beloit College, 1978

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

Organization	Office held (if any)	Dates
American Economic Assoc.	-	1955 to Present
American Finance Assoc.	-	1955 to Present
National Economists Club	Board of Governors	1971 to Present
Conf. of Bus. Economists		1975 to Present
Potomac Hunt Club	Treasurer	1970 to Present
Middletown Valley Hunt Club	-	1971 to 1978
Potomac Polo Club	-	1970 to 1978
National Capital Polo Club	-	1971 to 1978

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

Federal Reserve Bank of Kansas City, 1955-62, Financial Economist

University of Maryland, 1962-64, Associate Prof. of Economics

Federal Reserve Board, 1964-1977, Staff Economist,

Final position: Director of Division of Research & Statistics

Council of Economic Advisers, 1977-1980, Member

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

Member of Council of Economic Advisers, 1977-80

Associate Director of the Maryland Tax Study, 1963-64

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

Essays in Commercial Banking (coauthor), Federal Reserve Bank of Kansas City, 1962

Scale Economies in Banking, Federal Reserve Bank of Kansas City, 1962

The Maryland Tax Study (Assoc. Director) Bureau of Business and Economic Research, University of Maryland, 1965

Time Deposits in Monetary Analysis (with Sam B. Chase), Federal Reserve Bulletin, October, 1965

The Informational Content of Interest Rates as Indicators of Monetary Policy, Federal Reserve Bank of Minneapolis, 5/68.

Guidelines for Monetary Policy -- The Case Against Simple Rules, unpublished paper delivered at the Financial Conference of the NICB, February 1969

Ways to Moderate Fluctuations in Housing Construction, (Director), Federal Reserve Staff Study published by the Federal Reserve Board, 1972

Political affiliations and activities: List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

None

Political contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

None

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

Future employment relationships:

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

   I will.

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

   I have no such plans

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

   No

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

   Yes.

Potential conflicts of interest:

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

None

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

I have indicated to Federal Reserve Board Counsel that I will liquidate any stocks presently owned that might raise questions about conflict of interest.

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

None.

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

Testimony and discussions with members of the Congress in my role as Council Member only.

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

As indicated in my response to question 2.

Civil, criminal and investigatory actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

None.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None.

Statement of Qualifications

My entire professional career has been spent dealing directly or indirectly with the focal questions of monetary policy.

From 1955 to 1962, I worked as a financial economist at the the Federal Reserve Bank of Kansas City. My responsibilities there included economic forecasting, research and writing on commercial banking, money and capital markets, and monetary policy, and advising senior bank officials on issues in these areas.

From 1962 to 1964, I was an associate professor of economics at the University of Maryland. My area of specialization was monetary monetary theory and policy; courses were taught at both the graduate and undergraduate levels.

In 1964, I joined the staff of the Federal Reserve Board as a financial economist. During the 13 year period of my employment with the Board, my areas of responsibility included economic forecasting, analysis of developments in financial markets, advising the Board and the Federal Open Market Committee with regard to ongoing economic developments and the course of monetary policy. During my final years at the Board, I was the Director of the Division of Research and Statistics and Economist (Domestic Business) to the Federal Open Market Committee. In that capacity, it was my privilege to work closely with the then-existing Chairman of the Board, Arthur F. Burns.

Since the beginning of this Administration, I have been the member of the Council of Economic Advisers responsible for macroeconomic analysis and policy issues. That area includes the analysis of financial markets and monetary policy, as well as economic forecasting and fiscal policy.

Appointment to the Federal Board in these difficult and critical times would be an enormous challenge. If confirmed, I will devote all of my energy to serving the Board and the Nation well.

Biographical Sketch of Henry C. Wallich

Dr. Wallich is the Seymour H. Knox Professor of Economics at Yale University, where he has been a teacher since 1951. He is a former member of the Council of Economic Advisers (May 1959–January 1961), and served as Assistant to the Secretary of the Treasury (September 1958–May 1959), and with the Federal Reserve Bank of New York (June 1941–September 1951).

Born in Germany in 1914, he became a U.S. citizen in 1944. His formal education, begun in Germany, included studies at Oxford University in England, and led to a masters degree from New York University and a Ph. D. degree from Harvard in 1944.

Before joining the staff of the Federal Reserve Bank of New York in 1941, Dr. Wallich was associated with private firms in Latin America and New York City.

Since 1969, Dr. Wallich has been a senior consultant for the Treasury Department. He has also served with the Advisory Board of the Arms Control and Disarmament Agency (1972–1973) and as the U.S. Representative on the United Nations Experts Panel on Economic Consequences of the Arms Race (1971–1972). He is a director of several business firms and has served on the Research Advisory Board of the Committee for Economic Development from time to time since 1951.

His published works include four books and numerous articles in economic and financial journals dealing, among other things, with monetary policy, the international payments system, and our financial structure. From 1961 to 1964, he was an editorial writer for the Washington Post; since 1965 he has been a columnist for Newsweek Magazine.

He is married and has three children.

Biographical Sketch of J. Charles Partee

Name: J. Charles Partee.

Address: 931 Leigh Mill Road, Great Falls, Virginia 22066.

Residence: 6¼ years at above address; 7 years at 1002 South Mansion Drive, Silver Spring, Maryland; 12 years residence in various suburbs of Chicago, Illinois.

Age: 48. **Health:** Good. **Born:** October 21, 1927, in Defiance, Ohio—U.S. Citizen.

Family status: Married, since 1946, to Gail Voegelin Partee, residing at above address. Three children—Eric, Sharon and Pamela—all grown and living away from home.

Education: Primary and secondary—Public schools of Defiance, Ohio; University: B.S. in Business (with distinction), 1948; Indiana University: MBA, (in finance), 1949, Indiana University; Non-degree graduate work in finance and economics, 1952–54, University of Chicago.

PROFESSIONAL EXPERIENCE

1948–49—Graduate assistant in finance, Indiana University.

1949–56—Economist (specializing in consumer finance, mortgage markets, and savings behavior), Federal Reserve Bank of Chicago.

1950–55—Instructor in Money and Banking, American Institute of Banking, Chicago (part-time).

1956–61—Associate Economist and (from 1958) Second Vice President, The Northern Trust Company of Chicago, Illinois.

1962 to date—Board of Governors of the Federal Reserve System, Washington, D.C.

1962–63—Chief, Capital Markets Section, Division of Research.

1964–65—Adviser in charge of financial sections, Division of Research.

1965–69—Associate Director, Division of Research.

1969–74—Director, Division of Research.

1973 to date—Managing Director for Research and Economic Policy.

OTHER ACTIVITIES

U.S. Representative to (and Vice Chairman of) the Committee on Financial Markets, O.E.C.D., Paris—1970–75.

Deputy to Adviser (Chairman Burns) of the Cost of Living Council, 1971–73.

Director, Securities Investor Protection Corporation, 1970 to date.

Active member, Conference of Business Economists, 1969 to date.

The CHAIRMAN. But I suppose after 3 days, when the same argument is brought up, certainly there are members of the Fed who have had extensive writing and background; but, as I showed in the previous hearings and yesterday, most of them, particularly Mr. Emmett Rice who has served well, but, by his own admission he had no writings that he could take credit for himself, have very little military experience. We had only eight and a half pages of testimony on Mr. Rice. His nomination was also in correlation with a Presidential year and the prime rate was starting to go to 21.5 percent.

This witness should certainly be asked all the questions that Senator Riegle and you have been asking about her views concerning monetary and economic policy, but I really must protest continuing to make issues—that I don't think are issues—when the proof is so adequate in previous hearings that other witnesses have not been questioned on the fact that they did not have an opening statement and the other things you are bringing up. I will not take more of the Senator's time. Please continue.

Senator SARBANES. Mr. Chairman, I would just offer an addendum to that. First of all, I have not made anything of the point that the witness did not have an opening statement.

The CHAIRMAN. That is correct, you did not.

Senator SARBANES. And I think the chairman is quite correct when he says that there have been a number of nominees to the Fed who have not had opening statements.

QUALIFICATIONS OF SEVEN PRESENT MEMBERS

With respect to the seven members now on the Board, I was very careful in the statement that I just made to say writings and statements that would enable us to ascertain some of their judgments and views or holding positions that enabled us to do that.

Emmett Rice had been an alternate executive director at the World Bank and the IDA, the International Finance Corporation and he served in the Treasury as Deputy Director of the Office of Developing Nations. Preston Martin had, of course, had extensive business experience. I think he's the other one where we didn't have a large body of writing before us. I don't think that's the case with Volcker, Wallich, Teeters, Partee, or Gramley. Martin had, of course, been Chairman of the Federal Home Loan Bank Board for 3 years, from 1979–82. That is a position of some responsibility and gave the committee an opportunity to know him and have some understanding of his qualifications.

Also, because I think you have made reference to it twice, Emmett Rice was sworn in an election year, but——

The CHAIRMAN. No, his hearing was held on June 5, 1980, during a Presidential year.

Senator SARBANES. My information is that he was sworn in on June 20, 1979.

The CHAIRMAN. I'm mixing him up with Gramley. Gramley was June 5 and the Senator is correct. Emmett Rice was the year before, in 1979. We're talking about 1 year difference on a 14-year term.

Senator SARBANES. And Gramley was sworn in, as I understand it, on May 28, 1980.

The CHAIRMAN. Well, I had all those before me yesterday. I do not have them now. I'm not going to take time to argue about June 5 versus May.

Senator SARBANES. Dr. Seger, when you were at the Federal Reserve Board here in Washington from September 1964 to February 1967, what was the nature of your responsibilities?

Dr. SEGER. I was a financial economist in the capital markets section and did analyses of current conditions in the financial markets, analyzing financial institutions. Specifically, we did a lot with thrifts, analyzing savings and loans, savings flow into commercial banks, savings flows into credit unions.

Senator SARBANES. You had no administrative or supervisory responsibilities?

Dr. SEGER. I was a grade 13.

Senator SARBANES. All right. Then, the earlier experience at the Federal Reserve Bank of Chicago from 1957-59——

Dr. SEGER. I was right out of school then. I was a research associate. Chicago sent me to represent them in Detroit as a research associate.

Senator SARBANES. You were right out of college or high school?

Dr. SEGER. I was 2 years out of college at that time.

Senator SARBANES. All right. I have a series of subject matters I'm going to try to cover, so I'm going to try to move along rather quickly if we can. Yesterday we were discussing the independence of the Federal Reserve and at that point we had to bring the hearing to a close, so I'd like to resume with that subject.

How do you reconcile the independent role of the Federal Reserve with the necessity to coordinate overall economic policies so you do not have different agencies of Government working at cross purposes?

Dr. SEGER. In the Employment Act of 1946, we have certain general economic goals described for the country, things such as high levels of employment, a sustainable rate of economic growth in the overall economy, and price stability. That's what I'm talking about. I think we've got various kinds of economic policy and I think that it's appropriate. Those goals were passed by Congress; I didn't prescribe those. Since Congress passed that Act and put those goals in, then I think it's appropriate for economic policy to be heading in that general direction, that those be the general goals. That's what I was referring to.

Senator SARBANES. How do you make sure that the Federal Reserve is not heading in one direction and the Treasury is heading in another?

Dr. SEGER. Maybe it's because I don't live in Washington, but I think people in, say, a corporation, people at General Motors or people who are designing cars, speak to the engineers who are going to have to engineer the new model, and they speak to the marketing people who are going to have to sell it, you're all aiming to get something done together.

Senator SARBANES. And if they disagree about what it is you want to get done, then how is that resolved at General Motors?

Dr. SEGER. They all are reasonable people on a team to produce and sell a car.

Senator SARBANES. Reasonable people on a team may have different views about how to achieve a commonly shared objective. How do you resolve that dispute? First of all, let me ask you this question. Is it your perception that the Fed and the Treasury have always had exactly the same perception as to what ought to be done in terms of economic policy?

Dr. SEGER. No, and I thought I discussed that yesterday.

Senator SARBANES. If they do not, how do you address that problem?

Dr. SEGER. If you talk to various economists, they have different ideas about how the economy is going. If you look at economic forecasts, not all economic forecasts are the same for the next year, or the next 2 years, or whatever. There are differences of opinion about the particular conditions. There are differences of opinion about particulars of how objectives can be met. I think you can have differences of opinion on the specifics and still have people shooting for the same ultimate goal, which is a healthy economy.

Senator SARBANES. If you were a member of the Board of Governors of the Federal Reserve, would it be your view that the Board should make its decisions without reference to the policy position being taken by the Treasury or the Council of Economic Advisers?

FED SHOULD BE INDEPENDENT IN DELIBERATIONS

Dr. SEGER. I think if you mean should the Fed be independent in its deliberations, they should be independent. I think they should be independent in their deliberations.

Senator SARBANES. When the Secretary of the Treasury says in a public statement that the Fed is either following too tight a policy or too loose a policy, do you think the Federal Reserve Board should pay any attention to that, or simply brush it aside?

Dr. SEGER. I'm not on the Board, but I'm sure that they hear discussion. I'm sure that they read the New York Times, the Wall Street Journal, and the Washington Post. I'm sure they are aware of comments of every variety.

Senator SARBANES. My question is not whether you would be aware of the comments, but what weight you would give to them. I assume you would be aware of the comments. If you didn't get them any other way you would pick up the morning paper and read that. What weight do you think you should give to it?

Dr. SEGER. I indicated a couple minutes ago that I think the Fed should be independent in its deliberations.

Senator SARBANES. I understand that. That's not my question. What weight should you give to the positions taken by the Secretary of the Treasury, and how important is it that the agencies of the executive branch of the Government follow a coordinated and shared economic policy?

Dr. SEGER. You pick up all sorts of information, all sorts of comments, but you can still be independent in determining what policy you think is appropriate. I think that you can decide in an independent way how to implement it and still have all sorts of information.

Senator SARBANES. Do you think you should pay more attention to a comment about policy made by the Secretary of the Treasury than you would to an ordinary commentator?

Dr. SEGER. I don't know how to say this any better than I am. I'm saying I think they ought to be independent in their deliberations.

Senator SARBANES. I understand you're saying that. My question is something else. I take it you don't mean you should ignore the comments of the Secretary of the Treasury on policy, or do you think they should be ignored?

Dr. SEGER. I don't think you should ignore any comments; my own Senator here has just said he's heard all these comments from the financial community, and I think he should be aware of those. I'm saying the same thing for the Fed.

Senator SARBANES. That leads me right back to my previous question. Do you think in the course of not ignoring any comments you should pay more attention to positions taken by the Secretary of the Treasury than you would to positions taken by "Mr. Citizen" or "Mrs. Citizen?"

Dr. SEGER. I think that you should pick up the comments, you should find out as a matter of information where the problems are; still, though, you can make your own decisions. If you're talking about direct input from the Secretary of the Treasury versus my grandmother, then I would say they would be on an equal footing.

Senator SARBANES. All right. Now, given that the Secretary of the Treasury and your grandmother are on equal footing with respect to their comments on what the Nation's economic policy should be, what is your view on the various proposals floating around, first, that the Secretary of the Treasury should be an ex officio member of the Federal Open Market Committee?

Dr. SEGER. I think I answered that; I'll go through it again. I indicated to Senator Riegle—I think he will vouch for this—that I was not in favor of that change.

Senator SARBANES. All right. What about the Secretary of the Treasury being ex officio member of the Federal Reserve Board?

Dr. SEGER. I said that I was not in favor of the Secretary of the Treasury being put on the FOMC or the Federal Reserve Board or made a research assistant.

Senator SARBANES. Or as what?

Dr. SEGER. Or made a research assistant of the Fed.

Senator SARBANES. I don't follow that.

Dr. SEGER. I am not in favor of the Secretary of the Treasury being put on the Board in any capacity.

Senator SARBANES. I see. Including the capacity of research assistant, which is the position you held in 1957–59 with the Fed?

Dr. SEGER. I was a research associate.

Senator SARBANES. What is your view on having the term of the Chairman of the Fed coincide with the Presidential term?

Dr. SEGER. I recall this issue being discussed even back in the 1970's. The idea was to make the term of the Chairman more closely aligned with the term of whatever President. As I indicated, of the various changes proposed for the Federal Reserve System, I think I would put this at the top of the list, as one that probably could be done without necessarily violating the independence of the Fed.

Senator SARBANES. I'm not quite clear from your answer whether that means you support it or do not support it.

Dr. SEGER. I said I could support it.

Senator SARBANES. Do you support it?

Dr. SEGER. I don't have strong views about changing it. If it were changed, I would support it.

Senator SARBANES. In other words, you don't have a view on that?

Dr. SEGER. I don't feel strongly about keeping it as it is or——

Senator SARBANES. I'm not insisting that you feel strongly about it. I'm just trying to find out what your judgment is on that question. That's a question that we have to face and others have to face. It's an issue that's been under general discussion. What's your position on it?

Dr. SEGER. I don't think the present situation is working that badly. I'm not going to be the one making the decision, but if you decided to change it, I would support it.

Senator SARBANES. You're going to be a member of the Fed, or you're trying to be a member of the Fed, one of seven people to whom we look to for wise judgments with respect to some very important issues. In that sense, you are not simply a follower. You help to make decisions and to make policies that affect not only our own people but people throughout the world.

This is a question involving the internal dynamics of the Fed and how it functions, but you don't have a position on whether the chairman's term should be coterminus or coincide in some way with the Presidency?

Dr. SEGER. As I said, I don't think the present system is working that poorly, but I'm not beating the bushes to get a change made.

Senator SARBANES. In other words, anything that's done in that regard you will accept?

Dr. SEGER. That's right. I have very strong positions on certain things that I've worked with a lot, such as commercial banking, supervision, regulation, how to improve those areas. On other matters, such as this, I have less strong positions.

Senator SARBANES. Well, on this one you have no position at all. It's not a question of the intensity of the position.

ACT REQUIRES FAIR REPRESENTATION

The Federal Reserve Act requires that the members of the Board of Governors be selected with due regard to fair representation of the financial, agricultural, industrial and commercial interests, and geographic conditions of the country. Are you in agreement with this requirement?

Dr. SEGER. I think it's good to have a mix, yes.

Senator SARBANES. You're in agreement with that requirement?

Dr. SEGER. I think it's good to have a mix, yes.

Senator SARBANES. Well, is this the right mix?

Dr. SEGER. It's fine with me.

Senator SARBANES. Do you think the financial interests are already adequately represented on the Board?

Dr. SEGER. By financial interests, are you referring to the fact that Chairman Volcker had some experience at Chase Bank and the Fed in New York and that Preston Martin had some finance in his background? Finance is a pretty big field. I'm sorry. I'm not quite sure what you're driving at.

Senator SARBANES. I would think banking would be financial. How would you characterize yourself amongst financial, agricultural, industrial, and commercial?

Dr. SEGER. I've spent roughly 10 years in commercial banking and a couple years as a State regulator, which I have already mentioned, and I have had some prior experience, roughly 5 years with the Federal Reserve. If you consider that and commercial banking financial, that's about 15 years of financial experience.

Senator SARBANES. Do you believe that agricultural interests are adequately represented on the Board at the present time?

Dr. SEGER. I'm not familiar with the details of every Board member's background. I heard somebody say that Lyle Gramley had been brought up on a farm or near a farm, but that may be wrong. I don't want that in as a fact.

Senator SARBANES. Do you believe industrial interests are adequately represented on the Board?

Dr. SEGER. I would certainly view Preston Martin as someone who has a good background and would be considered industrial.

Senator SARBANES. Do you consider him as having an industrial rather than a commercial background?

Dr. SEGER. He didn't run a manufacturing plant, but I think he's had experience in the retail industry. His company was part of Sears Roebuck, as I recall.

Senator SARBANES. Would you consider Sears Roebuck an industrial interest as opposed to a commercial interest?

The CHAIRMAN. Not yet, but they will be soon judging from the way they are rolling into everything.

Senator SARBANES. Well, I now make reference to Dr. Seger's response to Senator Riegle that she looks out at the current situation and not at the future situation.

Do you consider employment at Sears Roebuck would make him an industrialist?

Dr. SEGER. I would consider it part of the retailing industry, yes.

Senator SARBANES. Do you believe small business interests are adequately represented on the Board?

Dr. SEGER. I honestly don't know.

Senator SARBANES. Mr. Chairman, my time is up. I do have an additional line of questioning that I want to follow.

The CHAIRMAN. I do have some comments. Let me make a comment here and I'm not here to be approved for any appointment, but I would say to you, as you consider your appointment to the Fed—and I have said this many times in the past—the Fed has had what I have called an incestuous relationship primarily of establishment people appointed over and over and over again who have lived and worked most of their time in Washington. One of the few exceptions to that recently has been Mr. Shultz from Florida who was a businessman. Preston Martin, although he had been here on the Federal Home Loan Bank Board and had had some Washington experience in addition to that, had been in California and other areas and worked extensively in the private sector.

Beyond that, as you look at most of them, I believe—I think and the majority of this committee believes that it has not been well-balanced and certainly not geographically. That is one of the reasons that I insisted that this President send up someone who fit the qualification. You do fit that qualification. You are an economist, but you are not an economist who has had extensive experience here in Washington. You have been out in what I would call the real world. I guess my colleague, Senator Riegle, would agree that Michigan is the real world.

Senator RIEGLE. We like to think it is.

The CHAIRMAN. That is an area that I expect this committee, including the chairman, to be working on in the future, that there be more diversity on that Board. I don't mean to characterize or criticize anyone currently serving, other than to fit them into a category where a lot of the present Board members' experience is very similar to each other. They have had very similar backgrounds and I hope that over the next few years to see that changed with this President and other Presidents.

Along this line, I would submit for the record at this time a letter supporting your nomination from Small Business United, a group representing 60,000 small business members in this country who do support your nomination for the position on the Fed.

[The following letter was subsequently submitted for the record:]

SMALL BUSINESS UNITED
A NATIONAL NETWORK FOR LEGISLATIVE ACTION
69 Hickory Drive, Waltham, Massachusetts 02154 (617) 890-9070

LEGISLATIVE COUNSEL
Allen Neece, Jr.
G. Thomas Cator
Neece, Cator & Associates, Inc.
Suite 810
1050 17th Street, N.W.,
Washington, D.C. 20036
202-775-0429

June 19, 1984

Honorable Jake Garn
Chairman, Committee on Banking,
Housing and Urban Affairs
United States Senate
Washington, DC 20510

Dear Chairman Garn:

Small Business United, on behalf of its 60,000 members, wishes to encourage you, as a member of the Senate Banking Committee, to confirm the appointment of Ms. Martha Seger, as a member of the United States Federal Reserve Board.

When former Governor William H. Milliken appointed Martha Seger, Director of Financial Institutions for the State of Michigan, he chose an activist for revitalization of Michigan's economy. Ms. Seger grew up in a small business family and understands well the concerns of small business in our monetary economy. Her concern about interest rates, the flow of capital, and the supply of capital, will encourage further economic expansion of small businesses in the global marketplace.

Your support of her appointment to the Federal Reserve Board will be recognized as support for the small business community as well as support for a more balanced Federal Reserve Board.

Sincerely yours,

John C. Rennie
President, SBU

Brad Roller
President-Elect, SBU

Let me ask you what lessons for bank regulation and deregulation we should learn from the Continental-Illinois situation?

BANKING IS A TOUGH BUSINESS

Dr. SEGER. The No. 1 lesson that occurs to me to be drawn from that is that banking is a tough business. It's very difficult to make decisions. After the fact, it's easy to criticize them, but at the time the decision has to be made it's not always easy.

A second point is that banks are institutions run by humans. Some humans are very smart; some humans aren't so smart. Some humans make mistakes—I should say a lot of humans make mistakes, including humans who work in banks. Also, some humans are very aggressive, they're willing to take on a lot of risks, others aren't. I think in the Continental situation we did have a lot of individuals who were loan officers who were very aggressive, willing to make loans, large loans. They were willing to go down into the Southwest at the time when energy was thought to be the boom industry and they put a lot of money there in various energy related companies, made tremendous commitments. As I said, it's difficult to make these decisions, and banks don't always employ perfect forecasters. Consequently, I think some of the assumptions on which those energy loans were based didn't pan out; that is, that crude oil prices would go in one direction, up. Very few people, including Government reports that I was reading back in the early 1980's, showed a forecast of crude oil prices dropping either. The commercial bankers were operating from the same type of forecasts, where they thought crude oil prices would go from $34 on up to $40 and eventually $50 and $60, and so on.

That key assumption made a big difference in the ability of these borrowers to meet these commitments and their lack of ability to meet these commitments. And so I think those are some of the lessons I think we can draw.

The CHAIRMAN. Well, if we learn those lessons, as a possible regulator, how do you evaluate those lessons? How do you operate as a regulator? What do you do to catch situations like that earlier, like Penn Square? I happen to feel that there was too much time lag. Penn Square should not have gone as far as it did—although Federal agencies were following it, it went too far. So what kind of approach do we take to learn from those lessons? We can see what happened. How do we deal with that? How do we deal with that type of a situation before it gets to the point where we have to come up with $7 billion?

Dr. SEGER. This gets back to the point I was making yesterday or the day before about the need to improve the whole system of supervision and to change the way we look at these banks, to change the examination process, to get involved earlier, to communicate more clearly to the directors so they are honestly told what the condition of the institution is. We tend to use very oblique and sort of indirect terms to describe things, and I don't think that actions are taken soon enough even in-house to get problems dealt with.

I think it's up to the supervisors to get these improvements so that directors and management themselves can handle it.

The CHAIRMAN. What I was trying to get at earlier, do you favor—rather than routine examination periods of both banks that have never had any trouble whatsoever and some of those that have had some rocky times—changing the examination schedules and maybe not visiting one bank that has never had any problems, has obviously been well run nearly as often as another more troubled bank and really ride herd on the one with much more frequent examinations if they are on the troubled list?

Dr. SEGER. Absolutely. You see, many State banking laws used to prescribe an examination a year, like a physical, whether you needed it or not. What I would recommend is that a system be set up where you could get, say, computerized reports, hitting various performance measures from all banks; but you would save your time and your energy and go out and visit and concentrate your examination effort on those institutions, as you said, that were identified as rocky or having tremendous problems.

Then you would concentrate more on those and not spread your resources so thin by trying to hit everybody and not doing a terribly good job of dealing with anybody. I would agree with that.

The CHAIRMAN. How do you evaluate the capital adequacy standards for banks that are put to them by the Federal regulators? Do we require enough capital?

Dr. SEGER. I believe December 1981 was the time that this joint communique was put out that indicated that the Federal Reserve and the Comptroller of the Currency would agree to certain minimum capital standards, and then the FDIC had a slightly different view of all this, but I think that probably was a step in the right direction, to have some absolute low point below which it was not possible for bank capital to slip, because the trend had been this long-term drop in capital.

Given the problems since then, it certainly would be nice to have more capital shown in those accounts. But what I sort of detect, unfortunately, is a tendency to put so much effort on capital adequacy that maybe some of the other things are neglected, such as improving management and also concentrating more on things that banks can do to improve their profitability, through things like asset liability management, in-house asset liability management. To me, it's like my flying home tonight: I am more concerned about the pilot who's up in front and whether or not the motor is good than I am about having a parachute in the plane, because I hope I don't have to use it.

I think we ought to look not at the capital first, because that's sort of the last line of defense. If you don't have any earnings and you've got tremendous loan losses, then you have to dig into capital. But we ought to make sure that they are also showing some profits, because that's the first thing that will absorb loan losses and other types of losses.

The CHAIRMAN. Do you have any suggestions for the problem of international lending? At the time we increased the IMF quota there were suggestions for country loan limits and all sorts of very restrictive proposals. The Senate and the House adopted some medium ground by requiring higher capitalization, additional disclosures, special reserves, and other things of that nature.

PROBLEM OF INTERNATIONAL LENDING

The problem of international lending is still before us and I'm not asking you what to do about current outstanding loans. I'm looking to the future, not today and not last week. Do you have any suggestions for how we deal with international lending problems for the future to see that it not only does not continue to compound, but we hopefully avoid that type of situation in the future?

I guess to be more specific, would you favor more of the strict type of controls that were advocated by some last year? Do you think we adequately dealt with it or are there some other steps that you would recommend that we could apply to banks in relationship to international lending problems?

Dr. SEGER. To answer the question first of all, as to whether I favor specific controls, or let's say dollar limits country by country or percentage limits—percentage of asset limits country by country—I am opposed to that because I don't know where the group of geniuses reside who will set those limits.

In terms of the way that we could deal with this—and as I understand it, steps are being taken to improve some of these things already—I think, again, the supervisors could get on top of these problems earlier, and hopefully they are. Also, I think we can remove some of the incentives to get deeply into these foreign loans by dealing with the way in which the income from those loans is bought. When you could take a fee and put it all into income up front that was a big incentive to get in. I'm not an accountant, but as I understand it, these fees are being spread or it's suggested that they be spread over the life of the loan, so that reduces the incentive a bit.

I think, too, that we can do some consciousness-raising on the part of the lenders in making sure that they themselves look at the composition of their loan portfolio, not just foreign loans, by the way, but everything, and look for areas of excessive concentration.

I don't think we have to have the regulators do all the thinking for the banks, and I think that what we ought to do is to push them to run their own shops in a more effective way.

The CHAIRMAN. I'm going to stop my questions at this point and I've conferred with Senator Riegle, and due to the Senate schedule and our individual schedules, we will close the hearing at 1 p.m. today, and if it is convenient with your schedule, Senator Riegle and I agreed that we will resume at 10 a.m. in the morning. Is that satisfactory to you?

Dr. SEGER. I have to go home tonight, but I can fly back first thing tomorrow morning.

The CHAIRMAN. So with the remaining 20 minutes, I would simply turn to my colleagues—however you two would like to divide the remaining time, fine.

Senator SARBANES. Mr. Chairman, I don't know whether I will be able to be here in the morning. Is there some way I could pursue a line of questioning now?

The CHAIRMAN. As I said, it's Senator Riegle's turn, but if he's willing to yield to you, fine.

Senator SARBANES. Is there any chance we could continue beyond 1 o'clock?

The CHAIRMAN. We could continue until 1:15.
Senator RIEGLE. Let me yield my time to Senator Sarbanes.
Senator SARBANES. Dr. Seger, do you believe that it is possible in principle for a currency such as the dollar to be overvalued?
Dr. SEGER. I hear the dollar described as an overvalued currency right at the moment.
Senator SARBANES. Yes, I hear it too. Do you believe that it is possible in principle for a currency such as the dollar to be overvalued?
Dr. SEGER. The answer is yes.
Senator SARBANES. You do believe that. Is the dollar, in your judgment, at the present time overvalued?
Dr. SEGER. It may be, in terms of certain currencies and not in others. I don't think one can give a blanket, all-encompassing answer to that.
Senator SARBANES. The economic report of the President estimated that the dollar is 32 percent above its long-run real value. Do you agree with that?
Dr. SEGER. I don't know if it's 32 percent or what—I do not know an exact percentage.
Senator SARBANES. Pardon?
Dr. SEGER. I do not know if that's the right number.
Senator SARBANES. Do you think the dollar is overvalued in something approximating that range, 20 to 30 percent?
Dr. SEGER. I said I would agree it's overvalued, but I do not know a number.
Senator SARBANES. I'm not asking you for a specific number. I'm trying to get a range. You're seeking to be a member of the Board of Governors of the Federal Reserve. You said that the dollar is overvalued. Do you have any idea of the range by which it's overvalued?
Dr. SEGER. All of these are estimates, including the number in the economic report of the President. I would say the number is somewhere probably between 15 and 25 percent.
Senator SARBANES. And how do you arrive at that?
Dr. SEGER. As I said, it's a rough estimate. Basically, I would come up with that by looking at the trend of where the dollar had been vis-a-vis these other currencies in the past. That's one thing you can look at. Another thing is to look at the trade flows.
Senator SARBANES. Do you think that poor trade flows indicate an overvalued currency?
Dr. SEGER. If the exports of a particular country are having a rough time in foreign markets, I think that that is one sign of an overvalued currency; yes.
Senator SARBANES. Do you believe coordination is necessary between monetary authorities of the major industrial nations?
Dr. SEGER. I think cooperation and communication between all these major industrial nations is very important. If by coordination you mean setting up some body that will order each country to do certain things with its monetary policy to make sure that everybody is in sync, then I suspect that would be unacceptable. The nations' economies are not in sync. The economic recoveries between various countries, while they are certainly going on, are not all in the same stage.

Senator SARBANES. Do you believe the monetary authorities of the major industrial nations should seek to coordinate their policies with the objective of stabilizing the exchange value of the major currencies?

BELIEVE IN MARKET APPROACH

Dr. SEGER. I take more of a market approach to establishing exchange values, period.

Senator SARBANES. Do you believe it is ever appropriate for the United States to intervene in the workings of the foreign exchange markets?

Dr. SEGER. I think it's appropriate for them to do exactly what they are doing now, which is if the markets are disorderly and if there's something bordering on chaos, then it's appropriate for them to have the ability to step in.

Senator SARBANES. But only in an extreme crisis?

Dr. SEGER. Disorderly markets, chaotic conditions; yes, sir.

Senator SARBANES. Are you aware of what is happening to the net asset position of the United States?

Dr. SEGER. If you mean that we are approaching net debtor status internationally, yes, I am aware of that.

Senator SARBANES. Now that's a development that would make us a net debtor for the first time since the period before World War I. Other things being equal, what will this do to our surplus services account?

Dr. SEGER. Obviously, if we are having to borrow more, it's going to mean that we will be paying out interest to foreigners and that this one action by itself—I don't know what assumptions you're making about other things going on—but this one step would reduce that surplus.

Senator SARBANES. What do you think this structural decline in our current account surplus would do to the underlying value of the dollar?

Dr. SEGER. In my own judgment, not a lot.

Senator SARBANES. You don't feel it would affect the real value of the dollar?

Dr. SEGER. Not in and of itself; no.

Senator SARBANES. So you don't expect a shift into a net debtor category, with the outflow to pay interest on the capital inflow, could result in the depreciation of the dollar?

Dr. SEGER. When I was in banking, I happened to have dealt a lot with our own international department and the international departments of some other banks, and in the conversations I have had with foreign exchange traders in Detroit, Chicago, New York—the key factors that have always been pointed out to me—and these are the people that have a lot of clout as to where the values are established; I don't personally because I don't buy or sell currency—the items that impress them the most and influence them the most, are interest rates and the relative levels of interest rates. You're looking at currencies in pairs basically. The second thing they look at is inflation performance on a relative basis.

Senator SARBANES. On the subject of relative rates of interest, you said yesterday that you thought interest rates now were just about right. I think that was your statement. But real-interest rates are at an unprecedented level.

Dr. SEGER. I guess it depends on how you calculate real-interest rates. The academic community and apparently a lot of other economists are looking at one thing, and I think the people who are out in the real world making decisions to borrow are looking at something quite different.

The basis for the statement you just made, I believe, is to compare current nominal rates with what has happened to inflation over the last year or so. If you subtract off the nominal rates the amount of inflation over the last 12 months, which as I indicated earlier has been a very good performance, then you net out to a large number which is referred to as the real interest rate.

People who are experts on corporate finance and are making big decisions to invest in corporate America and a lot of other people who are making investment decisions for the future are looking ahead, are trying to decide where inflation is going in the future. And when they look at that in the prospective way, they see a number that's bigger than the number in the last 12 months or the last 24 months. By the way, there is no one number for this; different individuals certainly have different feelings on that matter. But if you look at it that way, then I suggest to you that the so-called real-interest rates that count are probably not that much too high or are not at record high levels.

Senator SARBANES. You don't think they are at high levels at all. You think they are about right, as I understand it. That's the answer you gave yesterday.

Dr. SEGER. I was talking about market——

Senator SARBANES. And I take it that is the answer you're giving right now.

Dr. SEGER. Yesterday the question was what I thought about market rates of interest.

Senator SARBANES. You thought they were about right.

Dr. SEGER. Market rates of interest.

Senator SARBANES. Then today you're saying that if someone then comes back at you and say, yes, but the real rates are at an unprecedented level, then you discount the real rates and come back to your point that you think——

Dr. SEGER. Sir, I am not discounting them. I'm just saying that I think there are different ways to calculate what's known as real-interest rates. Academics typically look backward and the people making investment decisions look forward, and so they come, I believe, to two different conclusions.

The CHAIRMAN. Would the Senator yield for a clarification? I'm a little bit puzzled here, too.

As I listened to you yesterday and today, I assume that your answer is that they are about right is in an academic and a market sense, but you don't think the interest rates are not too high as far as the public is concerned?

Dr. SEGER. No.

The CHAIRMAN. Because I do, and I wanted to clarify that so you're in a market adequacy situation.

Dr. SEGER. As I look out at the market, I see the market is setting these rates; I don't believe that I should be in the business of setting interest rates.

INTEREST RATES ARE TOO HIGH

The CHAIRMAN. But interest rates are too high for those of us who are going to borrow and the economy and all that?

Dr. SEGER. Absolutely. When I worked in Washington in the mid-1960's the prime rate was 4.5 percent. I would love to see us return to those type of conditions that would support that.

The CHAIRMAN. I appreciate the Senator letting me clarify that, because if you thought interest rates were about right for the consuming public, I might have to reconsider my support. So I thank the Senator for letting me clarify that point.

Senator SARBANES. Mr. Chairman, I'm pleased to hear that a process of reconsideration is possible.

Could you describe to the committee your view of international exchange rate regimes? Specifically, do you favor or oppose the present system of freely floating exchange rates?

Dr. SEGER. I do favor freely floating exchange rates, and I thought I was suggesting that when I indicated that I preferred to have the market determine rates and eventually it would be done only when markets become disorderly or chaotic.

Senator SARBANES. So you reject fixed exchange rates on the Bretton-Woods model?

Dr. SEGER. Yes, I do, sir.

Senator SARBANES. What is your view on the gold standard?

Dr. SEGER. I have never been a gold standard supporter, and I am not now.

Senator SARBANES. Do you favor or oppose the attempt to tie the value of the dollar to the price of a basket of commodities?

Dr. SEGER. It seems to me that's just a left-handed way of asking the gold question.

Senator SARBANES. So you oppose that?

Dr. SEGER. I oppose it.

Senator SARBANES. Did you favor or oppose the legislation last year to increase the quota allocations to the International Monetary Fund?

Dr. SEGER. I wasn't down here lobbying for it, but I did support it, yes.

Senator SARBANES. Do you believe that the IMF has enough resources now to carry out the vital functions that it's charged with in the international community?

Dr. SEGER. I guess it depends on your assumptions. If the whole foreign debt situation blew up and the IMF had to come in to a very great degree, they might not; but using reasonable probabilities, which I think is all that one can do, I would say at least they are $8 billion more likely to reach it today than they were last November.

Senator SARBANES. Would you favor or oppose the new allocation of special drawing rights?

Dr. SEGER. Again, I haven't done much thinking about this, but I guess I would favor it.

Senator SARBANES. How concerned are you about the Latin American debt problem?

Dr. SEGER. You mean in general or as it impacts on our banks or——

Senator SARBANES. Both.

Dr. SEGER. Again, this problem is not new. I have been very concerned about it for the last couple of years. The borrowing has been going on for a long time. The debt load has been rising. The dollar amounts of these loans made by American commercial banks to Latin America, of course, have gone up and up to rather interesting levels, and that's all been going on for a while.

In my judgment, the peak of the concern probably should have been expressed back in the period when I was a regulator, which is back in 1982, and while I still think it's a very severe problem both for the Latin American nations and for the American banks that have made those loans to Latin American nations, I think that we are on the downside of the hill, that we are heading in the direction of dealing with this.

One example I'd like to use is Mexico. Mexico, between 1981 and 1983, has turned its situation around from running a very major trade deficit of $14 or $15 billion to a surplus. And we have seen improvements in various countries. The IMF, of course, is working with them, is putting pressure on these countries to get their internal affairs in order, to practice some austerity.

The current problem, as I understand it, is working with Argentina trying to get a deal worked out with them so that they will adopt some sort of an austerity measure or measures and that then the IMF can proceed to get that situation dealt with.

But again, I am not complacent and I don't think the problem has gone away. I don't think it's going to go away overnight, but I think we are making some progress.

Senator SARBANES. Well, what is your analysis of the reasons for the unprecedented trade deficit we are experiencing?

Dr. SEGER. A whole bunch of reasons.

MEXICO'S AUSTERITY PROGRAM

Senator SARBANES. Does the austerity program in Mexico have anything to do with it?

Dr. SEGER. The austerity program in Mexico had a lot to do with it. I happen to live in a border State. We border on Canada, and Canada is certainly America's major trading partner or one of America's major trading partners. Mexico has been another major trading partner because they border on our southern extreme. The Mexican economy was one of the most rapidly growing of all in South and Central America. It was doing very well back in the 1970's. As a consequence, there were major purchases of American goods and services, and so when they got into trouble and these austerity measures were put on—various controls were put on the citizens, currency controls—they took steps to limit imports into Mexico, and many of those imports into Mexico used to be products being exported from the United States, so that I think is one very important matter.

A second factor that contributed to our balance of trade problems is the matter that I obliquely referred to earlier about our economic recovery coming along. It's on the early side if you compare our situation to some other major industrial nations. We have come along early and the recovery has been very robust. The other major industrial nations are certainly in the recovery mode, but they are some months behind us. And as such, this has meant that our strong early recovery has sort of worked as a major magnet to pull a tremendous amount of imports in from outside; but at the same time, because the other countries' recoveries were lagging behind ours. This meant that the markets for our goods—in other words, the opportunities for our exports—were not improving as rapidly as our imports. That's a second factor which has entered in.

A third factor certainly, if you just look at statistics, involves—and I'm sorry Senator Riegle has left, but he and I discussed this in his office—imports of foreign cars and this has been a big item in our trade problem.

Senator SARBANES. So it's your perception that the export-import gap is very closely tied to the cyclical mismatch in the movement of the economy; is that correct?

Dr. SEGER. I said that is a factor, yes.

Senator SARBANES. I was interested that you didn't mention in this list of factors the question of the value of the dollar and the assertion by many that it is overvalued. You don't think that's an important consideration?

Dr. SEGER. That's another one on the list. That ties in——

Senator SARBANES. Isn't it a fact that the very high interest rates which have brought in these tremendous capital inflows into the country have in effect prevented the traditional economic theory of how you adjust your trade balances from working? The traditional theory is that when you get that gap on exports and imports, you get an automatic adjustment in the value of the currency and the situation is remedied. Isn't that correct?

Dr. SEGER. Maybe the real world is more complicated than the theory suggests, because there are lots of different things that work these days. Theories are usually laid out in such a way as to assume that only one factor changes at a time. Unfortunately, that doesn't often happen.

Senator SARBANES. Well, how are we able to sustain these large trade deficits in the real world?

Dr. SEGER. As time passes, I think there are still some self-correcting mechanisms that——

Senator SARBANES. But right now, we've got this enormous trade deficit. How are we able to balance it off?

Dr. SEGER. Are you just talking about the capital flowing in?

Senator SARBANES. Is that what's doing it?

Dr. SEGER. That's the way it's balanced.

Senator SARBANES. That's important, isn't it?

Dr. SEGER. Yes.

Senator SARBANES. That is the real world, those capital flows. Why are we getting those capital flows?

Dr. SEGER. Several reasons. One is what I mentioned earlier, relative interest rate levels. Another reason the capital has come into this country is because of the fact that in other parts of the world we have some political turbulence, some big economic problems. Whether you agree or not, many foreign investors still think of America as a rather attractive place to invest, more or less a haven.

Senator SARBANES. A safe haven?

Dr. SEGER. A safe haven, yes.

Senator SARBANES. If the capital inflows are such that they sustain an overvalued dollar, how are you going to balance the trade gap?

Dr. SEGER. This goes back to some self-correcting measures that, in my judgment, will eventually appear. As our economic recovery proceeds, but at a slower rate, this will tend to diminish the rate of increase in our imports, looking at that side of our balance of trade. On the other hand, if you look at the recoveries going on in foreign countries, they are coming through or will be going into a more robust stage, and that will tend to help our exports. If our exports are being aided by these self-correcting measures and our imports either experience a slower growth or maybe even come to sort of a plateau because of this, then we can get this trade deficit narrowed down.

There are other proposals that are made to narrow it that are political suggestions, that are political solutions, things such as putting on quotas, erecting tariff walls, and all those things.

Senator SARBANES. Do you agree with the observation that there's a mismatch between the American dollar and the Japanese yen in the range of 20–30 percent?

Dr. SEGER. We talked earlier about differences of opinion. I hear that all the time from the auto makers in Detroit, which is, as you know, where I live. At the same time, I have spoken to Fed economists who are specialists in the international field and they suggest to me that there's no evidence of that. I'm not an expert on that.

Senator SARBANES. What's your view? This is a pretty important question. Your judgment on this question has very important policy implications. What's your view on the question?

Dr. SEGER. I'm impressed by——

Senator SARBANES. You told me one view and you told me the other view. I want to know your view.

SOME OVERVALUATION OF THE DOLLAR

Dr. SEGER. I don't think there is a universal view on this matter and I am impressed by the presentation that the Fed's international economists gave me. Based on that, I would say that there is some overvaluation. Whether it is exactly that percentage, I don't know.

Senator SARBANES. Their presentation was in line then with the view of the auto industry that there was an overvaluation?

Dr. SEGER. Excuse me, I misspoke. I'm saying I was impressed with their presentation about its overvalue, and I think that I would go along with the auto companies that there might be a little bit of overvaluation, but I don't think it's up in this high range that you mentioned.

Senator SARBANES. The auto companies think it is up in that high range.

Dr. SEGER. I indicated at the start that I hear that from them all the time.

Senator SARBANES. And you disagree with them?

Dr. SEGER. I have been convinced there is some overvaluation.

Senator SARBANES. Did you tend to agree with it before you got this briefing from the people at the Fed?

Dr. SEGER. I hadn't been convinced that it was an exact number.

Senator SARBANES. Well, I understand, but you have been working closely with the auto industry people in Michigan; was it your view before you got this briefing that their general assertion of this overvaluation was essentially correct? I take it you have revised your view on this markedly as a consequence of the Fed briefing.

Dr. SEGER. Well——

Senator SARBANES. Was that a briefing in preparation for these hearings, incidentally?

Dr. SEGER. They have been trying to tell me what the current economy is as they see it, what the current issues are. As I indicated, they showed me some of the key legislation. I think maybe we discussed this before you arrived.

Senator SARBANES. When did all of this take place?

Dr. SEGER. My nomination was announced May 31, which was toward the end of 1 week, and I have been in here several days in between then and this week.

Senator SARBANES. I see. This is a series of briefings from the people at the Fed?

Dr. SEGER. From their professional staff, yes.

Senator SARBANES. Now, on this issue.

Dr. SEGER. OK. Socially I see a lot of the auto industry people and hear this over and over again; that the dollar is so overvalued. They have not said, well, it's obviously overvalued by 27 percent or 32 percent. They weren't getting into the particulars, but they were just arguing that it was significantly overvalued and that this was giving them great problems competing, primarily with the Japanese. I think I have been convinced that there was a problem with an overvalued dollar.

Getting a presentation from the Fed staff—and these people are not employees of the auto companies—suggests that the dollar vis-a-vis the yen is probably not that much out of whack; yes, they did influence me.

Senator SARBANES. Going back to the debt question in the developing countries——

The CHAIRMAN. Senator Sarbanes, if I could say this, this will have to be the last question. The reason Dr. Seger has to go back to Michigan, so you understand why we're cutting this off, is that she has to have her arm x rayed I think once a week or something like that, so she has to catch an airplane to go back and have her arm x rayed.

So you could ask one more question.

Senator SARBANES. I didn't realize that, Mr. Chairman, and I will just touch on this final point. I need two questions in order to do it. I will be very quick.

On the debt question, it's been estimated that from one-third to one-half of the adverse swing in our nonoil trade balance can be accounted for by a decline in imports from the United States by the developing countries.

Do you tend to agree with that? Do you have any difficulty with that statement as a premise for the question I have?

Dr. SEGER. Could you run the first part by me again?

Senator SARBANES. Roughly one-third to one-half of the adverse swing in our nonoil trade balance can be accounted for by a decline in imports by the United States by the developing countries. This is a point I was touching on earlier, about the importance of the developing countries to us as an export market.

Dr. SEGER. I don't carry those exact statistics around in my head, but it is very significant.

Senator SARBANES. In view of that, would you favor special measures, such as a cap on interest rates paid by the less developed countries or similar sorts of measures, to contain the hold that rising U.S. interest rates have taken on their economies?

Dr. SEGER. I think this came up either yesterday or the day before, but I will be glad to comment on it again.

What I indicated at that time was that it is a problem, clearly, for anybody—whether it's a country or an individual or a business—to have a lot of debt outstanding and to have a floating rate attached to it. As the rate runs upward, obviously, your debt service increases, and it becomes, in the case of these countries, more of a problem.

I think my recommendation was that I would hope that the lenders to these countries could be convinced, maybe by actions in Washington, that we are sufficiently serious about dealing with the future inflation problems in this country, and ultimately will not have to be looking forward to another outburst of tremendously high interest rates. I am opposed to capping these loans in the sense of putting a lid on them and if rates go above that we just take that unpaid interest and add it to the principal; that to me is negative amortization and I'm opposed to that. But I think if we can cap it in the sense that we convince the lender that it's a fixed rate loan—which is another form of cap—I would be in favor of that.

Senator SARBANES. Well, I don't want you to miss your plane.

The CHAIRMAN. Thank you very much. We appreciate your patience and have a safe trip to Michigan and back and we will see you in the morning.

The committee will stand in recess until 10 a.m. tomorrow morning.

[Whereupon, at 1:20 p.m., the hearing was recessed, to be reconvened at 10 a.m., Friday, June 22, 1984.]

NOMINATION OF MARTHA ROMAYNE SEGER TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

FRIDAY, JUNE 22, 1984

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

The committee met at 10 a.m., in room SD-538, Dirksen Senate Office Building, Senator Jake Garn (chairman of the committee) presiding.

Present: Senators Garn, Gorton, Riegle, and Sasser.

Also present: Senator Boschwitz.

OPENING STATEMENT OF CHAIRMAN GARN

The CHAIRMAN. The committee will come to order.

I think you probably found out what it is like to be in Congress running to Michigan and back last night. We find that's an occupational hazard, and the only difficulty is that Utah is a lot farther from Washington than Michigan, and when Western Airlines started nonstop flights, unfortunately, too many people at home found out about them, and they are spaced so I can go to Utah. If I caught an airplane this morning at 8 o'clock, I could have been there by a 10:30 luncheon, a talk or a meeting; catch a 3 o'clock plane and be back at 9 in Washington. That happens occasionally. We know you can get there and back in the same day, so a 4,600-mile round trip for lunch, and I take about 25 or 30 of those trips per year.

Senator Riegle will be here shortly. He has some additional questions he wishes to ask you. Before he does get here, I wanted to pursue some questioning on bank deregulation.

Chairman Volcker and I have talked and worked together on this subject for a long, long time, and I'm wondering what your impressions are of deregulation. And I say at the outset, I suppose deregulation is a misleading term. People relate it to what we have done in transportation deregulation strictly with trucking and airlines, in which we took very large steps and very carefully regulated routes as to where airlines and trucks could go and what they could charge. I think deregulation is an adequate term for what we did.

Many people seem to think that we are trying to do the same thing to the banking industry, and I have tried to point out over and over again that using the term "deregulation" here is quite different. We are talking about adjustments, talking about granting some additional powers, but no one is talking about repealing Glass-Steagall. No one that I know of is talking about putting banks in general commerce, and nonfinancial-related services such as construction, development, and certainly not into manufacturing, or retailing, or anything of that nature. But of course, the opponents who don't want any fair competition will try to lump that all together and create the impression that we are removing all the safeguards or attempting to remove all the safeguards and threatening the safety and soundness of the financial institutions of this country.

Now there are a lot of diverse opinions on this subject and you have been a State regulator. In general, what are your impressions of where the banking industry is today, in terms of deregulation? What do you think the impact has been so far, as far as the results of my bill of 2 years ago and where do you think we ought to be going? I realize that's a big subject, and I don't expect you to get into a lot of detail. We could spend hours discussing that, because it's such a big subject. Give us your general impressions. I think you are familiar with it. I was with you at one meeting in Detroit, where we discussed it at some length.

DEREGULATION IN THREE AREAS

Dr. SEGER. I'm definitely in favor of deregulation. I'll just make that a generalization. And deregulation is basically in three areas, as I see it. The area in which we have had the most deregulation, to date, has been interest rate deregulation, where we're trying to pop the regulation Q ceilings off deposits, so that banks could, for the first time since 1933, really be in charge of what they offer their customers in the way of interest on savings and time accounts. That was handled in the DIDMCA legislation, and DIDC, of course, was given the job of coming up with a specific timetable for that phaseout.

I think it has worked very well. I think it's been very proconsumer. For the first time in ages, consumers have had a chance to get a return that's closer to market rates, and I think that's very good. It has also given bankers opportunities to innovate on those kinds of instruments and to make some decision themselves on what their organization can afford to pay for these various kinds of deposit moneys. Philosophically, I am in favor of deregulation and practically speaking, I'm also certainly in favor of it.

My concern about the timing of that particular part of deregulation was that it did such a good job on the liability side, and yet, at least from a perspective of the regulator in Michigan, it seemed to me it did not address dereg on the asset side of the bank balance sheet at the same time. Consequently, many financial institutions found themselves sort of in the middle with their cost of funds deregulated, but at the same time, State usury ceilings on what they could charge for various kinds of loans. I think that timing matter perhaps could have been dealt with somewhat better, and if the Federal Government was going to deal with the liability side, then I think it should also have gotten involved on the asset side, so as not to have generated this squeeze which was very, very severe back in 1981 and 1982.

In terms of your act—Garn-St Germain—in 1982, the instruction to provide this new instrument now known as money market deposit account, was very, very positive, I think, both to the banks and also to consumers, because consumers are now offered a product at banks that is very attractive and that is fairly similar to what they have been able to get with the money market mutual funds. At the same time, it gave banks a way to compete rather effectively with the money market mutual funds. I think on an equity basis that that was a good move and was very important.

Furthermore, I know that there were concerns at the time about whether or not banks could wisely use this new freedom; the concern was that they would somehow or other act wildly and just put 30, 40, or 50 percent rates on these instruments and then find themselves in trouble and have to go out looking for risky loans and risky investments to get the revenue to cover the high-cost funds. But I think the record shows that, in fact, banks have used very good judgment, not that no banks have gotten in trouble, but, as a group, I think they have used good judgment.

In terms of the deregulation of what I would call products or product lines, extending the services the bank can provide, here again, I think it makes a lot of sense to give banks some additional powers. I think I mentioned—I can't remember whether it was Tuesday or Wednesday—some of the things which I think would make a lot of sense, at least as a starting point, because they are quite closely related to what banks already have.

The CHAIRMAN. I think today is Friday. I didn't expect to see you every day this week either.

Dr. SEGER. I'm sort of confused too.

I think some of the items that I mentioned, based on both my experience as a regulator and also having been in banking for 10 years, that I thought would be a closely related activity was underwriting municipal revenue bonds; at least bigger banks, I think, have demonstrated they have the expertise to do underwritings, and whether it's a GO or a revenue bond isn't really that much of a difference.

In terms of underwriting commercial paper, again, I think there's a lot of transfer of expertise here, and it does make sense.

I think also that banks can handle the discount brokerage business. I'm not talking about the turf fight about whether or not they should have the opportunity to compete with the investment industry. I think that's a political consideration. But the economic consideration—the financial consideration—I believe suggests that giving banks the power to offer discount brokerage does make sense. Also, I think being allowed to underwrite and to distribute mutual funds is not that far removed from what banks are now doing and are able to do well. And I agree with you that certainly banks came from a starting point of such a tremendous load of regulation that the so-called dereg we have seen so far and what we are now talking about, even if it all materialized, leaves us with a tremendous pile, slightly shorter than where we started, but still hardly an unregulated industry.

The third part of dereg, as I see it, involves geographic deregulation. In other words, allowing for the banks to operate in broader markets. And of course, some people refer to this as the question of interstate banking, interstate branching. Here again, I think that going back a long time ago to the McFadden Act of 1927 or to the Douglas Amendment of the Bank Holding Company Act, there has been a lot of support given those controls, but I think by the time we get to 1984, what we see are dramatic changes in the economy, dramatic improvements in communication and computer technology, and advanced transportation. Your example of being able to fly to Utah for lunch and come back for a dinner meeting here fits in; I think all of these things suggest that, in fact, the economic forces have led to a broadening of markets.

I don't think, as a matter of fact, that the economic boundaries of markets were ever coincidental to political boundaries. We sometimes forced it in laws, but I think if you look at the natural flows of commerce and other sorts of activity, that it doesn't necessarily end at somebody's State line or somebody's city limits, or the District line here in Washington.

So again, I think we should allow these changes in the economy to be reflected in some liberalization of branching. Again, how far we go, how quickly, that all, I'm sure, has to be negotiated. But I'm definitely in favor of doing something with this, of allowing for more interstate activity. We already have a lot of interstate banking activity that does not involve actually setting up brick and mortar structures.

Having been in banking, I remember a lot of loan officers who every Sunday night would get on a plane and fly off to the Southwest—this is from Detroit—and they would spend all week down there calling on customers in that area.

The banking laws are not set up to limit one's ability to get on a plane and conduct business. They were able to line up loans and to offer other kinds of banking services, cash management, those sorts of things for customers outside our State and out of our immediate market area. These things have already been going on. Or, you can have a formal loan production office someplace. With the use of automated teller machines, we have had, I think, a broadening of banking activities, because these ATM's are being linked within the States. Also, a couple of big systems—PLUS and Sears are two I can think of—are making these ATM's nationwide, which results in a lot of banking activity across State lines, coast to coast, east to west, north to south.

I think if you look at the interstate issue this way, then it doesn't seem quite as great a departure from what we now have than if you just say, "Gee, we haven't had brick and mortar branches and now we're talking about allowing that to happen."

The CHAIRMAN. I'm sure you are aware that politically interstate banking has no possibility of passing, regardless of what you just said, and I agree with you, interstate banking is already here in many respects.

LEGALIZING INTERSTATE COMPACTS

In the bill that we will take up or the committee print next week, we will have a provision that would legalize interstate compacts. Would you favor doing that?

Dr. SEGER. I favor doing that as a first step or, let's say, an interim solution, hopefully leading to a better long-term solution which to me would mean no barriers. If this was viewed as simply a transition, then I think it's great. And I know there are some of these pacts in existence already; your step, as I understand it, would basically give some legitimacy to those.

The CHAIRMAN. Well, they are forming very rapidly. You have the New England situation and in my State where they would be opposed absolutely to interstate banking. The legislature, one day this spring, unanimously, in both the Utah House and the Senate, signed by the Governor on the same day, passed a reciprocity bill with 10 other States, except California, of course. California is not one of the 10 States included, any more than the 6 New England States want to include New York.

So I'm sure there is no doubt in anybody's mind who will try and remove that provision from the committee print next Wednesday. It will be Senator D'Amato from New York. He will not enjoy having that provision in. That is happening in many regions around the country.

Let me ask you a question. We have talked of usury and the difficulties of States, particularly, and businesses, banks, savings and loans within those States because of the usury ceiling. We have consistently in the Senate passed usury override bills.

Consistently, the House of Representatives due to Congressman Annunzio, wouldn't even allow us to exempt business and agricultural credit. This is hardly the normal type of daily credit with unsophisticated individuals. These are people that have lines of credit, borrow all of the time. We have not been able to do that.

Once again, I would expect that we would pass a usury override, at least on business and agricultural credit. But as a State regulator, I don't know what difficulty you have with that. I have always had difficulty with Federal preemption of State laws because of States rights.

Therefore, in all of the provisions since I have been here, I have always insisted on—a 3-year period for a time for the State legislatures to say we don't agree with that. Do you think that's a reasonable attempt at solving this problem? To say, yes, we are going to preempt State usury but if an individual State decides they don't want to be preempted they have a 3-year period of time to tell the Federal Government we disagree? Or do you think we should just override and tell the States that's the way it's going to be?

Dr. SEGER. Let me just begin by saying that we did have a terrible time with the usury problem in Michigan in 1981 and 1982, because of the record high-market rates of interest and the fact that the dereg act had gone through in 1980 and just about that time, of course, is when interest rates took off.

The usury problem has to be dealt with. Certainly my philosophical preference, both as an observer of Government and as a State regulator, is to think that States can deal with their own problems. I'd like to feel that.

In the State of Michigan, though, quite candidly we couldn't deal with it, and you heard the brick-a-bats thrown at me in the last couple of days because I did try to deal with it there and to do what was right, what was economically justified, and what was intelligent. As a consequence, you get a reputation for being on the side of the lenders or being anticonsumer.

The CHAIRMAN. Let me say at this point, 2 years ago to 3 years ago, we had both Senators from Arkansas—Senators Pryor and Bumpers—who would surely have the reputation of being proconsumer, literally bending this committee's ear every day to see what we could do about a Federal preemption because Arkansas had a 10-percent constitutional provision.

Dr. SEGER. I remember that.

The CHAIRMAN. It was not just a law, but in their State constitution. It was causing great difficulty among the markets and I doubt very much that anybody called Senators Pryor and Bumpers anticonsumer because of their attempt to do something about that 10-percent usury rate in the constitution of Arkansas.

Dr. SEGER. Michigan's wasn't quite that simple. It wasn't just one number, and also it wasn't in the constitution. The combination of these various limits was very restrictive and at that time was causing a very severe problem for many, many different types of lenders and, again, it was tied to the issue of safety and soundness in dealing with the problems of the financial institutions at that time.

In terms, though, of how you deal with it if the State refuses to or if the various interest groups that control the State legislature will not allow it to be taken care of, then I think ultimately the Federal Government has to get involved, whether I like it philosophically or not. The Federal Government got involved, deregulating on the liability side; they popped off the regulation Q ceilings, which I certainly endorsed and still do endorse. Maybe we should have made a States rights issue out of the regulation Q removal; I don't know. But we didn't, and now I think that you cannot just leave certain States there to die or suffer when they cannot deal with this problem themselves.

In terms of the specifics, I suppose the mildest solution would be to preempt them. By the way, just dealing with agriculture and commercial loans is not enough. The big rub there was in the consumer area. I would say, if you are going to go at it at the Federal level, it has to be broad based and across the board.

A preemption, as a first step, a preemption with the understanding that the States can override in a certain period—I know you say you prefer 3 years and that's fine with me—that would probably be the mildest solution.

If one felt that the problem was absolutely out of control, absolutely impossible to handle at the State level, then I think I would say you've got to play hard ball or be Mr. Mean and just say you were forever and ever overriding this.

The CHAIRMAN. The reason for picking 3 years is simply some legislatures don't meet every year.

Dr. SEGER. Right.

The CHAIRMAN. And that's probably very good for their State, those who are fortunate enough not to have an annual legislature.

But in any event, that is the reason that we did that. Thank you. Senator Sasser.

Senator SASSER. Thank you very much, Mr. Chairman.

TREATMENT OF BALANCE SHEETS ON FOREIGN LOANS

Dr. Seger, you testified yesterday and I think very rightly that banks with loans to developing nations should be encouraged to rewrite those loans at fixed and realistic interest rates. Now, how then should the banks be encouraged or required to treat such loans on their balance sheets, in your judgment? Should banks be allowed to keep such loans on their books at face value, or do you believe the banks should be increasing their reserves against such loans so that eventually they would be able to write off a certain fraction of their book value?

Dr. SEGER. Commercial banks, whether as to foreign loans or domestic loans or any other kind of loans, do work with their regulators, specifically the examiners who are in these various banks to evaluate the quality of their whole loan portfolio. When that is done, an evaluation is made supposedly of the quality of each one of these and that involves assigning a probability of ultimate payoff of each of these obligations. Again, as luck would have it, it's a very complicated world out there, and there can be differences of opinion even between individual examiners about which ones should be written off or which ones should be written off let's say a half, or by a third, or a fourth.

If it's a bank that employs a Big Eight accounting firm or another independent CPA firm, you also get involved in this business of looking at the quality of assets or loan quality; they too try to make an assessment of the odds of repayment.

To get your specific question about the foreign loans, they are looked at the same way, and the issue is: Will these eventually be paid off? I think you have to be more than an economist to answer that question; probably a pyschiatrist, a political scientist, and so on. But I do think certainly we have to look at or make a strong effort to determine the quality of these and to make sure that the banks do have adequate reserves for future losses, to accommodate whatever does come up.

I don't think, sir, that we have to say, "Well there is a problem with Third World debt and therefore we better take the whole pot and say it will never be paid off." I think that's probably the outside extreme; somewhere between that point and assuming that every nickel will be paid back is appropriate.

Senator SASSER. Well, we agree, of course, that there are some uncertainties as to whether or not these loans will be paid and it may very well vary from country to country, from indebtedness to indebtedness and will be determined, I suspect to some extent, by the political views of those who are in power in the particular countries, and also will be determined in very large measure by economic conditions in those countries and by the world economic situation.

And these are matters of considerable uncertainty at the present time.

My question is: Should banks be allowed to keep such loans on their books at face value or should they start writing some of them down now?

Dr. SEGER. The first step in doing this is what I was referring to, sir, where the banks, with the help of the regulators, examiners and as I said their CPA firms, go through loan by loan and try to get a value on them. Then they do, in fact, come up with a number, and then they try to make provision for future loan losses that's adequate to cover those.

It's a matter of saying what are the odds of repayment? If it's so far gone or the debtor has just said, "I'm sorry I just declared bankruptcy," it's clear cut that obviously this will not be paid back, that would be written off promptly, as a loan loss. But there is a sequence involved to get this done, and banks should do it, and I think, in fact, they are doing it.

Probably the only debate among people is whether the dollar amount is the right amount.

Senator SASSER. Well, these loans should be reserved against, if the risk of nonpayment is high. We don't have any disagreement there, I assume.

Dr. SEGER. No, we don't.

Senator SASSER. So it might be well, judging from what you said here, for the banks to start moving in the direction of raising reserves against these loans, in anticipation that there would be some nonpayment or a substantial nonpayment or just nonpayment. This is something that should be anticipated, and as I judge from your testimony here, you are of the opinion the banks should move forward and start reserving against these anticipated nonpayments, or at least the threat of nonpayment?

Dr. SEGER. Yes, I do favor that. In fact, the 1983 statistics show that the banks that are the major lenders of this type of money have, in fact, made a big move toward increasing their reserves already.

Now that doesn't say that more increases are not in order. But they started to address this problem back in 1983.

Senator SASSER. Yesterday you testified that you opposed several portions of the bills that have been put forward in the Senate by our colleague here on the Senate Banking Committee, Senator Mattingly, and also Senator Jepsen, who is not a member of this committee, and bills put forward in the House by Representatives Kemp and Lott.

INDEPENDENCE OF THE FED

You stated, as I understand it, that you do not favor placing either the Treasury Secretary or the Chairman of the Council of Economic Advisers on the Federal Reserve Board. And earlier in your testimony, you indicated that you oppose changing the provisions which would hold release of the Federal Open Market Committee decisions until after subsequent meetings. And you also said that you oppose either the gold standard or its equivalent, the commodity price vent.

Now what about one other provision of the bill which we haven't mentioned so far, and that is one to shorten the terms of the Federal Reserve Board members from 14 to 7 years, and give the President the power to appoint a majority of the Board in his or her first term of office?

Would you favor or oppose such a change as that, Dr. Seger?

Dr. SEGER. I know you didn't hear this discussion, but yesterday we discussed at length the whole issue of independence of the Fed, and I think I said in every way I could that I certainly support the idea of keeping it independent. The initial reason that the Federal Reserve Act put these terms in at 14 years was tied to the independence issue and the feeling that 14 years is long enough to really remove these people from the immediate political scene. Whether or not those terms can be shortened somewhat and still keep the Fed independent, probably they could. I think Senator Garn said that the average time that a Governor actually serves is closer to 4 or 5 years—which I believe was your statistic—rather than 14, even though, technically, you are named to a 14-year term. There is a lot of turnover; I think he said that G. William Miller was in and out in 15 months. There have also been some who have served the full 14 years.

Senator SASSER. What is your feeling about it? Should it be shortened to allow the President to appoint a majority of the Board during the first term of office, or do you feel it ought to retain the terms at 14 years as they presently are?

Dr. SEGER. I think the 14-year system has worked pretty well, because, as I thought I suggested, even though terms are fixed at 14 years, the Presidents do, in fact, have more opportunities to influence it because of the turnover and the fact that, because of death, more attractive opportunities, ill health, or whatever, people do serve less than their full 14 years. In the late 1970's, I recall a number of replacements being made, as terms were not, in fact, ending, but rather, appointments were made to replace a person who had chosen to leave.

Senator SASSER. So if you follow that line of logic, then I assume that you think it's well that people do not stay in this office for a full term of 14 years; it's probably a good thing then that some get better economic opportunities, or have ill health, or perhaps even expire before their 14-year term is up. And do I gather from that that you think it might be well if the term were shortened?

Dr. SEGER. First of all, I didn't say it was good that anyone expired or had ill health at all. I was just mentioning the facts as I understand them, that people do come and go far more often than a 14-year term suggests. Because they come and go more often, I think that, in effect, we have given each President more of an opportunity to have some input to the composition of the Federal Reserve Board and, therefore, that the present system is working well.

Senator SASSER. So I take it then you think it's well that Presidents do have more input into appointments on the Federal Reserve Board than just having to wait until a 14-year term is up? That's the whole thrust of the legislation that's been encouraged and introduced over here—the feeling that 14 years, on the part of some Senators and some Congressmen, including my colleague, Senator Mattingly, of this committee and Congressman Kemp on the House side, that 14 years is too long, that it ought to be shortened, and that the Federal Reserve Board ought to be responsive, at least to some extent—not subservient, but responsive to some extent—to the elected political leadership of the country, hopefully, so we don't get into situations as we have had in recent years, where you have fiscal policy running in one direction and monetary policy running in another. Although perhaps that was helpful this time—I don't know—but on the other hand, if you think no change in the law is needed, just tell us that. It would be helpful to know your views on this matter.

Dr. SEGER. That's what I said; I think the present system is working well.

Senator SASSER. So then the bottom line is that you would stick with the present system and you would not want the term shortened from 14 to 7 years? That's the answer to the question; isn't it?

Dr. SEGER. That is my view right at this moment; yes, sir.

Senator SASSER. Right. I might say, Dr. Seger—and I share this with the chairman—we had a gentleman running for office down in my State years and years ago, who wanted very badly to get elected, and he made a fiery speech to a group, and when he got through—he was sort of a rural man—and he said, "Ladies and gentlemen," he says, "Them's my convictions, and if you don't like them, I'll change them." [Laughter.]

So thank you, Dr. Seger.

The CHAIRMAN. Thank you.

Before I turn to Senator Riegle, it's just interesting, Senator Sasser was asking you about the ability of the President to appoint a majority during his first term in office. I was just checking, interestingly enough, under President Carter's term of office, even though he was only there 4 years, and there is a 14-year term, he appointed six people to the Federal Reserve Board. I realize that that is unusual. I'd expect that going back to other Presidents, who did not have similar opportunities, the natural turnover, regardless of 14 years, produced six out of seven that he had an opportunity to appoint during that particular period of time.

So it is a little misleading to say six out of seven, because a couple of them were reappointments. However, the fact that he had the opportunity to change them, is the point, if he desired to. They were at the end of their terms, and the opportunity arose. He didn't appoint six new ones out of seven during that period of time, but had the opportunity to do so, if he had chosen. President Reagan, of course, could have changed Chairman Volcker, and decided not to.

Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman.

This morning the progressive Conservative candidate for the Prime Minister's position in Canada, Brian Muldroon——

The CHAIRMAN. What is a progressive Conservative?

Senator RIEGLE. Sort of like you, Mr. Chairman.

The CHAIRMAN. I always wondered what I was.

Senator RIEGLE. The Liberal Party is the alternative party. I don't know if they're called conservative liberals, or what, but anyway the progressive Conservative candidate, Brian Muldroon, and a personal friend of mine of longstanding, was in town today and met with the President and today was on Capitol Hill, and so we had an opportunity for him to meet with some of our colleagues, including Senators Sasser and Byrd. In any event, that prevented me from coming earlier. I just wanted the witness to understand why I was not here at 10 to get started.

There are several things I'd like to get into today.

First of all, before I arrived, you were talking about financial deregulation legislation as it would relate to some additional powers for banks.

Dr. SEGER. Yes, sir.

VIEWS OF BANKS GETTING INTO SECURITIES

Senator RIEGLE. What is your view in banks getting into the securities business more fully than they presently are? How about the security powers, as such?

Dr. SEGER. The ones I ticked off as supporting were: First, to allow banks to extend what they can presently do, which is underwrite general obligations, to include municipal revenue bonds, because I felt that was closely tied, in terms of the expertise required, to what they now do.

The second was to allow them the power to underwrite commercial paper. Again, I feel that is quite closely related to many of the investment powers banks have had for a long time and seem to have handled rather well.

The third was to give banks the authority or the power to manage, distribute money market mutual funds; again, I feel that is very close to activities they already have.

Furthermore, on an equity basis, money market funds are very close substitutes for money market deposit accounts. These are very great competitive items, and if the money market fund managers can now offer something that is a bank-type activity or service, then I think it's only fair that the banks be able to get into some of the things that the funds are doing.

The other power is discount brokerage, which many banks are already doing, on an agency basis. Those are the powers, sir.

Senator RIEGLE. Now, Donald Regan testified on that point and also supported the idea of broadening the security powers to get into revenue bonds. I asked him the question at that time whether he saw that as sort of the end of the expansion of powers into the securities area or the beginning? In other words, was this opening a door to something that would lead to the direct underwriting of corporate securities, for example. And he was quite frank to say, yes, it was a door opener and he saw this coming in stages but basically the banks were to move much more fully in the securities business.

The CHAIRMAN. That probably depends on whether he's back in the securities business when we get to that.

Senator RIEGLE. That may well be right.

Would you agree with him on that or would you draw the line after revenue bonds and the ones you have mentioned and say banks ought not to go on then in later steps into directly?

Dr. SEGER. Was he saying what should be done or what he thought would be done—I just wonder what question I should answer?

Senator RIEGLE. He has indicated what he thought should occur. In other words, what he envisioned down the road if he could wave a wand and make it happen.

And the reason that I think that's important is that if you talk about obligation bonds and revenue bonds as a package and that's the full extent of the discussion, that's one issue. If you view it as sort of a train station on the road toward eventual full-blown banking activity in the securities business then it takes on quite a different implication if you go to revenue bonds now.

And so he was saying that that is what he envisions and what he would see as an appropriate set of steps here—to see the banks fully into the securities business. Would you share that view?

Dr. SEGER. I am fairly conservative about making wild changes rapidly. My preference would be to sort of ladle these things out little by little. You give them one new power, a couple of new powers, and see what happens. How do they handle it? Does it get them into deep trouble or are they managing themselves well and keeping their house in order, getting the right kinds of expertise as they do this.

You see how that goes and then you can consider extending it further. That's the way that I would prefer to play it. Now maybe at the end of 20 years—I'm not that good a forecaster that I can look out that far—maybe at that time one could say, "Hey, they have handled this all so well that now they deserve to be full-fledged investment bankers." That might happen. I'm not going to sit here today and say I recommend that in 3, or 4, or 5 years that they have the whole package, but rather that it should be looked at step by step by step.

Senator RIEGLE. How about mortgage backed securities? What would be your view on that?

Dr. SEGER. I'm sorry I didn't mention that. I think that also is very closely related to some of the activities that the banks already do and that that would——

Senator RIEGLE. So that's something you think could be done now?

Dr. SEGER. Yes. Right.

Senator RIEGLE. I want to come back to banks later because I want to really get your thinking.

The CHAIRMAN. Senator Riegle, before you get on another subject, I've got a longstanding appointment at 11 o'clock and with all of these additional hearings, I didn't expect to hold I have been changing my schedule all week. The one I have at 11 is one that I simply cannot cancel, so if you and Senator Sasser would please go on with your questions, Senator Gorton will be here at 11 to chair. I apologize for having to leave for an hour, but it's one that I just am not able to change, so please continue.

Senator RIEGLE. Very good.

The CHAIRMAN. I will be back.

Senator RIEGLE. Let me ask for the record, the questions that Senator Cranston will want to submit to you to have you respond to in writing. We'll give you at the end of the hearing to supply for the record.

[Response to written questions of Senator Cranston follow:]

Questions from Senator Alan Cranston

I. Independence of Federal Reserve Governors

1. Do you believe that the Senate should confirm any appointee to the Federal Reserve Board who is not entirely free of suspicion as to his or her independence of judgment? Do you believe that the Senate should confirm any appointee to the Federal Reserve who is not entirely free of the taint of association with what may be the partisan political objectives of the Administration?

The Federal Reserve Act, as passed by Congress in 1913, made it the responsibility of the President to appoint individuals to serve as members of the Board of Governors and most Governors I have met have been members of the same party as the President appointing them. Example, Nancy Teeters, a Democrat, appointed by Jimmy Carter. Your question seems to suggest that some of the present Governors can not be independent since they had partisan ties. I believe the Senate should confirm nominees based on their experience and qualifications for doing the job.

2. Do you pledge to repudiate any effort that may be made by the Executive Branch or its agents to solicit your support for any particular position on a monetary policy question, other than through regular channels of consultation between the Federal Reserve and the Executive Branch? Do you pledge that under no circumstances will you accept secret instruction from the Administration on a matter before the Federal Reserve?

Yes, yes.

3. Do you pledge to report to this Committee any communication you may receive from the Executive Branch or its agents soliciting or urging that you take any given position on monetary policy for a partisan political purpose?

Yes, from this Administration or a future one, Democrat or Republican.

4. Does your support of everything President Reagan is doing extend to his views on monetary policy?

I have not discussed monetary policy with the President. His publicly announced program (1981) called for a moderating and evening out of monetary growth to bring inflation under control and I support that position.

5. Have you made or been asked to make any pledge, promise, commitment, or to give any assurance to Mr. McNamar, Secretary Regan, Vice Chairman Martin or anyone else that you will support the President on matters before the Federal Reserve Board?

No.

6. Will you regard yourself as a member of the President's team on the Federal Reserve Board?

The Board does not have "teams"—they are individuals doing the best they can to act in a nonpartisan way to serve the whole country.

7. Will you seek the opinion of the Administration on major monetary policy questions before making up your own mind?

No. I will not.

II. Beliefs on Economic Issues

1. You testified yesterday that the Federal Reserve had, in your view, no choice but to follow the policy it did follow in 1981 and 1982 of very tight money and high interest rates, leading to high unemployment. At the time, however, the Treasury Department frequently criticized the Federal Reserve, for allowing what Secretary Regan said was too much "volatility" in the growth rate of the money supply. In your view, generally speaking and based on your knowledge of the situation at the time, does such a criticism have any merit? If the criticism does have merit, what measures would you take to reduce the volatility of monetary growth? In 1982, the Democratic Members of the Joint Economic Committee came to the opposite conclusion. They wrote: "We disagree with the view that very short-run volatility of money growth significantly damaged the economy in 1981. We urge that this criticism of the Federal Reserve be dispensed with." Was the JEC wrong on this point? Why?

Yes. Improvements could be made by making more frequent, but moderate, adjustments in monetary growth. This step, in turn, requires some improvement in forecasting the path of the economy in the months and quarters ahead.

I don't know what the JEC Democrats meant by "very short-run volatility." If they mean wiggles that last a couple of weeks, then I agree with them.

2. Do you believe that it is desirable (or necessary) to maintain the present value of the dollar in order to keep inflation from surging back? How much of the decline in inflation since 1981 would you attribute to the effects of lower energy prices and the dollar appreciation? (Estimates range up to two-thirds of the disinflation that occurred.) Do you agree that continued inflows of foreign capital to the U.S. are necessary to maintain the value of the dollar--that is, if they do not occur, then the dollar will fall? Some economists have estimated that the real interest rate differential--the amount by which U.S. real interest rates exceed those overseas--must now rise by three percentage points, or the foreign capital inflows will cease. What do you think of such estimates? If you believe that a continued anti-inflation policy is important, and you believe that the high value of the dollar is an essential component of this strategy, and you believe that capital inflows must be sustained to keep the dollar high, <u>then</u> do you believe that interest rates should be raised at the present time by enough to keep those inflows going?

The high value of the dollar has assisted in bringing down inflation, but I do not believe that artificially maintaining the value of the dollar should be a major inflation fighting tool. As I mentioned in my oral testimony, fiscal and monetary policies should be our primary weapons.

It is impossible to measure precisely the portion of the inflation decline since 1981 attributable to lower energy prices and appreciation. I would say a "significant" contribution was made--a rough estimate of 25 to 30 percent.

A net capital inflow will result if and when a country runs a current A/C deficit--and the U.S. is, of course, running such a deficit. It is quite right that the exchange rate path will be influenced by the way in which this deficit is financed.

This is a difficult question, since it involves complex relationships. For starters, a "real interest rate" concept involves controversy--economists define it in numerous ways. My preference is to use a "prospective" view of inflation. But even if one were to use a retrospective view, the actual data on real interest rates are diverse. Also, the numbers are very volatile. Most recently, differentials between U.S. and major trading partners range from one in favor of a foreign country, such as Canada, to a small differential favoring the U.S., such as France and Germany, to an extreme differential exceeding 6 percent in the case of Japan. Yet the capital flows involving these countries are not what the differentials suggest.

Moreover, in 1983, no country except Switzerland had a 3 percent differential, yet we had massive inflows of capital. The point is--the size of the net capital inflows is determined by the size of our current A/C deficit.

3. You have testified that in your view today's high interest rates represent in part expectations of higher future inflation. Was it not a prime objective of the Reagan Administration to develop a recovery which was not accompanied by expectations of higher inflation? What was wrong with the conception of the Reagan economic program that accounts for this failure to persuade the markets that inflation will remain low?

The Reagan Administration, when it came into office, announced that its primary objective was to fight inflation. Given the fact that in the last years of the Carter Administration finacial market participants thought it was raging out of control, I believe this was the right goal to set. And great progress has been made with inflation (as measured by the CPI) reduced from 13.3 percent in 1979 and 12.4 percent in 1980 to 3.8 percent in 1983. Financial markets know of these good results, but participants are concerned that the low rate will not continue into the future because of questions about the willingness of Congress to pass the legislation necessary to reduce the budget deficits significantly.

4. Some economists argue that today's high interest rates, both real and nominal, have to do not with expectations of inflation but with expectations of high rates of return on investment. What is your opinion of this hypothesis?

After-tax rates of return on new business projects are now in the range of 15 percent in many cases. Therefore, to slow economic growth in a deregulated environment, after-tax returns on bonds must rise above this level. If you believe that monetary policy should be tightening, then are you in favor of having interest rates rise by enough to bring the after-tax return on bonds above this level?

I disagree--it is out of touch with the realities of decisionmaking.

5. In yesterday's Wall Street Journal, Maury Harris, Vice President, and Economist at Paine Webber, said that the real GNP growth rate for this quarter is "absolutely critical" for determining the interest rates on the huge amount of government borrowing in the next few weeks. Specifically, he contended that "if inflation-adjusted GNP for the current quarter is between 3% and 4%, bond yields won't change much from their current levels. But GNP growth at more than a 4% clip would increase the chances of the Federal Reserve tightening its credit hold and frightening investors away from the Treasury auctions."

The Commerce Department reports real growth at a 5.7 percent rate this quarter. As a Federal Reserve Governor, would this news incline you toward a tighter credit policy? Or, do you believe that the Federal Reserve should adjust policy to accommodate the Treasury borrowing calendar?

I have stated--and believe--that the Federal Reserve should base its decisions on a thorough analysis of economic developments and not on the release of any single statistic.

6. If taxes have to be raised, how would you favor doing it? What are your views on the Bradley-Gephardt Fair Tax proposal? On the Value-Added Tax? On a Flat Tax? On a Consumption Tax?

If taxes are to be raised, I prefer base broadening efforts to boosting tax rates. I feel that our present income tax system should be simplified and the base broadened. Also, it is important to give the citizens the message that the system would be made more "fair." Finally, changes should provide more incentives to work, invest, and save.

There are various ways to "reform" the system and each way has its pluses, minuses, supporters, and detractors.

The flat tax--and its variations such as Bradley-Gephardt--is appealing for simplicity and base widening.

Value-added would improve compliance, but I'm concerned about the paperwork and red tape requirements for small business. Also, I am concerned about possible inflation effects.

Depending on the details of a consumption tax, it could be inflationary and unfair to very low income people.

7. Yesterday you expressed support for the Reagan 1981 tax cuts. But even David Stockman has admitted that the Administration's original goal of balancing federal outlays and revenues at less than 20 percent of GNP is simply not economically or politically realistic. What is your view on the appropriate level of federal revenues as a percentage of GNP?

I believe that the size of the federal government should be curtailed by placing an absolute ceiling of 20 percent on spending as a share of GNP. Then, by curbing our big spending appetite, we can balance the budget by a maximum tax bite of 20 percent. After all, in 1965, outlays were 18 percent of GNP, and we did quite nicely.

8. Yesterday you told Senator Cranston that interest rates are "about right" now. But, <u>real</u> interest rates (adjusted for inflation) are at record levels. Are levels of real interest appropriate in your judgment? On the basis of what criteria can you say that real interest rates are at appropriate levels, when they have virtually never in history been this high before?

I was talking about <u>market</u> rates of interest in response to Senator Cranston last week. If one believes (as I do) that market forces determine rates, then one can say that prevailing rates are "about right." As I've mentioned before, comments about real interest rates are a function of how one calculates them. Calculating as I do, they are <u>not</u> at record levels. Interest rates--in nominal and real terms--could be lower if market participants were convinced that government was sincere in promising to fight inflation.

9. Stanley Fischer, Professor at MIT, has recently written: "It has long been known that at some stage in a disinflation process initiated by a discrete reduction in the growth rate of the money stock, the rate of inflation must fall by more than the reduction in money growth." Do you agree with this statement? Why would it be true? (The reason, according to Fischer, "is that the demand for real balances in the new low inflation steady state will be higher than in the high inflation equilibrium: the economy produces real balances by causing the price level to grow more slowly than the nominal money stock.") Do you understand what this proposition implies? (It implies that, as inflation slows down, it will be necessary for the money supply to grow quite rapidly at some point, so that people can have the larger quantity of money they will wish to hold at permanently low rates of inflation. This is an instance, in other words, of an increase in the money supply which is <u>not</u> inflationary.)

Yes, it is true. The analysis is sound. There may be shifts in the velocity behavior that will have to be accommodated.

Question:

Chairman Volcker has urged Congress to close the nonbank bank loophole and the South Dakota loophole. He also favors additional bank powers for banks, but not at the expense of no bill at all. By way of contrast, Comptroller of the Currency Conover has said he will recommend a veto of any bill that just closes loopholes but provides no new powers. Who is right on this controversy, Volcker or Conover?

Answer:

It is important to get a clear definition of "bank" through legislation and to provide new powers. Because the Fed is responsible for regulating bank holding companies, Mr. Volcker sees the new definition as the higher priority if Congress will grant only one. Nevertheless, he has stated publicly that he supports new powers.

Question:

Do you believe that a tax increase now, given the strength of the recovery, is needed to reduce deficits?

Answer:

I prefer to emphasize expenditure reductions. If, however, sufficient expenditure reductions cannot be achieved by the Congress, then I would support higher taxes so that the combined steps would cut the deficit.

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Question:

What spending reductions do you believe are most urgently needed? Military? Health care? Social security? Welfare? Or other domestic programs?

Answer:

For openers, I would suggest you look at the list provided by a leading Democratic businessman, Mr. J. Peter Grace. His proposals would cut over $400 billion from spending in 3 years. Secondly, I would examine all the "entitlement" programs. Thirdly, I would remove all escalators from programs--civil service pay, social security, etc. After all, if government is honest and sincere about its commitment to curing inflation disease, then these escalators are not needed.

Question:

In your judgment, in the past year, has the economy been growing too fast?

Answer:

No.

Question:

Would you prefer a slower rate of real economic growth?

Answer:

Not in this quarter. Growth should slow during the remainder of 1984.

Question:

Is the economy overheating?

Answer:

No.

Question:

Is there a danger of the economy overheating on the course we are on, given the deficits we face?

Answer:

There is a danger of overheating as we reach capacity--probably next year.

Question:

Is the danger large or small?

Answer:

The danger gets large next year if one assumes no policy changes. However, I believe that steps will be taken to deal with the deficit problem before it reaches crisis proportions.

Question:

If interest rates continue to rise, the savings and loan industry is going to experience even more balance sheet difficulty. Do you think that the government should step in and assist these financial institutions?

Answer:

I think the S&L industry today is in far better shape than it was in 1980.

Question:

Do you believe that the federal government should support specialized lenders for housing and continue to allocate funds for housing by special incentive?

Answer:

I believe that we should foster a financial regime that encourages homeownership without unduly straining our financial system or without channeling the nation's resources toward less than fully productive investments. We need to preserve measures that enhance the ability of financial institutions to compete for funds and to place them where appropriate demands for capital are most pressing. In this process, our existing housing institutions serve an important function as providers of funds for shelter, and in an era of deregulation, we should weigh carefully the costs and benefits of adjusting this structure.

Question:

Do you believe that housing occupies too much of our capital markets financing?

Answer:

At times, yes.

Question:

Do you think that the Federal Reserve should have let Continental Illinois Bank fail?

Answer:

No.

Question:

Do you think that Secretary of the Treasury should sit on the Federal Reserve Board as recommended by my bill S.10?

Answer:

No.

Question:

Do you think that the President should have more direct control or influence over monetary policy? If yes, by what process or procedure?

Answer:

No.

Question:

What should be done about takeovers, and the vast amount of money they tie up?

Answer:

Takeovers are getting a lot of publicity these days because of the size and nature of the parties to the mergers. Some of the combinations will probably lead to more diversified bases of operation and perhaps economies of scale, but others may be motivated by tax considerations or management enrichment and protection schemes. The SEC and various anti-trust agencies should be looking at this situation.

Looking at the financial side of these deals, the facts show very large bank loans being made to the acquiring firms. Although there may be some temporary distortions in the flows of funds that result, they do not "tie up" money. These represent merely transfers of existing financial assets. Because the loans can influence financial statistics, such as growth of business loans and money supply, the Fed must take these mergers into account in its policy moves.

Question:

How should we handle the vast foreign loans that threaten the stability and sovereignty of U.S. banks?

Answer:

I believe that the problem of dealing with foreign loans is a big and complex one. We want to correct the problem over time. There is no global solution. Based on experience of the past, we need to stretch out the maturities--this is similar to corporate workouts at commercial banks.

We need to involve all the various parties.

The debtor nations need to restore their earning capacity and get their financial houses in order--balance budgets, control inflation, etc.

The creditor nations and banks need to be patient and cooperative. They need to keep pressure on for a solution, but realize that it will take years to accomplish. The banks have to be willing to extend modest amounts of new credit while workouts are in process. The lenders must carry reasonable reserves for loan losses and be conservative in booking income from these loans.

The IMF has to remain involved to see that appropriate economic stabilization policies are followed in each debtor country.

And finally, the Fed can stay involved as a coordinator and an agency that pushes to keep all the parties with a direct interest working toward a solution. And, by helping to keep the U.S. economy on a healthy noninflationary growth track, world economic growth will be supported, and this will help all the various groups.

Question:

Why should the Fed's budget for salaries and expenses be separate from the Congressional appropriations process?

Answer:

The Fed should not be subject to the Congressional appropriations process because of the "independence" issue. Experience has shown that control of any group's budget brings with it the potential for control of that group's activities.

The CHAIRMAN. I will broaden that request. There are other Senators who I believe wish to ask questions for the record and so we may have some written questions from various Senators that we would like you to respond to in writing as rapidly as you can.

Dr. SEGER. Are you saying I'll get those today?

Senator RIEGLE. Very shortly you will get them. In a matter of a very short period of time. It is under normal custom. I mean questions that either we don't have the time or way to develop are normally submitted to the witnesses in writing.

The CHAIRMAN. As a matter of fact, since you have been here too extensively, your written questions will probably be much less. If you have a short hearing then you get a lot more written questions. So on balance it ends up about the same.

Dr. SEGER. All right. I was wondering if I would have the weekend to work on them, because today is Friday.

The CHAIRMAN. Nobody will be here to receive them on Sunday, I guarantee you.

[No additional written questions were submitted for the record.]

Senator RIEGLE. I don't know if you have had an opportunity today to look at the Wall Street Journal?

Dr. SEGER. I went to the airport at 6:15 this morning and came right here. I'm sorry, I haven't seen the papers.

Senator RIEGLE. I have the problem in the mornings too. By the time the plane leaves, the newspapers aren't available yet.

On the front of "What's News" section here, under the "Business and Finance," the lead item reads as follows—I'll just read it to you and then I'd like you to react to it. It says:

> The money supply rose up at $3 billion, increasing speculation that the Fed soon will tighten its credit grip in an attempt to slow economic expansion and keep a lid on inflation. The increase pushed the M1 level above the Feds target range for the first time since late February.

And I'm wondering, in light of that—which by the way The Wall Street Journal sees as a lead item. That's No. 1 in the column. There's much longer, elaborate information inside.

What do you think ought to be done in light of that piece of news today? What is your reaction to this?

WEEKLY M1 STATISTICS

Dr. SEGER. I can't remember whether it was yesterday or the day before—I've been here so long—but one day this week I was asked my views on the weekly release of the M1 statistics and as I recall, the point I made—and certainly my feeling is—that the M1 statistics, particularly the weekly ones, are way overemphasized.

In fact, the Fed prints right on the release itself—maybe The Wall Street Journal doesn't pick it up in their various writeups—that there should not be that much emphasis placed on any single week's number, whether it's up or down or sideways, whether it's in the band or out of the band or in the middle of the band. I think that that's the big point to make first: a single week's move in M1 is not that relevant nor that significant and, as I said, the Fed's own releases refer to the same thing.

Senator RIEGLE. Well, I'm going to take you down to a tighter focus on this because I want to integrate this into everything else that's happening and get an opinion from you.

The articles which follows on from that front page lead news story from the summary that I read to you goes on to say "the big increase—" sort of generically accepted to be a big increase, $3 billion——

Intensified speculation that the Fed soon will tighten its credit clamp in an effort to slow the pace of the economic expansion and keep inflation under control. Some economists contend that the Fed already may be in the process of tightening credit conditions. Bond prices, which tumbled Wednesday, fell again yesterday in response to this, so the financial markets are sort of rendering a judgment that coincides with what is being reported here.

And down into the piece—I won't read the whole thing—it says:

"A tightening move by the Fed is likely if it isn't in place already," said Elliott Platt, senior vice president and economist at Donaldson, Lufkin & Jenrette, Inc. The economies biggest growth coupled with rapid money supply growth provide the "necessary conditions for a Fed tightening."

And here's my question and I want to make sure you really understand it.

You, following the financial news, know what has been happening and we have been discussing it quite fully here. Now, we've got this new piece of information here and my question is: Do you think now that the Fed needs to do some tightening, doesn't need to do some tightening, or perhaps even could afford to loosen it a bit?

How do you net out the things you see in terms of what your own opinion is and what you might be advocating if you were sitting around the table now at the Fed meeting?

Dr. SEGER. I have commented previously that I thought, overall, Fed policy at the moment was pretty much right.

In terms of the reaction to this new piece of information that came out, I believe yesterday afternoon, I don't believe the Fed does pay that much attention to a number for a week, and I don't think that they should pay that much attention to it, and I wouldn't if I were a member of the Federal Reserve Board at the moment. At any time you look at more than just the money supply numbers. But even within the money supply numbers you want to look at more than just a week's change.

Senator RIEGLE. So, if you took everything and put it together—the latest week's change and all the rest of the things that you indicated, I take it you don't feel that there is need for further tightening at this point?

Dr. SEGER. No, that's what I said. In my judgment I think the Fed policy is just about right.

Senator RIEGLE. But your answering a different question than I'm asking. I'm asking you on the margin, looking ahead from where we are today do you think there's a need for any tightening at this point?

Dr. SEGER. I don't think that this statistic yesterday justifies a move at all, if what they are doing now is about right—I'm taking those two points together.

Senator RIEGLE. So in other words, if you are sitting around the Fed table and a discussion was going on right now, and the consideration was whether to tighten or not, based on what you have just said, your vote at the moment would be not to tighten it.

That things you think are probably where they ought to be right now, and there isn't really justification for further tightening. Is that a fair summary?

Dr. SEGER. Yes, sir. Something might happen next Wednesday, obviously, that would change the whole ball game. Based on what I would know at this moment, 11 o'clock——

Senator RIEGLE. No; I understand. That's a fair answer, and I appreciate your giving it, because that's what I'm trying to get at. It's a sense of how you see things and what your policy judgments on the margin would be right now, and I think that's what other people are interested in as well. I think the public has some interest in that in trying to get to know you and get to know what your views might be.

Dr. SEGER. I think the important thing is to understand that I'm not, trigger happy. In other words, you don't just go wildly reacting either way to every little bit of information. I think, absolutely, it's very important to pay attention to all these numbers as they're released, but I don't think any one should trigger some wild response.

Senator RIEGLE. Now we have talked before about inflation and where inflation is, where it might be heading, and I don't want to rehash all of that. I just want to get a summary from you now as to what your own sense of inflationary expectations is, as you look forward from today.

Are you considering that we may be about to have a surge of inflationary pressure, or do you feel pretty confident that inflation is both under control and is likely to stay under control as far out as you can see here?

INFLATION UNDER CONTROL

Dr. SEGER. In terms of where we are right today, I think inflation is rather well under control. Inflationary expectations, though, particularly in the financial community, which I think you and I have agreed upon before, are something else again; they're looking ahead. They're not looking at 1984 as much as they're looking out past 1984 and beyond. As we indicated, this is tied, I believe, basically, to their concern over the deficit.

I'm always very concerned about inflation, but why I'm not doing loops around the walls is that I really believe what I hear said around this room; that everyone is agreeing that the deficit is a big problem. And I really believe you people when you say that it will be taken care of. I don't know exactly what manner or on what day, but I really take you at your word, and so——

Senator RIEGLE. We can't do it alone, you know. We also discussed the fact, I think that's a consensus here, that there are two big holdouts on this issue—deficits as they related to interest rates triggering inflation. The President and Donald Regan are sort of on the other side of that argument. That goes back to the fight that's been going on within the administration, with Feldstein saying it is a problem and the President and Donald Regan arguing very forcefully in public that they are not convinced of that.

Dr. SEGER. I was talking about the decifit and the inflation expectations. I really think that it will be dealt with.

Senator RIEGLE. Yes, but what I'm saying to you is, don't assume that, because we can't do it unilaterally here.

Dr. SEGER. Congress can pass the bill.

Senator RIEGLE. No, not in opposition—direct opposition to this administration. I wish we could. We have demonstrated we don't have the capacity to do that. We tried a bigger deficit reduction package the other day in the Senate, and it lost on a tie vote, 49 to 49. There were six Republicans who came over and voted with us, because they hold the view that we need to take the deficit down further, but we were one vote short, so we failed on a tie vote. But today in this town—and it's important to understand it—this President is a very strong figure, and as a result, if he has one view and holds strongly to that view, Congress has not shown that it has the strength to overpower that.

So we're sort of stymied, and we're just drifting along, and you're not seeing any significant deficit reduction. There's a big question as to whether we will have any. I mean, we are trying, but it's in relatively modest amounts. So don't fool yourself about the nature of the debate that's going on or how this is likely to come out, because if you're working on the assumption that all of this is going to be taken care of because there is going to be a great big terrific deficit reduction in the package materialize out of somewhere sometime soon, I don't see that, and the financial markets don't see it, frankly.

I mean, if they did, I think interest rates would be a lot lower, because they would not have this apprehension about the future.

So what you are saying is, you have confidence it will be solved, and you are not concerned about inflationary expectations being lowered; is that right?

Dr. SEGER. In terms of the future course of inflation, I think the deficit is a very key matter, definitely. As I said, I was assuming that Government would deal with it. Maybe not completely this year, but at least, since everyone seems to be admitting it's a problem, there would be a start on a solution. Therefore, in terms of my long-range expectations for where inflation will go, the things I look at, I could say, Well, at least the fiscal policy side or the deficit side would be something that would be coming down the line as a problem rather than up the line.

That may be a wrong assumption. Certainly, if you tell me flatly the deficit will not be taken care of, then I'm going to jump right on the same bandwagon with financial markets and say, Help. We'd better really get our worry beads out and start to think about a rapid run up in inflation, unless the Fed really gets tough.

Senator RIEGLE. So your view would be then, if we don't get major deficit reduction, which you're sort of counting on to happen—if that doesn't happen, then you think we could really have an inflationary problem on our hands there?

Dr. SEGER. In the future.

Senator RIEGLE. When do you think it might hit us?

DOUBLE-DIGIT INFLATION PROBLEM

Dr. SEGER. These are the kind of events that develop over time. I don't think we go from a little over 4, where I think we are now, up to 13 percent, which we had in 1979, in 12 months. But I think we would have to be concerned about getting on that kind of path that might take us up to double digit again. Certainly not, as I said, in 12 months, but over a period, I think that that would be a concern. I think that's what's bugging the financial markets. Not that they're looking at today; but that they are always future oriented, and their expectations are always based on looking out 1 year, or 2, or 5, or whatever.

Senator RIEGLE. So you think, then, that, in the absence of major decifit reduction accomplishments that inflation will start creeping back up in the direction of double digits, so you are not predicting it will get to double digits, say, within 1 year, but that we would be seeing a buildup pressure in the absence of serious deficit reduction?

Dr. SEGER. That's what I'm saying. It may take 3 years; I don't know the magic date on which this would happen. It's based on some other things that might happen, too—things like what happens to oil prices. There are a lot of factors that enter in, as you know. But I think it certainly would move inflation up on my worry list if you were to tell me flat out to forget any sort of solution to the deficit problem. If it were that straight, my inflation concerns would definitely escalate.

Senator RIEGLE. I'm going to leave that for now, and I want to go back to the discussion we have had a couple of times on the auto industry, which is really the thing I want to make sure we get all the way through, because I think the auto industry is not only vital to our State, in obvious ways, but I think it continues to be very important to the overall economy.

I guess my time is up.

Senator GORTON [presiding]. Senator Sasser.

Senator SASSER. Thank you, Mr. Chairman. Dr. Seger, you testified you felt the Fed policy was about correct now as regards monetary policy.

You also testified, I believe yesterday or the day before, in response to one of my questions, that you view recession as the only available means of fighting inflation. Now let us suppose that you are right in your expectation that inflation rates will rise as this expansion continues. At what point, or at what level of inflation would you consider the inflation problem serious enough, if you are on the Board of Governors of the Federal Reserve Board, to warrant tightening monetary policy, even at the risk of another recession?

Currently, inflation rates range, I think, 4 or 5 percent. At what juncture would you say, Look, we're going to have to tighten the monetary policy here to slow this inflation rate down? Six percent? Eight percent? Ten percent?

Dr. SEGER. May I just correct a premise in your question?

Senator SASSER. Yes.

Dr. SEGER. I don't believe I said that creating a recession was the only way that the Fed could combat inflation. I think we were talking about the last recession, and I indicated that with inflation raging at 13 percent plus, in 1979 and 12 percent plus in 1980—with that amount of inflation and the tremendous problems that that was wreaking on the U.S. economy and in the financial markets, domestically and internationally—that the Fed had no choice but to deal firmly with that problem.

Senator SASSER. And I went on to ask you, I said, "Dr. Seger, do you know of any other way or any better way to combat inflation, other than this creation of a recession and the attendant high unemployment?"

The line of questioning I was pursuing at that time was whether or not you thought the unemployment and all of the problems attendant to that were worth the cost.

And your response was that you didn't know of any other way to combat inflation. So I assume from that that you view recession as the only available means of fighting inflation.

Now if you know of another way——

Dr. SEGER. We were talking about——

Senator SASSER. Let me finish. If you know of another way to combat inflation and to want to amplify on your previous response, I'd like to hear that also.

Dr. SEGER. We were talking about the specifics, as I recall, of dealing with that inflation of 1979-80 and the Fed's tough action. We had a recession in early 1980, and we had another one which I discussed with you, that began the middle of——

Senator SASSER. Let's just go back to where we were initially, Dr. Seger.

Do you know another way to fight inflation, other than tightening monetary policy and risking recession?

Dr. SEGER. We have been talking about it all along; that is, that we've got two basic economic policies, tools. One is monetary policy and the other is fiscal policy. And when fiscal policy was not in an anti-inflation mode, then monetary policy, which was the one remaining tool available, apparently had to be used more toughly.

Senator SASSER. And I think you told us you supported this expansionary fiscal policy in 1981, because you supported the Kemp-Roth tax cuts at that time and still do. So you were supporting then an expansive fiscal policy, which leaves the only alternative, I suppose to combating inflation, a restrictive monetary policy. And this creates recession and unemployment. That's what it's all about. In an effort to combat inflation, you try to slow down and muzzle the economy.

Now at what rate of inflation would you consider tightening monetary policy, even at the risk of another recession?

FED USES WHOLE SPECTRUM OF ADJUSTMENT

Dr. SEGER. I don't know that the Fed has two settings on their scale—stop and go. I think monetary policy covers a whole spectrum of adjustment. They just don't sit with one setting and then all of a sudden jump to another extreme, but rather they are making continual, modest adjustments, and they are always looking at the inflation result.

They are always trying to assess the severity of the inflation problem. They are doing it right now and I think that's appropriate. I don't think we should expect 90 degree turns or 120 degree turns, where the Fed all of a sudden does a tremendous move and says, "Well, we're going to throw the economy into a recession."

I think that what is hoped is that by making these gradual adjustments, always keeping in mind the importance of keeping inflation under control, that in fact you can slow down the economy, can deal with inflation, without throwing the economy into a recession.

Senator SASSER. Would you favor tightening monetary policy for inflation before inflation accelerates past 5 percent?

Dr. SEGER. I don't think there is a number at which you say, "OK, now we'll fight inflation."

Senator SASSER. Say the number was 13 percent, as you said it was in 1980, would you say at that point, well, this is not a time when we ought to be concerned about inflation?

Dr. SEGER. Apparently I'm not getting through——

Senator SASSER. No, you're not getting through, Dr. Seger, I'll grant you that.

It seems to me a simple matter to just answer the question and, say, give a range of a percentage of inflation at which you would consider tightening monetary policy. It would be a simple matter to me if I were sitting where you're sitting to say, well, Senator I think we ought to consider tightening monetary policy at 6 percent or in the range of 6–8 percent. That's all I'm trying to ask you. I'm not trying to trap you.

It appears to me that's a reasonable question for a Senator on the Banking Committee concerned about the economy of this country and concerned about monetary policy as it emanates from the Federal Reserve to ask a nominee for that Board: At which point do you become concerned about inflation? At what point do you think there ought to be a tightening of monetary policy?

In fact, I think I'd be derelict in my duty if I didn't ask you that question and all I seek is an answer.

Dr. SEGER. I think the Fed should be concerned about inflation when it's anything above zero. I think the Fed is looking at inflation all the time and, as I indicated earlier, one has degrees of tightness and one has degrees of adjustment. But even the Humphrey-Hawkins Act sets, as a long-range target, having no inflation in this economy. The interim target was 3 percent for inflation and that was in the Humphrey-Hawkins Act passed by the Congress back in 1978, I believe.

Senator SASSER. Is this committee to be left with a view that you have no notion as to when monetary policy should be tightened as a result of accelerating inflation? You have no figure at which you would start thinking about tightening monetary policy? That's what I'm hearing here now.

All I know is that you think the Fed is operating correctly now, that things are about right with regard to monetary policy, that we have a rate of inflation now of 4 or 5 percent but I don't have any idea what you would do if the rate of inflation got up to 7 percent, 8 percent, even 50 percent.

I don't know what Dr. Seger would do if she were sitting on the Board of Governors of the Federal Reserve-System and I would like to know.

Let me move on to another question.

Yesterday you testified, Dr. Seger, that you would oppose proposals to return to a gold standard. Now, could you elaborate on this view? Would you fear for example that a gold standard might prove excessively inflexible; that it might cause deflation and unemployment or that it might entrust effective control over the monetary policy of the United States to the major gold-producing nations of the world—South Africa and the Soviet Union? That's been one of the fears expressed by those who don't want to return to the gold standard.

Why do you oppose returning to the gold standard?

Dr. SEGER. I oppose returning to the gold standard because I don't think it's the simple answer that people who find the gold standard very appealing are usually looking for a way to discipline monetary growth, and I think that it's possible to get discipline without gold.

I also think it's possible to have no discipline with gold, because if you're on a gold standard and it proves to be overdisciplining, it's always possible to go off the gold standard; therefore, I don't think it would work.

Senator SASSER. Thank you. My time is up.

Senator GORTON. I understand that Senator Riegle has a somewhat longer period of time, therefore, since there are only two of you here——

Senator SASSER. Go ahead. I'll defer to Senator Riegle.

Senator GORTON. All right.

Senator RIEGLE. I keep trying to get back to the auto industry and then we get off on other things that arise.

Let's try to finish the discussion of the auto industry here because I think it's important, again, to try to get a sense for where that fits into your thinking and how you view the problems there and how that might affect your judgments on some of the monetary policy decisions you would be asked to make.

CURRENT PRICE EARNINGS RATIOS

You remember I believe on our first day here we were discussing back and forth the current price earnings ratios on the auto stocks.

Dr. SEGER. That's right.

Senator RIEGLE. And I was indicating to you, I don't know another example in contemporary history when the economy has been so strong, car sales have been strong, profits have been so strong, that the companies have sold at such low price earnings ratios.

In my mind it's really unprecedented in the face of those kind of positive things. With GM selling at 4 times earnings; Chrysler at 2 to 3 times earnings—when you look at other, say, Michigan-based companies that sort of cover a spectrum of other kinds of commercial activities you get K-Mart selling at 8 times earnings; twice the PE ratio of GM; Kellogg at 9 times earnings; Dow at 16 times earnings; Burroughs at 11 times earnings; Upjohn at 11 times earnings and Detroit Edison in a troubled industry selling at 6 times earnings which is sort of to be expected, given the special problems of that industry.

But nevertheless, I'm stuck by the fact that even in the case of Detroit Edison it's price earnings ratio is 50 percent higher than that of GM. So I say to myself, you know, the financial markets I think obviously have a real case of the jitters in terms of what's ahead for the auto industry as reflected in what they are willing to pay in the market price today per dollar of earnings.

And when we talk about where you would put that on a scale of 1 to 10 in terms of your own apprehension, you thought you would put it at about a 5 gravity and you also thought that the financial markets were probably grading that same set of future risks and factors at about a 7 gravity.

I think they probably see it higher than that. I think one multiplier is so unusually low in this case in the face of good performance data at the moment that I think it's just a difference of opinion that we might have. I would say the financial markets are putting it at about an 8 or an 8.5 on a 10 scale in terms of apprehension.

But in any event, there is the difference between how the market sees it and how you see it, even using your own numbers of the grading scale. So I thought it would be useful if we went down through some of the factors that make up the judgments that both the financial markets are rendering and presumably are part of your own judgment as to how you look at the auto industry and you do have some considerability familiarity with it, being in Michigan and the banking and economic forecasting business as you have been for a long time.

So, I would like to run down through some of the things.

How much weight do you give the factor of foreign competition and the imports right now? Is that a big important part and you are sort of grading it at 5 on a 10 scale and how would you express your level of concern about foreign competition as it impacts the auto industry, say, looking out over the next 5 years here?

Dr. SEGER. Well, first of all you may disagree with me about a lot of things, but I don't think we disagree on the importance of the auto industry, just to get that on the record.

Senator RIEGLE. Good.

Dr. SEGER. I hope not, anyway.

I think a couple of points I was making about the auto industry tie into this import question; that is, the fact that the Big Three auto companies, at a minimum, have taken tremendous steps internally to improve the quality of their products.

They have, in fact, sometimes taken a page from the Japanese book to see how you can manage production lines more effectively, get more involvement of your workers in the production process so they care more about making cars where trunk lids go down and whose doors are hung right and that don't have leaks around the windows—about all those quality aspects.

I just got a new Chevrolet, as a matter of fact, that I can compare to my 1981 Oldsmobile. I happen to drive American cars, sir.

Senator RIEGLE. You're doing better and better here on this question. [Laughter.]

Dr. SEGER. It's true. I'm not just buttering you up.

Senator RIEGLE. No. But it's appreciated, the value of the point.

Dr. SEGER. My reason for saying that is so I can compare the quality of two GM products, the 1984 model versus the 1981, although they're not the same line. I'm not a mechanic, but just the way it feels, the way the doors slam, show a much improved product. I think this is a first step toward dealing with the Japanese competition, if they're going to do it successfully, and not just run to Congress whimpering and asking to be protected. I think this is the proconsumer approach. I think it benefits all of us, including the workers in Michigan.

There is that angle—improving the quality of the product that American producers are offering. The second thing is, there's been an absolutely tremendous effort since these big troubles broke out in 1979 to deal with this whole productivity matter, not only getting a good quality product, but getting it out in a cost-effective or efficient way.

I'm not a manufacturing expert, but the steps that have been taken to do that will allow us to compete better with the Japanese and, of course, other importers also. Maybe I'm giving these more weight than others, but looking at those makes me think that it's up to the management of those companies—and after all, they're the ones that should be ultimately responsible—to get their industries back in shape.

We can certainly improve the overall environment in which they make decisions and get less economic turbulence. I certainly agree with that. But in terms of managing their own shops, I think they've got to address some of these problems themselves. They've got to do these kind of things so they can compete effectively. I think that that's going on. They have been, for the last 4 years or so, moving in that direction; therefore, I think that we are going to have a far greater capacity to deal with the question of import competition in this positive way.

I'm not saying it isn't a problem, sir. I'm just saying I think today we can deal with this question more effectively than in 1979 or 1980.

VOLUNTARY IMPORT LIMITS EXPIRE NEXT SPRING

Senator RIEGLE. Now, as you know, we have in place now what are called voluntary import limits on Japanese imports that expire early next spring.

Dr. SEGER. Yes, sir.

Senator RIEGLE. It is the Japanese that under that system are held to about a 23-percent market share in the United States.

Dr. SEGER. Yes, sir.

Senator RIEGLE. Do you feel that if the import limits come off, and because of these improvements, the domestic industry is ready to meet the Japanese and hold their own?

Dr. SEGER. I mentioned earlier my philosophy is definitely on the free trade side of the spectrum. As I recall, when those quotas or voluntary agreements were set up initially, the talk was to give the American producers some time to get their houses in order, not protection forever. I think that they're heading in that direction.

Now whether or not by next March, which I believe is the end of the period, they're ready to go, I'm sorry, I just don't know if that's the exact date, but I think they're definitely far more able to deal with that competition, and they will be more able to do so than they were 3 or 4 years ago.

Senator RIEGLE. Well, I want to push you a little further on this, because we are going to see a policy decision here before long, either to continue the import limits or to change them down or up. Probably down, as the signals have been—or eliminate them all together.

And the question of whether we're ready becomes a very important question, and in the question of quality, which is sort of a more subjective measure—I mean you have described the fact that the new car sounds better than the old car when you slam the door, and so forth——

Dr. SEGER. Better mileage also.

Senator RIEGLE. Right. And the productivity side of it. All of this, in essence, a good part of it boils down to the differential cost advantage of the Japanese. All the published data, as I'm sure you know, shows that today Japan has something on the order of probably a $1,500 to $2,500 per car landed cost advantage due to many things—lower labor rates, different kinds of taxing policies, prime rate in Japan closer to 5 percent today a whole host of things.

As an economist, isn't that baseline cost differential so large that if you just add an unrestricted market situation, isn't it likely to be that the Japanese would come in and take a much larger market share, if they wanted to, simply on the basis of that cost differential—price differential they have going for them?

Dr. SEGER. I'm aware of those differential figures, and, as I indicated, I am not sure that next March is the exact period at which the American companies can take on the Japanese with no holds barred. I am not in the auto industry. I don't have access to their confidential data, their internal cost figures, and I don't know the exact date.

I just think that they're far better able today than they were a couple of years ago.

Senator RIEGLE. What would happen if the cost differential, car for car—the American car produced under the new arrangements versus the Japanese imports, would remain, say, at $2,000 a car, indefinitely, that is, we make improvements in efficiency, and so forth, and they do as well, so we don't close the differential gap, that we have a $2,000 per car gap. If you have unrestricted access to this market, aren't just the sheer economic realities apt to be that the Japanese penetration is going to just continue to rise? Why would somebody pay a premium just to buy an American car? You and I might do it because we come from Michigan and our orientation is that way, or we might prefer that car.

But more and more Americans are showing they don't feel that way. If you go out into the State of Washington where the chairman comes from—the acting chairman comes from—the percentage of imports in that State now are about 50 percent. They are above 50 percent in California.

So it seems to me that if these cost differentials maintain themselves and you give the Japanese unrestricted access to this market, you're going to see their market share way up. And as a matter of fact, that's why the import limitations were put into effect.

Dr. SEGER. I agree with that.

Senator RIEGLE. As I said, they're going to go way up. So what I'm asking you is, if we take them off next spring and the cost differential hasn't gone away, why aren't we going to see an enormous surge in imports?

DOLLAR/YEN RELATIONSHIP

Dr. SEGER. I know that the auto companies are shooting to narrow that differential beyond what is presently in existence. I don't recall the exact numbers, but the relationship between the dollar and the yen also could be improved, if we got some things done in this country that would allow the relationship to change. I don't mean meddling in the markets, but certain fundamental things that would allow that to change. That, too, would help to narrow the gap.

Senator RIEGLE. There could be some things done in Japan too that could help that. You don't mean to imply that all the changes in the dollar/yen relationship have to be done on this side?

Dr. SEGER. No, no. When the models land in California or Washington, or wherever they come in on the west coast, the relationship between the dollar and the yen is an angle you have to look at in addition to the fundamental productivity facts.

Senator RIEGLE. Some people estimate the yen/dollar differential to be as much as $800, to $1,000 to $1,200. I want to discuss that more fully at a later point. But I think you're correct in raising that as one of the key elements in this cost difference.

So I guess your conclusion was that there might be some policy actions we could take in this country to, I guess, lower the value of the dollar vis-a-vis the yen?

Dr. SEGER. What I'm talking about is a combination of things. The internal actions taken by the auto company management, point one. Second the policy things we could do in Washington that will get our own economic house in order, which would ultimately lead to less nervousness about inflation, would make people confident about where interest rates are going to go in the future. That, in turn, would have an impact on the dollar/yen relationship.

The other side of this is that, as a policy matter, I think that American negotiators can sit down and talk some more with the Japanese about having more equitable treatment. I read this over and over again; that we have, in many cases, a nice open market, and yet when our manufacturers or would-be exporters try to ship to foreign countries, they don't get the same kind of reception that we give some products here.

Perhaps there are some things that the Government can do to open up more, on the Japanese side.

I think there are different steps that can be taken.

Senator RIEGLE. Well, let me try to move this along a little faster down this road on the auto industry, because our discussion in this area is going to have a key bearing on how I view how you might approach some of the policy decisions on the Fed, and especially because you're here as a regional representative.

Other people were turned aside as nominees that were in consideration because they were not from our region, and you were selected, in part, because you are from our region, and therefore, presumably are able to represent on the Board these kinds of issues and to represent them with some real insight, some real important substantive judgment and argument that you might be able to advance around the table that would give our region representation that it will not have otherwise.

This is a complex and specialized problem. A lot of people don't understand the automobile industry. You have worked in it, and you have lived in it, as I have, and by your own testimony, you feel it's a critical industry, a very important industry for the country.

So here's the problem that we face. Every nation on the Earth now has import limitations on foreign cars—every single one—including Japan. In fact, they're one of the toughest. They do it through a variety of mechanisms.

Dr. SEGER. That's what I'm talking about, getting them to loosen up on their end.

Senator RIEGLE. Right. But setting them aside, every other nation—all the other industrial nations—Great Britain, Germany, Canada, France, Italy—they all have had to erect barriers against imported cars because if they did not do so, they would be swamped—their internal markets would be swamped with imports, principally Japanese imports, and it would cave in the size of their domestic industry that continues to give them cost efficiency in producing cars in their own countries, so they have all established various import limitations of various kinds.

And it's very interesting that if you take Great Britain, for example, and Germany which also believes in free trade as we believe in free trade, both of those nations have now decided they have to limit the Japanese to a 10.5-percent market share whereas we have been far more generous. We in the United States give the Japanese double that size market share—23 percent of a much bigger market.

So we have been very, very accommodating to that trade practice.

Best estimates that I have seen—and I want you to check these and either agree with them or challenge them. The best estimates that I have seen indicate that in Japan today they have excess manufacturing capacity in the auto industry for cars that they can build and ship into the export market. It's very substantial. Partly because they have been locked out of all these markets and scaled down, only allowed 3 percent, for example, of the French market.

So they've got the factories sitting there and the workers trained to produce a lot of cars that they don't have any place to sell because they have been locked out of all these other places.

JAPANESE COULD CAPTURE LARGER SHARE OF MARKET

It appears that next March, if the import limitation came off in the United States, and Japan wanted to because of this cost differential which has not been eliminated, it's still there, if they wanted to go from the 23 percent market share to a 40-percent market share, they could do so quite readily.

They have manufacturing capacity, they have the cost advantage, they have customer acceptance in the United States and in fact the only reason they are not selling more cars here now is because there's import limitation. They can only ship in a certain number.

So it's quite easy to see from the data that's available that in the absence of any kind of restraint the Japanese make the decision to come in, take a larger market share that they could probably double their market share in a very short period of time because they are all set, got all the components they would need to do that except free access to our market.

What do you think would happen to the auto industry if, say, the Japanese market share went from 23 to 40 percent in the period of 1 year? How dislocating would that be, do you think, to that industry financially, employmentwise, unit production cost? What do you think the implication would be on the domestic industry as an economist?

Dr. SEGER. During the recession, the import share of the total market rose dramatically, because the whole pie was shrinking. The Japanese, I guess, had more loyal customers. Also, the number of Japanese cars, because of this numerical constraint, stayed the same and therefore their share of the market was, I remember some months, up to 27 or 28 percent, as I recall.

If what we are talking about, say, next year or the next year is a big change in the share of the market going to the Japanese, if the overall market is staying at a pretty healthy level—and by the way, I think this is tied to fundamental economic forces, things like income, growth, employment, and all those things that help one's ability to buy any kind of car—the problem would be less.

Senator RIEGLE. Interest rates.

Dr. SEGER. I'm saying a whole string of things. I didn't pretend that was all inclusive.

Senator RIEGLE. No, no. I understand.

Dr. SEGER. I think if the adjustments were made in the context of a healthy economy and a big total market—and maybe even a growing total market—that the adjustment problem for the domestic industry would be far less severe.

I think that's just arithmetic; obviously you would have a negative employment reaction, some layoffs. But I'm positive it wouldn't be as catastrophic as the last recession was for the auto industry, where they had a tremendous contraction.

Senator RIEGLE. Well, let's assume the total value of cars sold stays where it is about now. It's pretty good relative to where it was a couple of years ago. Let's say it stays about where it is now but the Japanese market share goes from 23 to 40 percent in 1 year's period of time.

I want you to think about it as an economist. If we saw that happen and all the preconditions are there that could allow that to happen—the cost difference, there is free access, and so forth, plus customer acceptance—then what would happen, do you think, if suddenly you have the same level of sales that you have now but you have a larger chunk of those sales being subtracted from domestic producers? What do you think the implication would be to the auto industry at this point, if they lost, say, 20 points of market share right now to the Japanese over the period of the next year, year and a half? How devastating a blow would that be?

Dr. SEGER. To begin with, I'm not sure that I agree with you that it would pop right up to 40 percent.

Senator RIEGLE. No; I'm not saying that. I'm testing a hypothetical. If it did, what would be the economic consequences.

Dr. SEGER. I just wanted to make sure I'm treating this as a hypothesis also. I'm just doing the arithmetic in my head. I don't have a calculator.

We're talking about a total market of maybe 10 million cars; we're running along there. The Japanese have 2.3 million and the domestic market the remaining.

Then, if we go with your hypothesis that it goes from the 23 percent mark to the 40, then we are talking about a 17-percent change in share, 17 percent on the 10 million. That would be 1.7 million cars that would come out of the domestic share and go to some sort of import, probably Japanese.

We are basically talking about the impact of a cut in auto sales—auto production, domestically—of 1.7 million, the impact on unemployment, auto profits.

Senator RIEGLE. Unit costs.

Dr. SEGER. Yes. The financing of the auto industry. All the things we look at when we assess the health of the auto industry.

There is no doubt about it. Minus 1.7 million is a significant——

Senator RIEGLE. How significant do you think? How devastating a blow would that be if that were to happen?

Dr. SEGER. I'm not sure there are exact numbers that can be provided on this impact; frankly I did not get myself geared up with any exact numbers for this hearing because I thought it would involve monetary policy, banking, regulations.

NEGATIVE IMPACT ON EMPLOYMENT

I don't have these numbers on the top of my head. Let me just say that definitely it would be a negative impact on employment, on profits of the auto companies.

Senator RIEGLE. Let me try to sketch it for you. I don't expect you to have precise numbers, but I do expect you to be able to trace through the quantitative dimensions of this kind of an impact as an economist would, what it might means on the road to what this means for monetary policy, because this is an enormously interest-rate sensitive industry.

So if suddenly it finds itself in big trouble for other reasons, then the level of interest rates whether they're manageable or very high or low have an enormous bearing on the ability of the industry to withstand some giant blow that comes from a different direction. So these things are directly connected and that's one of the reasons why I'd like to have somebody on the Federal Reserve Board that understands the connection of these relationships.

Dr. SEGER. I can certainly get the figures. I'm just saying I didn't come in today with these all memorized.

Senator RIEGLE. No, no. I'm saying that to try to help you to sort of see where I'm going here.

Now, having said that, I want to stay right now on a point of what happens if we see the loss of 1.7 million units coming out of domestic supply. And there are two ways to think about it.

You think about it as an industry as a whole and you can sort of make some judgments about what does this do to weaken the industry as a whole and then you can do it on the basis of individual firms because obviously it's probably not going to fall proportionately across say the four or five domestic manufacturers that we have. It's apt to fall unevenly.

The bigger you are probably the more your strength to be able to handle that, that is, GM probably could ride that out much more effectively than the smaller firms partly because of the cost of production.

As economists, we both have economic training and if you are sort of allocating your fixed costs over many more units, your unit cost is lower and you are going to be able to hang in while the next guy down the street has got the lower base when things shrink, you know——

Dr. SEGER. They also have a stronger balance sheet up front.

Senator RIEGLE. Right. Exactly. So it's all reinforced for the big, strong company, whereas the ones who are not so big and strong suddenly are in big trouble. So then all kinds of things happen.

You may have industry that can take the blow in a sense but the way it takes the blow is maybe you lose one or two companies if they can't handle the cash-flow requirements. Whether or not your other domestic manufacturers move in and pick that up depends on difference in product line, and so forth, and so on. So it gets to get very complex in a hurry.

I see some real dangers here for the country, for the automobile industry. If we see anything like that kind of a disruptive impact in a short period of time and I think the risk of it is very real and I would say you don't have to take it on faith, there's a reason why we have the import restrictions.

There's a reason why Reagan says he doesn't like them but has agreed to have them as an administration because they felt they couldn't afford not to have them because they didn't think they could afford to let this breakthrough happen.

Now, is it your feeling that the auto industries are far enough along through the retooling, modernizing of the factories, the redesigning, the downsizing, the enormous capital-cost load that's there, that if they got hit with this incremental loss of market share that they could still manage to go ahead and improve their competitiveness?

They would still have the industry cash flow of the size and the dimension that they would need to continue to stay healthy and in fact even close the gap on the Japanese? Or do you think that they might then find themselves with not enough money in the overall cash flow at a reduced volume level to be able to finish the modernization and hopefully catch the Japanese? In fact, they might start sliding backward into a new hole. What is your sense for it?

Dr. SEGER. I doubt that the whole modernization process has been completed. I haven't yet been out to see the plants, but it's my understanding they are working furiously and feverishly in that direction.

GM SPENDS $6 BILLION TO MODERNIZE

They are trying to get things modernized. In fact, I think I heard something like $6 billion for General Motors as a number for capital expenditures for the next year, primarily to retool, modernize, put up a couple of new plants—again, going after the high productivity. I don't believe the job is done.

Senator RIEGLE. So a disruption would come at sort of a bad time in terms of meeting that modernization job.

Dr. SEGER. Certainly, as I said. I don't know exactly what percentage of the job is done, but it is not 100 percent accomplished, I know.

Senator RIEGLE. It seems to me that's quite an important fact, though, because if the industry is going to be able to heal itself, in sense become competitive, it's got to have enough time to do it. It's got to have enough cash flow to do it.

It means there are enormous capital requirements. I think the figure of $6 billion for GM over a 2-year period may be about right. I don't know myself without checking. I know it is a large number—billions of dollars for just GM.

Dr. SEGER. That was the number that I heard Roger Smith use at the time of the annual meeting.

Senator RIEGLE. I think that's about right. So, if we had an interruption at this point of the cash flow to finance that, this would be a major impairment to the industry. Would that be your conclusion?

Dr. SEGER. Don't forget, I didn't say the controls or the limits could come off in March.

Senator RIEGLE. No, I understand. I was just talking about what would happen if they did come off and you had this increase in market share? We are trying to economically assess what is the vulnerability of the industry and what is likely to happen. Can they cope with it and if they can't what are the consequences?

You would have real concern about the question of whether the auto industry would be able to complete the modernization, the drive for efficiency process, and so forth if suddenly there were a big interruption in terms of a big surge in imports, a loss of domestic volume. Is that correct?

Dr. SEGER. Yes; it is and that's why I said I wasn't sure about the timing of the voluntary constraints being taken off. I don't think the auto industry wants, nor should have, full protection forever.

As a consumer, I think we all benefit from competition but at the same time I'm in favor of giving them adequate time to get their house in order. I just don't know the date that means adequate time.

Senator RIEGLE. All right. I want to press that just in terms of your own economic views, in terms of what you just said.

Let's say the $2,000 price differential between the Japanese and the American car continues and the Japanese, by the way, are now producing cars up and down the line—not just small cars. They have Buick-size cars, top of the line cars, and so forth.

Dr. SEGER. Yes; in fact, I think they are emphasizing the top in terms of what they send in here.

Senator RIEGLE. Yes; they are, because they like the larger profit margins. Let's say the $2,000 price differential continues on into the future.

Suppose the Japanese, on a basis of having a complete line of cars, customer acceptance, continuing cost differential, could come here and take 80 percent of the U.S. market, which I think is entirely possible, they have done it in certain other areas.

Suppose they came in and took 80 percent? Are your free-trade views so strongly held in terms of the values to the consumer and so forth that if that's the ultimate disposition of competitive advantage between nations that we are going to have to adjust to that and in the end we will be better off for it?

Dr. SEGER. My free trade views are predicated on the fact that it is free; in other words, that it goes in both directions. I think we both agree that in the case of the Japanese that is not true.

Senator RIEGLE. That is what?

Dr. SEGER. That it is not true that we've got a free movement in both directions. I think that I would push for, ultimately—again, I don't know the right date—fewer protective measures, if, on the other side there were also fewer barriers put up against American producers.

Senator RIEGLE. Well, let's say we got that solved and the barriers came down—the barriers they maintain internally. They have different kinds of testing requirements and different kinds of ways in which they keep cars out of their market.

Let's say all of the obvious sort of free-trade-barriers gimmicks were done away with, were negotiated out of the picture but still the Japanese had a $2,000 price advantage because their labor rates are lower, which is a very important fact because of currency differentials which give them an advantage in that area, the fact that the cost of money is very different in their country than in our country and I mean by that interest rates, and so they maintain the $2,000 cost advantage and no restraints either way and the American people increasingly said, you know, I'll drive the Japanese car if I can save $2,000.

And I'm saying to you, is it your view then, in extending this out, that as an economist, in the end might be difficult to adjust to but if the Japanese came in and took 80-percent market share in the United States, that you are willing to say as the extension of the argument here that in the end that will be good for us and if that's the natural outcome and the natural consequence then we ought to be prepared to accept it and see it as a plus?

Dr. SEGER. If you're hinting that I'm a blind free trader the answer is no, I'm not.

At the same time, perhaps, I have more faith in the ability of the management of these concerns to assess these problems also. I may be dead wrong, but as I see it, understand it, and talk with people in the industry, they are aware of these differentials, and they are working furiously and feverishly to make changes, internally, which will help to narrow it.

I'm not saying that they can wipe it out entirely, but they are certainly working to narrow it. The longer the time we give them to make these changes, to completely redo their manufacturing facilities, put in the latest in equipment, retrain the workers, use the Japanese management approach, the greater the odds for closing the gap.

INDUSTRY WILL GET ITS HOUSE IN ORDER

Maybe it's my private sector bias, but I feel that the management themselves would love to get their own houses in order. They need time to do it, and I really think that they will. If they don't and if something happens, and maybe that differential even widens, then obviously, we don't have a policy today that will go for the next 20 years without any fine tuning, any adjustment to changes, worldwide impact, all that at least.

I'm not smart enough to set one. And I think it's important to look at everything you can, make the best policy that is possible for the facts and the conditions of the moment, bearing in mind that all these things have to be reviewed, assessed, and considered on an ongoing basis and that you don't have to set it in concrete at one time and just live with it. That would be my preference.

Senator RIEGLE. Well, let me take you another step here because I also have a free market bias, just like you do. In fact, I sort of have a reputation around here as fighting awfully hard for the auto companies to try to help the auto companies which I feel quite comfortable trying to do. I think it's important to the country that that happened.

Dr. SEGER. I think I told you I chartered a bank for Chrysler as part of their bailout, too, so I'm not against them.

Senator RIEGLE. And you said earlier that you felt the industry was making progress with productivity improvements—modernizing the factory, improving car quality and I think all of those things are so.

The problem is that the cost differential still remains and it's substantial and it's not being whittled away and I'm going to take you to two specific things that are part of it, and one that you would have direct access at in terms of sitting on the Fed Board, if you're there.

Now, the prime rate in Japan at the moment is 5.7 percent—5.7 percent today. The prime rate in the United States is 12.5 percent. So, automatically these are big items here. These are high value-added products. A lot of inventory, carrying costs, and so forth and so on. So you've got the interest rate differential built in the cost of production and then you get socked with it again when you are trying to finance a high-cost product in terms of consumer markets, financing a $10,000 car, $8,000 car over 3, 4, or 5 years and the interest rate is a big, big factor.

So, here our manufacturers are facing a prime rate of 12.5 percent and the Japanese manufacturers are facing a prime rate in their country of 5.7 percent. How do we get rid of that? How does modernizing the factories and improving quality change that—they obviously don't. If we are left with a very important residual here, that is sort of an inescapable competitive disadvantage that is killing us? What do we do about that, and what do you do about it, and how important is that?

Dr. SEGER. I'm sorry, I can't remember who was here or at what point I answered the questions. It's a disadvantage I have.

Senator RIEGLE. What we want to do is put it in the context of this line of questioning.

Dr. SEGER. Yesterday I commented that when I came to Washington 20 years ago, believe it or not, the prime rate was 4½ percent. The hooker in this whole story, of course, is that inflation, in the first half of the sixties, had been running, as I recall it, at an average of 1¼ percent per year; I would love to see the prime back at 4½. I mean, I'm not wed to 12, or 10, or 9.3 percent, or whatever. I'm not somebody who gets my kicks out of high-interest rates. I have seen them lower in my working career. But I think that the level of interest rates, as we have been discussing back and forth for several days, is tied to a number of things.

One of them is the whole issue of inflation. When you come through a severe inflationary period such as we had in the late 1970's, while we have certainly made some progress in bringing it down from 12 or 13 in the late seventies or 1980, to roughly 4 percent or a little above now, the people who have a lot of clout in the market are not convinced that we're going to keep it down. I think if we could convince them, sir, that not tomorrow, not next Monday, not next Friday—but that we are serious, you would see a dramatic drop over a period of time in interest rates as people in the financial markets of this world became really confident that this would happen; the so-called inflation premium would be squeezed down very soon, and furthermore, as you went along, interest rates would make a dramatic downturn. Now I don't know whether or not they would end up back at 4½ percent. I'm not smart enough to know that, but I certainly think they would be way below where they are today. I'm mentioning this, because I think, this is one of the things we definitely have to work on.

Senator RIEGLE. I'm all for that. I agree that that is imperative. If that doesn't happen, and the interest rate differential does not disappear——

Dr. SEGER. I'm sorry. I thought your question was how do we narrow it. Maybe I misunderstood your question.

BUILT-IN COMPETITIVE DISADVANTAGES

Senator RIEGLE. Well, we can discuss that. What I'm saying is that it's there now. It's been there now for quite a period of time. No sign it's going to go away any time soon, and that even if we catch the Japanese in terms of internal production efficiencies, car downsizing and so forth, we still have some built-in competitive disadvantages that yield the dollar difference that make us uncompetitive and give them the opportunity in the absence of barriers to come in and take as much of the market as they want and possibly even as much as 80 percent, which is hypothetical. If that were to happen, it seems to me you get massive displacement in this country, not just in Michigan, but the industry is so big and has so many connecting links that it becomes a 50-State problem, literally overnight, if you're going to talk about any kind of a massive shift in its size, in its strength, and if it starts shrinking.

And it's sort of a self-reinforcing slide. If we start shrinking and the production base continues to get smaller and your unit costs rise because you become more uncompetitive, and so it's a downward spiral. And once it starts, it's very hard to break it. And I don't see anything taking place here at the moment that's closing this interest rate differential gap. I mean, yes, if something happens over a period of 5 or 10 years and it goes away, that's terrific. That solves that problem, but that isn't what we're seeing. That isn't the pattern. As a matter of fact, the pattern is that it's widening out at the moment.

Our interest rates are going up. That's the first item we talk about today. They're not going down. And the things that are driving interest rates are very much with us, and if anything, are perhaps increasing. And this is one of the reasons why interest rates are going up.

So it seems to me, if you follow the free trade model, you run smack into the problem of the interest rate differential, which we don't have an answer for and puts us at a very substantial competitive disadvantage and puts this whole industry in some real jeopardy, if you have a wide open market on imports.

I'm going to give you a second one to think about, and then I want you to add the two together and tell me how nervous it makes you and how it might affect your decision at the Fed.

One of the important costs in the price of a car is the health insurance benefits of workers, because health insurance today is expensive because health costs are high. Hospital costs are high, doctors' costs are high. The doctors are just meeting now, as a matter of fact, and talking nationally about the fact that they don't want to get squeezed into cost controls, because they think it will hurt quality. So it's important to have good medical quality, so, you know, prices have to be high to get good quality.

In Japan, the health care of an autoworker is paid for by the Government. So that's covered a different way, and it doesn't end up being paid for by Mr. Toyota and doesn't go into the price of the car. So that's a very substantial cost differential, probably $400, $500, $600. I mean it's estimated at that level by different estimates.

Now that's a difference in system. They have national health care; we don't have national health care. We have private sector health care.

How do we get rid of that competitive disadvantage, in terms of product cost?

Dr. SEGER. I guess there are a couple of ways you can go. One is the automotive health care plans, at least one I used to see. I think I mentioned a long time ago I was on the Blue Cross Board for a couple of years, and so based on the specifics of those contracts—which probably are not identical to today's, but I'm sure they're in the ballpark—those programs were expensive, that's true. They were also, shall we say, the "Cadillac" of the industry. They had extremely good, generous coverage, which is negotiated. I guess that's fine, but when you negotiate that kind of coverage, it's also costly.

Senator RIEGLE. What if we cut the bill in half? What if we cut the bill from $400 a worker, if that's what it is, to $200 a worker?

Does that solve our problem? I mean, it obviously changes the amount of health care that the worker is getting, but I don't think you're suggesting you can cut it down to zero and do away with the health care.

Dr. SEGER. No; I wasn't suggesting cutting. I thought the issue was the cost of it, and I'm just saying, depending on the coverage, you can design different kinds of plans.

Senator RIEGLE. You can negotiate, but you can't reduce it to zero, so you're still left with some residual amount of costed health insurance. Maybe it's $100 a car, maybe $200 instead of $400 or $500, but it's a substantial difference. If you take that, plus the interest rate differential and add those up, it seems to me you're left just even with those two items with enough of a cost differential that the American producer is still going to be at a competitive disadvantage, in terms of the cost at which he can sell a car in this country, and that these kinds of things still create opening for the Japanese to drive their market share as high as they can take it, based on customer acceptance.

I think the customer acceptance in Hawaii is like 75 or 80 percent. I assume it could be the same across the country, you know, with just the passage of time. Now does this start to make you worry a little bit as somebody that comes from Michigan and said at the outset that the auto industry is really important to the country, and so forth, if we're facing economic problems of this kind that are not self-solving?

Where is this all taking us and how is it likely to affect your judgment on the Federal Reserve Board, if you're there?

Dr. SEGER. Again, I can't remember whether it was yesterday or the day before when we were first starting our discussion of the auto industry. I agreed with you that I thought that we still had problems to solve. I also think that what one does when one deals with problems of public policy is to deal with them on an ongoing basis. I would certainly hope I would not be like the doctor of medicine who waits until the person has terminal cancer before taking care of a modest spot of skin cancer.

DEALING WITH PROBLEMS ON ONGOING BASIS

You can deal with these problems as you go along. Certainly, I don't think you have to wait until—your hypothetical cutoff—you're at 80 percent of market domination or market saturation before you say "Oh, my God, we've finally got a problem, and we better take draconian measures to solve it." I don't think we go from 23 to 80, between Friday afternoon and Monday morning. Now I may be all wet.

Senator RIEGLE. But I think your analogy is a very good one, because the 23 is maybe like a spot in the arm, and if the trend lines are taking you toward 80, you may be the person that has to say, "Hey, you got something on your arm, and you better get it treated now."

That's the value of having a regional representative on the Board, because everybody else around the table who comes from somewhere else, and they look at that spot on the arm, and its 23 percent, and say, "It's no big deal."

I want somebody there who is going to be able to sort of diagnose the problem before we've got a terminal cancer down the line that we can't fix. I mean, that's the particular value you would bring, and that's the whole theory behind regional representation. Somebody that can talk about the problems of the industrial Midwest in this case and interpret them.

And that's why I'm taking the time to try to figure out how good a diagnosis person you might be.

Dr. SEGER. No, I'm not insensitive to this, believe me.

Senator RIEGLE. That's why I wanted to determine in my own mind how you see it and whether or not you feel that we can have confidence, that based on your knowledge of things that you have been in the center of for a long period of time and your sense for the trend lines and the degree to which you have detailed knowledge on these things, whether you're capable of looking at this whole thing and going in and making a very pragmatic assessment and not an ideological assessment.

Dr. SEGER. Oh, no.

Senator RIEGLE. But there are a lot of folks roaming around today who are all free traders. You know, I called myself a free trader and you call yourself a free trader.

Dr. SEGER. I said philosophically.

Senator RIEGLE. We both have economic degrees from the University of Michigan and think ourselves as free traders and that's all well and good. The problem is we don't have a free trade system and we are caught in a system that is very different than what we would like to see or what we talk about in theory.

My concern is—and I must tell you that I want to hear more from you on this and I may ask for some of it in writing so we don't just take hour after hour here in the chair.

I think probably the single most important value you might have on the Board as a regional representative is to be able to articulate in a nonideological way, in a practical, pragmatic, real world way what is happening in the industrial base that is posing some real jeopardy to the future of this country and to be able to talk about it, talk about it convincingly with a level of firsthand knowledge and so forth that could really be of service to the country and to the other Board members who would say, now she's telling us things we didn't know; she's explaining the nature of this problem in a way we haven't heard before and so help the Federal Reserve Board get to some monetary policy decisions that don't make our problems worse or at least take into account our problems before the interest rate and monetary policy decisions in effect are made.

Not that the Fed sets interest rates, but certainly its policies have a lot to do with it. So that is a thing that's important and what I'm concerned about partly here is that I think there is a tendency—you worked for General Motors. You have not worked for the other companies. You have not worked for Ford, or Chrysler, or AMC, and so forth, so you have seen the example of the big strong, powerful company with the larger financial resources as you were pointing out.

I look through their window but I look through the windows of others as well and try to add it all up into the industry as a whole. And I am concerned here that, as I have listened to your answers carefully, that you may be extrapolating on the basis of a General Motors example, which is the strong kid on the block—and I'm glad we've got a good strong General Motors—but I want all the companies to be strong. And I don't want to sort of make an assumption based off the GM experience extrapolated to the other companies when in fact that would be an invalid thing to do and it would mislead, and if that were your view it might enable you, or not enable you, but cause you to have a view that would unintentionally mislead others into thinking the industry is strong, fine, everything is terrific, we are doing well.

Dr. SEGER. I never said that we were all out of the woods, not even GM.

Senator RIEGLE. The degree to which we're not out of the woods and how we describe that and the degree to which you understand that and can explain that to me is a very important qualification on your part. So much so that I would say that to the extent you really can take that knowledge into the Board—and I'm talking about in a comprehensive way—I think that would be an important addition, not just for our region or our State but for the country to have at the table.

If I thought, on the other hand, that it wasn't very comprehensive, wasn't very well thought out, wasn't very complete, and that it had big gaps in it, or that there was any kind of an ideological trend to it, or fragments of information rather than a thoroughgoing analysis, I would say to myself we can be running the risk of instead of having somebody there that can really eliminate the problem, we could be running the risk that we would have somebody there that was misportraying it in ways that could be very damaging by causing people to think that things are different than they really are and that the Fed would end up veering off on one basis of assumptions and all of a sudden we've got a lot of wreckage in the auto industry or in the industrial base that I don't want to see happen.

And I feel very strongly about it. I mean if you are confirmed you are going to be on the Board for 14 years and I've been here for 18 years and the longer I'm here the more I am of the sense that the auto industry and the industrial base is in very, very serious condition. I mean it's in very considerable jeopardy from the trade differential, some of which we can correct, some of which we can't within the industry, no matter how many hours a day Roger Smith works, or Lee Iacocca, or Phil Caldwell, or Paul Tippet, or anybody else, there are some aspects of this trade differential and this cost differential that they can't eliminate.

They need help. And that's where policy decisions come into the picture, the ones we make here, the ones made at the Board.

Dr. SEGER. May I just add one thing, just thinking of GM.

BROADER BASE THAN GM

A lot of this information on the productivity improvements was given to me by a friend of mine I've known for a long time who just left Ford's comptrollership for a different job within Ford. As comptroller, he was working with these costs number, and so I have also heard from him and from Ford's economists. Also, I talked—not in the last few weeks—but I have talked with Steve Miller, who, I believe, is the chief financial officer of Chrysler.

I did work with GM, you're right, for 2 years, but the things I'm hearing do come from a little broader base.

Senator RIEGLE. Good.

What I tend to find is a lot of people who may generalize observations about the auto industry will oftentimes key off the strongest player and sort of make extrapolations, which is really way off the mark in terms of the health of the industry as a whole.

Did you take a position in the early days on the Chrysler loan guarantee legislation? I know you helped implement it down the line, but did you ever take a position on it?

Dr. SEGER. I was never involved in it. You people put the finishing touches on it. All of a sudden Chrysler found no banks would clear their drafts, so they came to me.

Senator RIEGLE. Did you have an opinion at that time that that was being discussed? Did you think there was a justification for Federal intervention or did that kind of cut against your free market views?

Dr. SEGER. As I said, you can't handle things strictly on a philosophical basis, we both sat here and agreed to that over and over again. Deep down, I thought you shouldn't have bailouts, but then again I looked out the window and saw the problems in Michigan and the importance of Chrysler; I think at the time they were the major taxpayer in the city of Detroit and the major taxpayer in Michigan. So I understood how you get decisions—political decisions—made, which is what that was, and I said I backed it up by chartering a bank.

You can check with Steve Miller on this.

Senator RIEGLE. Would it be fair for me to conclude then that back at the time that this was being debated and before the legislation passed that when the dimensions of the problem were laid out and being debated that, although you would not have made any public statements or taken a public position and despite the fact you consider yourself a free market person, is it fair to say you reached a private judgment that the Chrysler legislation was justified and should be passed?

Dr. SEGER. I understood, as I said, how as a policy matter the decision came down on the side of saving it because, as we were talking about the other day with regard to banks, the facts are that a big institution, whether it's a school, or a bank, or a company——

Senator RIEGLE. You thought it was the right thing to do then?

Dr. SEGER. Yes. That's what I'm saying.

Senator RIEGLE. So, in your own mind then you are able to reach the judgment that this was one instance where Federal intervention was justified?

Dr. SEGER. At that time and, given the severity of the situation and looking at what the impact would have been if it had just gone belly up, as they say, it may not be the ideal solution, but it had to be done.

Senator RIEGLE. And you finally became convinced that you not only felt that but you were comfortable with that decision?

Dr. SEGER. As I said, I backed it up, because if they hadn't had that bank, the whole thing would have come unraveled, because they couldn't finance their new——

Senator RIEGLE. I don't want you to feel like you have to be apologetic or you're going to lose your credentials in the economics community because after all it did work and it worked quite nicely.

Dr. SEGER. I know that.

Senator RIEGLE. And I think it was a victory of realism and intelligence over ideology or rigidity of people who just couldn't bring themselves to think in practical terms. There are some people even today, even though it was done, done successfully, and the Government made a lot of money, avoided a lot of losses and so forth, the Government is now out of the act and everything is paid back, who still think it was a terrible thing to do, who are still pained by it, who can still get very exercised because they are ideologs, of which we have too many I think in Washington.

Dr. SEGER. I think, as we talked back and forth before, it's one thing to solve the problem on the blackboard for the freshmen sitting before you, with all the complications of the real world removed, and it's another to be out there where you are responsible for results. You can start with the ideal world and say this and this would result if we did and this and this if we don't; but then you start factoring in other considerations and I think that's how the ultimate judgment is made.

Senator RIEGLE. Well, now, going back to the Federal Reserve Board and the problems of the auto industry, if you are on the Board and next year rolls around and the import limits come off, which is what has been suggested by Ambassador Brock.

Let's say the Reagan administration is reelected—I hope it isn't—but if it is and a team is in place and this issue comes up and the decision is made to take them off, it's time to compete, let's see how we can do. The industry has had a pretty good time and so forth, and let's say what happens is that the foreign penetration really jumps way up and it goes up to 30 percent—the Japanese share to 35, 40 percent and it's just really rising sharply in a relatively short space of time and you can see it, you know, month by month and as they increase their capacity to ship cars over and so forth, it goes up, what would you be inclined to do then? What would you be saying to your colleagues around the Fed Board table about this?

And I ask the question in the sense of your notion about how important is this industry and how important is the industrial base as it relates to aggregate income, value added, jobs provided, tax revenue, just overall economic and financial health of the country.

If you saw that starting to happen, what would be your response to it on the Board?

NEED OF A COORDINATED EFFORT

Dr. SEGER. First of all, getting back to some of the comments I made yesterday, to get good policy in Washington, I think what we need is more people speaking to each other, more coordination, I would think using your numbers, if all of a sudden it went to 23, 27, 30, 35, at some point you would bring together the various actors.

We are talking about the health care question, the interest rates, the value of the currency, and I would think at that point maybe Congress would have hearings. I am new to this place—relatively new—and so in some way I think you look at the whole problem, involve the people who are the various players in a solution to the problem, and then you get going on a solution.

I don't feel the Fed, sitting over on Constitution Avenue could singlehandedly adjust monetary policy to deal with this. It has to be a coordinated effort.

I would certainly be very willing to speak to the fact I think one out of five people in this country are employed in some aspect of the automotive business. As I said earlier, in places like Michigan, the city of Detroit, Chrysler used to be the largest single taxpayer.

I could certainly make those kinds of arguments. But I still say I don't think I'm the only one who would indicate that you can't have a person or an agency take this on, that you have to get all the actors—Congress, everybody involved.

Senator RIEGLE. Let's say we found ourselves next year—late next year—and you're on the Board and we found ourselves in a situation where the import limits have come off and the Japanese imports were really coming here at a fast rate, market shares shooting up and so forth and we got the same kind of item in the Wall Street Journal that we got today.

Dr. SEGER. You're talking about the M1 item?

Senator RIEGLE. Where it says the money supply rose $3 billion—and this is the important part—increasing speculation that the Fed soon will tighten its credit grip in an attempt to slow economic expansion and keep a lid on inflation.

Now, if you were there and the largest sort of macroeconomic requirements were such that the conversation was going around the table and people saying, man, we'd better, you know, we got a real problem here. We'd better tighten up and raise interest rates, they're going to have to be driven higher. You know, you don't like it, but we got other problems to deal with here, so we may have to tighten and it may mean that interest rates go higher.

And I'm wondering when you are sitting there thinking about this new problem that's developing in the auto industry, in the hypothetical I'm talking and the importance of interest rates, the damage that high interest rates would do to the auto industry, and especially the smaller companies, I'm wondering if at a point you would speak up and say, well, I understand the arguments for why people here think we may need to tighten for the following reasons.

And the result of that may be we see higher interest rates, but I have to tell you I'm so concerned about what's going on the industrial base right now that these other factors and the jeopardy that the auto industry now finds itself in, that I think we'd better really weigh very seriously the impact on the margin of an increase in interest rates on a big industry that's connected to one out of five jobs in the country, that happen to be in trouble right now, and I'm not sure that I can necessarily sort of weigh this out on a scale in such a way that I can support the idea of moving to higher interest rates right now because I think we might get a lot of damage over here that hasn't been cranked in and I'm not sure that that's good for the country.

Could I expect, if you were there, that you would be playing that kind of role?

Dr. SEGER. First of all, if I survive this shakedown cruise and get on, I think what I would like to do is get rid of the weekly release of the M1 figures because, as I indicated yesterday and the day before, I think they are way overemphasized in terms of importance and as a clue as to what the Fed is going to do next. Let me just lead off with that.

CATASTROPHIC IF INTEREST RATES GO THROUGH THE ROOF

In terms of speaking knowledgeably now about the Midwest or the problems in the auto industry, I would certainly hope to do that and to remind people, using your set of assumptions about how severe the situation is, how catastrophic it would be if interest rates went through the roof.

That could certainly be articulated.

The CHAIRMAN. Senator Boschwitz.

Dr. SEGER. He's just holding my arm.

The CHAIRMAN. You have noticed we have a visitor.

Senator RIEGLE. He wants to sell you a plywood splint. That's what's going on there.

Dr. SEGER. He thought I had been beaten up so badly here that that's how I got it. I assured him I fell on the kitchen floor.

Senator RIEGLE. I want to be able to say to him that you came to the committee room with that. I figured you got that at the White House, down at the Treasury Department.

Dr. SEGER. No, I fell on the kitchen floor.

The CHAIRMAN. I really question his judgment. The Senate is out of session and I don't know what he's still doing around here. When I don't have to be here I leave. I spend enough of my life here, particularly this last week. All of us have been here about 18 hours a day.

But other than questioning his judgment, I have great admiration for him.

Senator BOSCHWITZ. Are you talking about me, Mr. Chairman?

The CHAIRMAN. If the shoe fits, yes.

Let me just make an announcement. Then Senator Boschwitz would like to make some comments and, although he is not a member of the committee, we are very happy to have him drop in as always. He is always welcome to visit the Banking Committee.

I apologize for the discussion with Senator Riegle I had. We were not trying to be evasive, but trying to arrange the schedule because each of us has had to readjust our schedules this week.

I had a particular problem that I cannot avoid. The annual Utah State Republican Convention starts this afternoon and I obviously am not going to be there for the opening session, but I must catch an airplane this afternoon so that I can be there tomorrow. There are a lot of things that I can't avoid, but as Senator Riegle can't avoid missing Democratic meetings in Michigan I can't miss Republican meetings in Utah.

So Senator Riegle informs me that he feels that his additional questioning will take about 1 hour, but also feels it might be better if we took a lunch break and then he would return and if that is acceptable procedure to you, give you a chance to do whatever you do to rest your arm in between. But after Senator Boschwitz 'comments we would recess for 1 hour and then Senator Riegle feels an additional hour after that would complete his questioning and we know of no other request for time. There will also be questions for you in writing.

I have discussed, but not yet been able to clear it with Senator Proxmire. Senator Riegle has no objection to holding a markup next Thursday on your nomination, so that is the procedure that Senator Riegle and I have discussed and if that meets your time schedule——

Senator RIEGLE. Mr. Chairman, might I add one thing at this point. I suggested that also with your interests and mine in the sense that I know after you have been seated at the witness table for a lengthy period of time it's nice to be able to get up and sort of take a little break.

If, however, because of your plane connection or anything else you would rather just sort of go straight on through, I would also be willing to do that. I just thought it might be better if we——

Dr. SEGER. I can go straight on through if you just give me a 5-minute break.

Senator RIEGLE. Would that be your preference? What are your plane travel circumstances?

Dr. SEGER. At the moment I've got a reservation on the 3:15 Northwest flight back to Detroit. I can certainly try to get on something else. Also, if I'm going to be given the written questions today, then I ought to hang around a little while over at the Fed to see what information I might have to gather.

The CHAIRMAN. Well, the Senator is simply giving you a choice, so whichever you would like to do.

Dr. SEGER. I'm going to be given the written questions today so I can work on them over the weekend. If I'm not, then I guess——

Senator RIEGLE. You'll get mine today, although I don't know that they'll be ready before 5 or 6 o'clock. They may have to be phoned to you.

What we may do, for example, is, you know, Senator Cranston specifically has some. I don't know whether we have his in hand on this side of the aisle.

The CHAIRMAN. I would not expect it would be possible to get all the questions before——

Dr. SEGER. Then I'll just count on coming back and working on them on Monday.

Senator RIEGLE. I don't know that you need to do that unless you want to. What often happens I think in a case like that is the questions are given to the majority counsel and then he can presumably be in touch with you by phone or however you want to do it to let you know what the questions are so that it isn't a matter of you having to make a trip just to get some questions.

The CHAIRMAN. If we could proceed on this basis then after Senator Boschwitz' comments or questions we would recess long enough for the trip down the hall, come back and complete your testimony with Senator Riegle.

Senator RIEGLE. That's fine with me.

The CHAIRMAN. Then we will have the staff get to you as soon as possible by telecopier, or whatever, so you can work on the questions over the weekend, either this afternoon or the first thing in the morning. I'm sure we can arrange that.

Dr. SEGER. OK.

The CHAIRMAN. I'm sure Senator Riegle has a telecopier in his office or some means of getting——

Senator RIEGLE. Whatever is the normal way. I know what happens all the time is that questions are gotten to witnesses who are at a distance and so I'm sure that can be accomplished here.

[No additional written questions were submitted for the record.]

The CHAIRMAN. Thank you. I appreciate both of you being so accommodating, and I do apologize for having to leave, but I know of no way that I can avoid the Republican Convention, as the senior Republican Senator in Utah.

Senator RIEGLE. May I also say, Mr. Chairman, before you go, I want to compliment you on the manner in which you have conducted these hearings and accommodated the requirements on our side of the aisle, both mine and other people, and I am very appreciative of that, and I think it's very much in the workstyle you and I have enjoyed over a long period of time.

So have a safe trip, rouse the faithful, as I know you will, in Utah, and know that things are in safe hands here and come back safely on Monday.

The CHAIRMAN. Thank you. Senator Boschwitz.

STATEMENT OF SENATOR BOSCHWITZ

Senator BOSCHWITZ. Thank you, Mr. Chairman. I too will wish you a pleasant trip to the faithful, as Senator Riegle speaks of them in Utah, and I am sure they will be pleased to see you, and I am pleased to see this very qualified candidate, Dr. Seger, before us today.

And as I spoke to her just moments ago, I encouraged her to be patient with the committee, and that sometimes in election years, the questioning goes on for quite sometime—and even in nonelection years, it sometimes goes on for quite sometime. I think it is a reflection of the importance in which we hold the Federal Reserve Board, and it's also, I think, a reflection of what happens during the elective period.

EMINENTLY QUALIFIED

I have listened to you during Senator Riegle's questioning, but I have no questions. Although I am not a member of the committee, I am quite sure, along with the courtesies extended me now by the chairman, that questions would be in order, but from all I have read and all the background material that I have seen, you are eminently qualified for the Federal Reserve.

I know that some members of the Federal Reserve have come from Minnesota and certainly your qualifications are as high as those that I have seen of other nominees from our part of the country. I am sure that Senator Riegle is proud that a Michiganer will come to the Federal Reserve with the thought in mind of the needs for the State of Michigan.

So I welcome you here to the Senate and ask you to be patient with us and, hopefully, the nomination will be acted on quickly.

Mr. Chairman, do you expect that we will be able to act upon this nomination before the recess?

The CHAIRMAN. No, I would not expect that that would be possible, if we hold the markup on Thursday.

Senator BOSCHWITZ. Oh, your regular business meeting?

The CHAIRMAN. Well, we're attempting to schedule it. We have to get the written questions, the report has to be written and held on Thursday. There may be a 3-day layover period, with the debt ceiling having to be passed by Friday of next week.

I wish that were possible, but I would frankly doubt if we would be able to have it up for consideration until after the July recess.

Senator BOSCHWITZ. In the closing minutes of a session many things are done rather quickly, so perhaps, Madam, it probably will not be much of a disadvantage to be in Washington during the month of July.

Senator RIEGLE. August is even worse.

Senator BOSCHWITZ. That's right. Perhaps with good luck we can hold up your nomination through August as well, but we welcome you to the Senate, and we are just pleased to have a nominee with your qualifications and your background in the banking business. It's not always the case that we talk to nominees who have so much experience in the field in which they are nominated.

So I just wanted to come here as a show of support from the nonmembers of the Banking Committee, particularly myself, and wish you a full term, because one of the things I have noted about the Federal Reserve Governors, is that they turn over very rapidly, and just as they're getting to know where the levers are and what the procedure is, I, at least, found when I came to the Government, it took me some time. I had no previous Government experience as you have had, on the other hand. It just seems as they, particularly the business members to be getting involved in the process, they leave, because the Government operates slowly. It is a little bit frustrating, and so forth, so I hope that not only are you speedily confirmed, but that you stay the full length of your term. I think in that way we will be assured that you will meaningfully participate and make a meaningful contribution to the Federal Reserve and the Nation as a whole.

I thank you, Mr. Chairman, for allowing me this opportunity. I was pleased to be able to listen to the nominee, and I wish her rapid confirmation.

The CHAIRMAN. Thank you very much, Senator, and the committee will stand in recess for an appropriate time.

Senator RIEGLE. Why don't we reconvene about 10 minutes to 1?

The CHAIRMAN. Reconvene at 50 minutes past 12.

Thank you much for your patience.

Dr. SEGER. Thank you. Have a good trip.

[Recess.]

AFTERNOON SESSION

Senator RIEGLE. I'm going to just finish off on the automotive thing because we spent a lot of time on it and it's a very important subject.

Dr. SEGER. And, again, I agree.

Senator RIEGLE. And I just wanted to make sure too that, assuming you are confirmed to this seat, I think on issues of this kind the kind of communication that you speak about is important to have and so I would hope from time to time in the normal course of events we might even speak about these issues.

DETROIT PEOPLE WILL INFORM ON ISSUES

Dr. SEGER. Sir, I would like to buy you lunch also. Having lived in Detroit straight through since 1967, I'm sure that the people I know will be ringing my bell, so to speak, to make sure that—if I'm not following events there on my own—they keep me informed.

Senator RIEGLE. I appreciate that suggestion and especially I think it is important as long as this regional representation issue is a really fundamental issue and it's not easy to stay up to speed on regional issues when you are here and absorbed in the whole range of issues in terms of the international financial difficulties, the consumer responsibilities, and so forth and so on.

But those are critical inputs and I just want to finish by making an observation on the auto industry that undergirds why the price earnings ratios are so low at the present time. And that is that the industry is beset with a whole host of problems.

I'm not going to take the time to talk through each one today. We spent some time on exchange rates and foreign competition and some on interest rates, some on just what the business cycle itself will do with the auto industry and especially if we get socked in after having been socked so hard in a relatively short space of time.

Obviously the question of labor management relations and the improvements some of which have been made and more of which need to be made on the whole question of productivity. All of these things fit into this puzzle here in such a way that to really have a sense for the dynamics of the industry takes effort and the industry in my view, if the import limitations come off, the industry is going to face very, very tough sledding and it's going to get tough in a hurry unless the Japanese voluntarily hold off.

There is no guarantee that they necessarily will. But if the Japanese market share starts to rise sharply, we're in for horrendous difficulties. It's going to hit the companies differently and so you can't just look through the window of one company. You've got to look at all of them.

Dr. SEGER. May I just make a comment about the question of looking at more than GM. Among my personal acquaintances, actually my best friend, is a board member of AMC. I have gone to school and continued a friendship with a fellow who just switched from comptroller at Ford to another job there. I think I have a lot of people available, so that I don't have to just read some little from "Ward's Automotive Report" or the "Survey of Current Business." As I said, these people know me well enough that they wouldn't hesitate to ring my bell. Also, if I needed information—because it is a very complex industry as we both know—and if I felt that being away for a while, I hadn't seen, let's say, some of the recent numbers on cost competitiveness, I wouldn't hesitate at all to call the people who are our friends; and I can get through to them.

It isn't like just having to go to a PR guy or industry relations fellow. Information is very important to keep on top of these things.

Senator RIEGLE. Well, let me just say something to you along that line and that can be very valuable. But just ponder this, you know, on your way home today and that is when you put the future problems of the industry at about a 5 on a 10 scale, if you talk to the heads of these other companies today other than GM, in private conversations they put that number much closer to the 10 level—an 8 or 9—and including the companies that you mentioned, so I'm not sure that——

Dr. SEGER. I haven't called them up and asked them the question you just asked me.

Senator RIEGLE. Well, maybe you should do that. And they may be so busy with their own problems they haven't thought to call you. But I think you're going to have an affirmative obligation, not just wait for somebody to come and pull your chain to find out.

What I'm saying to you is one of the things that concerns me is I think your level of apprehension isn't what it should be. I'm not saying that in any kind of harsh way, so don't misunderstand me.

I'm saying the financial markets are sending off a very different signal so there is a difference between how the financial markets in the aggregate see it and how you see it. There's a difference between how the auto people that I'm talking to privately at the tops of these companies, with the exception of GM, see it, and that's a variance with how you see it.

So one of the first things I say is, why is there this gap?

Dr. SEGER. I haven't talked to the very top bananas. I indicated to you the level of my friendships.

Senator RIEGLE. Maybe it's not just a question of talking to top bananas. Maybe you're not getting good information because of who you are talking to.

I was just saying to you that the level of apprehension is far higher than that.

Leaving the auto companies aside, you're a free market person, I'm a free market person. The Wall Street Journal has got a big message for you today. If you don't see it then there's maybe a blind spot that you need to deal with. That is, the markets are capitalizing GM at four times earnings and Ford and Chrysler at three. They are telling you something. They are not screaming it in your face but they are if you take a look at those numbers or think about it.

MARKETS DON'T THINK IT WILL LAST

They are telling you that there are some big problems out there and they are not willing to value these earnings very highly because they don't think it will last. So either the market is wrong or it's right. If it's right, whatever is causing this apprehension is something that you do have an obligation to think about long and hard.

This requires more than thinking on your feet and getting the questions right. I think you now carry a permanent obligation to figure out what the market is saying. I'm not expecting you to be an expert per se on the auto industry, but I think you now have to become one because of this regional responsibility in a way in which you can stand up and answer that question in sort of a 35-minute presentation that you might give to a national group and say, look, this is what the markets are saying and this is what I think they are saying. I either agree or I disagree. But I think you have to be able now to develop that level of insight and knowledge and present it. That's how I see it. So I'd just ask you to reflect on that. I'm just offering that as an observation to you.

Let us move ahead here. I want to go next to the Continental Bank situation.

We've seen an unprecedented bailout effort made in the case of Continental. In other words, we've stepped outside the rule of the game we've been applying to other banks, smaller banks and so forth, with an ironclad sort of Federal guarantee, a guarantee of the full size of the deposits above $100,000 and so forth.

It's set off all kinds of questions about fairness, equity, and double standards, and what have you. The reason that's been given for this emergency action, this $7.5 billion bailout which still has not been fully accomplished as you know, was that the international financial system was really in jeopardy of collapse.

If there is any hesitation at all about going in and shoring up this situation and sort of locking it in place, do you agree that this situation was that important and the overall level of vulnerability was such that that's an accurate reading of the situation and therefore this kind of step had to be taken?

Dr. SEGER. I don't have any confidential information from Continental. I've never been provided that.

Senator RIEGLE. I'm asking really your professional judgment as an observer, an economist, and as a potential Fed Board Member.

Dr. SEGER. I understand that. But I didn't have a confidential report dropped in front of me on the shape of Continental the day before; that might give me a different insight than what I have just as a professor who is observing things in general and also who hasn't seen this kind of information.

My sense, from reading the New York Times day by day, blow by blow accounts of how the pressure built, the scariness, the so-called run, is that you didn't see people out in the street like we had in Detroit in 1933. Now you don't need to; you can have a run just by using a wire transfer, and that's what's happening. CD's were not being rolled over. They were very dependent on that; more than 50 percent of their total source of funds, the so-called hot money was from CD's.

Senator RIEGLE. I'm just going to stop and ask you two specific questions because I want you to make your plane, and I want to move to a lot of things.

Was this special intervention justified in your opinion and necessary? No. 2, was it for the reason that there was some potential of a ripple effect to an international financial collapse, which was widely said at the time by the people who made the decision? That's really the two questions.

Your judgment about that. Was it necessary? Did it need to be done? And is that the reason it needed to be done?

CONTINENTAL WAS VERY VULNERABLE

Dr. SEGER. What I'm developing is the case that it apparently was necessary, because of this tremendous run via wire transfer on the Continental Bank. They had a tremendous number of dollars placed in that bank by foreign banks, Japanese banks, German banks. They were very vulnerable.

As you get a question of confidence being raised, these people who are the big shooters, the real professional fund managers all talk to each other, and as soon as there is a question about the integrity or the health of a bank, the word spreads like wildfire. When a bank in Japan or a couple of banks start to have questions about the safety of their funds because they are way over the $100,000 cutoff, this is no doubt about it; their reaction is to start pulling these dollars out.

As I said, that spread. That led to a liquidity crisis, and that's what I'm pointing to as a justification for having some special attention given to the Continental Illinois incident.

In terms of the Federal Reserve involvement, it was basically working as a lender of last resort. It is well established for central banks to enter this kind of a situation where there is a tremendous liquidity problem, where the individual institution cannot have been expected to supply that much liquidity in house. We expect institutions to have liquidity for reasonable deposit outflow, but you don't expect them to be self-insured against catastrophe.

The fact that Continental was able to go in and borrow at the Federal Reserve discount window, from the lender of last resort, that has happened before for big banks and even smaller banks.

Senator RIEGLE. Let me stop you here.

We are going to need to rest of the afternoon if we can't really get to the question that I'm asking and maybe we'll have to do that, because we can go to that longer explanation next if we really need to have that.

But what I'd like to start with is a judgmental answer and then the reasoning for the answer, if it looks like we need it.

Dr. SEGER. My judgmental answer was that Continental Bank had to be——

Senator RIEGLE. The intervention had to take place in your view. You're convinced that there was a need for the intervention. The answer to that is, yes.

Dr. SEGER. There was a liquidity crisis.

Senator RIEGLE. And there was the need for the kind of intervention we saw; right?

Now, the next question is was the intervention required because had it not taken place we might have seen any kind of a broader run on the financial system or on other banks with problems and the possibility of what has been generally described in the press as the threat of the potential of some kind of an international financial collapse?

Dr. SEGER. I think there definitely was a "potential," in quotes, because the whole confidence matter is so important to financial institutions. If you were to have gotten a major failure such as Continental going under, then it would have been in my judgment, a repeat or partial repeat of what we saw back in 1933, if there hadn't been intervention—where the big depositors of other banks would have seen the problems at Continental and then they would have started pulling their funds out of the other banks and other banks would have got in trouble. They would have had a liquidity crisis. They would have had to have been helped out. You get a chain reaction through the domestic economy, ultimately worldwide.

Senator RIEGLE. So, we really, in your mind, were at the point of that kind of risk. In other words there was the potential for that to happen and that that potential was real enough that in your mind that justified the intervention?

Dr. SEGER. In my judgment, yes, sir.

Senator RIEGLE. Now, that's important because that it seems to me also then becomes a statement of how fragile things are.

If the potential of this bank going down in turn created genuine concern that could have set off a chain reaction, if had not otherwise been managed, which is what in effect you've just said, then, to step back a step, that then poses another question, and that is, what is the overall state of things? In other words, what kind of precarious situation are we in if one event, like Continental Illinois, suddenly comes bang, right into the center of the radar screen and that were to go down and set off this chain reaction?

It seems to me that is a statement about what is the overall set of conditions that we're operating in right now. What is the nature of the international financial system? It's soundness? The degree to which credit relationships are overextended? The interconnection of all of the different bits and pieces?

I take it then that you acknowledge that the international financial situation is fragile enough at this point that an event like the Continental Illinois is something that could really sort of knock the whole thing haywire?

Dr. SEGER. The domestic financial system has problems. The worldwide financial system has problems, but I would just suggest that if an institution the size of Continental, the seventh or eighth—I've seen both numbers used—largest in this country, if it had had a liquidity crunch to the extent that it did have, and it had been in 1974 rather than 1984, that even then, in conditions that in general were a little less—to use your term—"fragile," than they are today, that kind of a bank in difficulties would have had a tremendous impact—even had it been 1964. My point is, a big glob makes a much bigger splash than a small glob does.

Senator RIEGLE. I agree. Is it also fair to say, however, that today it's just not Continental Illinois in isolation. It's that plus the debts of the less-developed countries. A whole pattern of events taken together that create a much higher sense of apprehension.

LIQUIDITY CRISIS

Dr. SEGER. There are two different points here, and I may not be distinguishing them well enough. What I am saying is—and this was proven, by the way, in Michigan in the 1930's—that when you get a liquidity crisis, started by the failure of one problem bank of lack of confidence or some other event, the crisis often leads to attacks on banks that are very sound. As the news spreads and depositors grow nervous over the safety of their funds, heavy withdrawals can lead to failures of those sound ones. Of course, we didn't have deposit insurance at all in 1933, at the time of our crisis in Michigan, the so-called Bank Holiday.

Nevertheless, even though we do now have insurance up to $100,000 per account, the people above that level are obviously at risk for those dollars. To the extent that there is a question on one bank, if that shakes the confidence in others, then you can have runs on other banks that are perfectly good, sound, healthy banks. This liquidity crisis, that happened in the 1930's could happen today.

Senator RIEGLE. But you see this gets to a very subtle point and it's a subtle distinction that's come up two or three other times. It's the whole question of certain market expectations, market psychology and whether that's a rational reading of events, and whether things really aren't all that bad. But yet you can have a crisis because people sort of do irrational things and don't really look carefully enough at reality. So that can enable a person to kind of go down two roads at once on the same issue, and in a sense really not say anything.

I guess my concern here is, you know, it's one thing if the market sort of panics and stampedes and goes out and we have a collapse, because there really is no problem but everybody thinks there's a problem.

Dr. SEGER. I didn't say there were no problems.

Senator RIEGLE. I know you didn't, but I want to make it clear, so it's clear exactly what I'm asking and what you're saying. So that we know because others are going to read this record and that is, is this a situation where everything is basically pretty sound and pretty squared away and you just get a random event and it sets off a lot of panic. People go out and react to the panic and suddenly, you know, you could have a collapse going on that wasn't really based on anything more than just people sort of misreading the situation or are we finding now, in the case of Continental Illinois, that Continental Illinois is not an isolated event. It's part of a large pattern of financial difficulties that are looming all around the globe and that everybody is very nervous about it. So much so, that the President just met with the heads of government of the Western European countries to talk about it. And so that in fact the whole situation is in some perilous condition out there right now.

So that Continental Illinois coming along as one more event on the margin was in the context of this larger picture about which there is great apprehension. One of the reasons why real interest rates today are higher than they've been in a long, long time.

So it's important for you to give a clear sense as to whether the background factors really are something that rational thoughtful people should be alarmed about and if that's the context in which Continental Illinois is taking place or whether in your view the market is really sort of behaving in an irrational way and that things behind it all are really pretty solid, pretty squared away and there's really not that much cause for alarm and that if we sort of had a collapse it would be all by accident because everybody sort of just really didn't know what they were doing.

Dr. SEGER. You misread my comments, sir, or misheard them.

What I'm saying is that when you get to a liquidity crisis involving a bank the size of Continental, that it is important to deal with that size problem at any time; if you don't, then the failure of a bank that size could trigger other failures, even if the other banks are absolutely 101 percent healthy specimens. That's all I'm saying.

Senator RIEGLE. Yes.

Dr. SEGER. I got very worried about financial institutions at the State level when I was dealing daily with very confidential and specific numbers about the health of individual banks. In 1982 I was biting my nails. I know you don't think I do that, but I was. And to me it was very, very scary.

Senator RIEGLE. But you're not biting your nails today.

Dr. SEGER. I think we've made some progress. I'm not a Pollyanna.

Senator RIEGLE. They've changed to enough of a degree to when you were really alarmed and biting your nails 2 years ago, you're not really alarmed and you're not biting your nails today.

Dr. SEGER. I'm not spastic about them, because, as I said, we've gone from my panic point to grave concern. I'm not biting my nails. I'm paying attention. Getting back to the financial markets, they have a marvelous propensity for extreme behavior. They're either hysterically optimistic or hysterically pessimistic, with very few stops in between.

When I was a banker I dealt with these people all the time, and I'm not saying that that's wrong, but I'm just indicating that they often get on either side of the extremes of the range, and absolutely it is a problem. The Continental situation would have had to have been dealt with, in my humble opinion, even if every other bank in the United States and every other bank in Europe had been sound, because it could have spread.

Senator RIEGLE. In the last 20 years, have you seen any other instance like the Continental Illinois instance where the Federal Government has responded this way? I'm talking about the complete backing and complete guarantee right around the existing bank. I know of no case like this. This is one of a kind.

FRANKLIN NATIONAL BANK CASE

Dr. SEGER. Two different things. In terms of being the lender of last resort, the Federal Reserve has dealt with other cases before. Franklin National Bank in 1974, this little bank that I indicated that I had to close.

Senator RIEGLE. They fully backed the deposits above $100,000?

Dr. SEGER. That isn't the Federal Reserve.

Senator RIEGLE. I'm not talking about the Federal Reserve. I'm talking about the whole bailout.

Dr. SEGER. But there is a distinction to be made here. I'm not just trying to be picky, but they're two different things. One is the Fed opening the discount window. This was made available to this little bank below the $20 million cutoff, while we were trying to find somebody to acquire them. It wasn't on the front page of the newspapers, but the discount window was made available to help them out through this period of trauma. We eventually had to close it, but, nevertheless, that's not unusual and that's not just reserved for the biggies.

The unusual thing is to have the FDIC come in and to go above this cutoff of $100,000 per account; that was the rare thing. That's what I haven't seen before, although I've been told that they have gone in to deal with a couple of mutual savings banks in a special way.

Senator RIEGLE. I don't think in that way—I'm not familiar with any other precedent equal to this one in modern times in the last 20 years, and I gather you're not either.

Dr. SEGER. No.

Senator RIEGLE. This is unique. It stands out. Well, let's leave that point, because I want to go to others. But I think the question of whether or not that indicates that the overall economic and financial structure, world economic and financial structure is in a particular type of jeopardy right now is important. I think the Continental Illinois intervention says that it is. I think the regulators are affirmatively saying that by taking these extraordinary steps.

Without a long answer, I gather that you're not comfortable saying that, yes, you think that's true. You think something different than that is the case here.

Dr. SEGER. Again, I can't read their minds, but it is true that they've viewed this as a very severe problem. Again, they had to deal with it, and it was very important. In my judgment, that would have been the case. I'm not denying the fragility. I'm just saying that even if we weren't faced with a less than healthy overall financial system, I think when you're dealing with this sized organization, with billions of dollars deposits in it—including those of correspondent banks, school districts, counties in Illinois, and foreigners—that kind of situation would have deserved a lot of attention. I don't know if the number would have been $7 billion, I have no idea. But it would have deserved a lot of attention, even if we didn't have this bigger problem. But we do have the bigger problem, so that reinforced their judgment even more.

MIDDLE CLASS SHRINKING IN SIZE

Senator RIEGLE. I mentioned to you yesterday some data in yesterday's Wall Street Journal about the fact that the middle class is shrinking, which concerns me a great deal, and I am going to give you two sets of statistics which I mentioned to you yesterday, but I wouldn't expect that they would be fresh in your mind today, out of the Wall Street Journal article yesterday. I am going to ask unanimous consent that it be put into the record at this point in its entirety at the end of this exchange.

It says:

> Statistics from the U.S. Census Bureau show that families with annual incomes of between $15,000 and $35,000, using 1982 dollars as a base—

In other words, they're holding it constant here—

> that families in that range of from $15,000 to $35,000 made up 44 percent of all the families in the United States in 1982, but that has dropped from a figure of 53 percent, where it was in 1970.

So this band of people with those incomes adjusted for inflation and so forth has been shrinking from 53 down to 44 percent over a 12-year period.

Now some people say that if you try to define the middle class as including people from $15,000 to $35,000, that's not the right income band to pick. So if you take a different income band, which is $15,100 to $25,200, and you use that as your definition of the middle-class income level, that group also has been declining. It has gone down from 28.2 percent in 1967 down to 23.7 percent in 1982. So what we see is, we see that sort of middle-income band shrinking as a percent of the population.

I'm deeply distressed about the data, because it confirms what otherwise we're seeing in many forms in the industrial base, certainly in our State, and so forth, what are the implications of this in your mind when you see data like this from the Census Bureau that shows that the middle class is shrinking proportionately in our population? What does that say to you?

Dr. SEGER. To begin with, I had a second yesterday to take a look at the article you mentioned. Apparently the article indicates that economists who are demographers have split opinions about the meaning of this report; that was pointed out in the article. Obviously I think one of the great strengths of America has been a strong, big middle class. We both agree, it has certainly been that case in Michigan.

I think, though, if you look in detail at the numbers, the reason that the middle class has shrunk—whichever set of data you use, and I looked at it very quickly, so I didn't memorize the numbers—to that there was movement from both ends. It was shrinking because some people went out of the middle class and went into the higher end. Others fell out of the middle down to a lower range. We've had a lot of people in this country—and I say this as a working woman—who have gone from middle class to higher class incomes, because they've got two wage earners in the family.

More women are working; more than half of adult women are now working. Also they're having opportunities to work in more professional kinds of jobs, which we both know.

There has been the shrinkage for two reasons. One is people having a higher income, going out that route. Then there are the others that have gone the other way. Also, as I recall, going through it very quickly, those data are for 1982, when the recession was still on, and it was a very severe part of it. I would think, if census were to redo those numbers in 1984 and maybe eventually they will—that with people called back to work, with longer workweeks, with overtime pay, that that will help flesh that so-called middle class out a little bit from where it was in 1982. I don't know if it is going to pop back up to 53, or whatever.

Senator RIEGLE. I think the direction you're going here—I just want to tell you directly—I find troubling. Yes, there are some mitigating circumstances. Yes, you can put a good face on these numbers, and you can sort of start there.

Dr. SEGER. I didn't say there was no problem.

Senator RIEGLE. I know, but we haven't got to the problem yet. Everything I've heard you say so far has to do with sort of saying, you know, there's a good side to this problem, or if you're going to talk about the problem——

Dr. SEGER. That's not good, but it is an explanation of a part of the story of the shrinking middle class.

Senator RIEGLE. What I'd like to do is hear your thoughts about the problem part of it. That's really what I'm interested in hearing, if you think there is a problem part. Maybe, in a sense, in your mind, it's all these other factors that sort of explain it away, and basically, you end up saying this is no big deal. You're certainly entitled to have that view, if that's your view. That's what I want to understand, OK.

Dr. SEGER. On all these things I've never said there are no problems. I've just tried to be a fair analyst who looks at everything and doesn't try to hang any numerical change on one factor that may pop into my head first. I tried to get a fair assessment.

Senator RIEGLE. That's fair enough, but I want to do—what I try to do is I try to get you to your bottom line, what I understand is your bottom line, and then we can sort of back up and find out what makes up the bottom line. The way you tend to respond is that you tend to respond by providing a whole balance of factors; we may or may not get to the bottom line at the other end. So what I have had to learn how to do is, I have had to learn how to listen to the way you answer to decide qualitatively where you put the most emphasis, because those are the things you tend to talk about first; the things that you put the least emphasis on, you tend to talk about last. That's the pattern I'm getting over 4 days worth here. The way I try to structure my question to you is, if this is a real problem for the country, there are a lot of people alarmed about it, I happen to be alarmed about it, I wanted to find out, as an economist, and as a person coming out of Michigan, whether you see this as a problem that you're alarmed about.

The headline on the story and the reason it is a lead story on the Wall Street Journal of yesterday is that this is a very important national topic, that this is not just another magazine. This is the Wall Street Journal.

Dr. SEGER. Isn't the next line "Economists split over importance" or something like that?

Senator RIEGLE. Yes, it does say that. It says "Is the U.S. middle class shrinking alarmingly? Economists are split." Well, I don't have 10 economists at the table; I only have 1, and you're the one that's being nominated to the Federal Reserve System and I want to know what you think, and I don't want you just to rehash what everybody else thinks. I'm not interested in hearing that, because I'm not putting everybody else on the Federal Reserve Board. You're the only person that's going. So I'm interested in your views, and I have no problem sitting here, as long as you want and listening to you sort of playing back to me on this side, some people think this, and on this side, some people think that. What I'm really interested in is, what do you think? What is your bottom line? What is your judgment? You're not just starting out. You're at the same point on your career, in a sense, that I am, so you've got judgments that you formed over a period of time. This is an important issue. And you come out of what used to be the Nation's breadbasket, so you ought to be loaded on this issue. You ought to have some very strong opinion, in my view, and you ought to know why you have it.

So when I ask you the question, I don't think—I mean, it's not an effort to try to sort of take you into an area where I don't think you should be prepared. I mean, I think you should leap at a question like this, and I think you should have feelings about it, and I think you should have some basis for what those feelings are based on. So I'm a little surprised when I pose a question like that, because, frankly, this is a home run ball. This is what we refer to as a home run ball. Somebody who is a witness, you take an issue that presumably they ought to be right square in the center of, and you give them a chance to knock it right out of the park by giving them a wide open shot at the question and not trying to lead them to this answer or that answer, or what have you. But when you're served up a question like that, it ought to be kind of a meat and potatoes answer for you, and you don't have a judgment to express, that concerns me, because that's one of the things that presumably you can take to the Board, that the Board doesn't now have.

It goes back to this regional representational question. Coming out of a Michigan perspective, you or I or anybody else who is an economist and who deals with numbers, financial trends, circumstances, wage levels, a whole mix of factors, who doesn't have an opinion, I mean a qualified, substantive, solid opinion on this issue, then I would question whether we can make the contribution there. That's the point I'm driving at.

So I don't want a rehash of the article. I want to know what you think. I want to know what you've seen, what your sense is. I want you to take me as far as you can into whatever your own personal opinion is and what you base that on. That's what I'm looking for.

Dr. SEGER. The reason I mentioned the other material was to narrow down what I thought was the statistical size of the problem. Having said that, I am very concerned. Those specific numbers are 1982 as I recall.

UNEMPLOYMENT IS BIG PART OF THE PROBLEM

A big part of the problem of the shrinking middle class, is the trend in unemployment in the industrial heartland, smokestack America, whatever you care to call it. Many of the people who have been laid off because of the factories closing for cyclical reasons or for longer term structural reasons were ones who were firmly implanted in that middle class: steelworkers, autoworkers, other kinds of manufacturing employees, and many of those are now part of what I call the structurally unemployed. That structural unemployment does show up in various numbers, including our unemployment rate, but it also shows up in these kinds of statistics, income distribution numbers.

As I said, I am aware of it and I am concerned about it and it is one of the problems that we have to deal with as a Nation, not just in isolation, but because it's tied to this bigger problem that we've discussed before about the health of our basic industries.

[Article from the Wall Street Journal follows:]

Population Puzzle

Is the U.S. Middle Class Shrinking Alarmingly? Economists Are Split

Decline of Smokestack Firms And Rise of Service Units Seem to Spur the Trend

Effect of Two-Income Home

By VICTOR F. ZONANA
Staff Reporter of THE WALL STREET JOURNAL

JOHNSTOWN, Pa.—Until recently, Emil Farkas considered himself middle class.

A third-generation steelworker at one of Bethlehem Steel Co.'s sprawling installations here, he was making $30,000 a year when the coke oven he worked at closed in 1982.

After more than a year of unemployment and a brief stint selling vacuum cleaners door to door, Mr. Farkas recently landed a job as a clerk in a men's clothing store on Johnstown's tidy Main Street. There, the 54-year-old father of three is paid the minimum wage, $3.35 an hour.

"It's a big comedown," Mr. Farkas says. "We can't afford to go out to eat anymore. And we won't be getting a new car every two years, either."

Some economists and demographers, pointing to the plight of hundreds of thousands of displaced manufacturing workers like Mr. Farkas, say the nation's middle class is shrinking, especially in places like Johnstown. Indeed, statistics from the U.S. Census Bureau show that families with annual earnings of between $15,000 and $35,000 (using 1982 dollars as a basis) made up 44% of all families in 1982, down from 53% in 1970. Other economists insist the middle class is alive and well. They attribute any perceived decline in middle-income families to demographic factors that will turn around, rather than to broad economic changes.

Political Division

The debate has split economists along political lines. Generally, liberals accept the notion of a shrinking middle class. A leading exponent of this view is Lester C. Thurow, an economics professor at the Massachusetts Institute of Technology, who calls the phenomenon "a cause of concern for American political democracy."

Nonsense, reply more-conservative analysts. Fabian Linden, executive director of the Conference Board's Consumer Research Center, blames the statistics indicating a shrinking middle class in large part on the postwar baby boom. The young baby boomers entering the work force in recent years have swelled the ranks of low-income households, he says. As the baby boomers grow older, their incomes will rise, he says.

Prof. Thurow disputes this reasoning. "There is no reason to believe that having more older people will generate more middle-class jobs," he says. "An increase in supply doesn't lead to an increase in demand."

One demographer who claims to be above ideology, Bryant Robey, editor of American Demographics magazine, says, "There's still a middle of the road, but more and more people are off on the shoulders."

Women's Role

Mr. Robey believes that the primary cause of the income split is the trend toward more women in the work force. "Those with more education and a husband significantly boost family earnings," he says. "Those who have less education and are divorced have lower earnings," increasing the number of low-income households.

Of all the families below the Census Bureau's poverty threshold in 1982, a startling 46% were headed by women. Of all the families headed by women in 1982, more than one-third lived in poverty. Nationwide, the bureau reported an 8.1% rise in the poverty population during 1982, to 34.4 million. That increased the poverty rate to 15%, the highest such rate since 1966. The poverty threshold in 1982 for a family of four was $9,862; figures for 1983 aren't yet available.

But conservatives dispute the significance of these statistics, especially in an election year when Democrats are expected to make an issue of "fairness" in such matters. Thomas Moore, the director of domestic studies at the Hoover Institution at Stanford University, argues that poverty statistics overstate the number of poor people because researchers don't add in such noncash benefits as food stamps or Medicaid when calculating family incomes.

What Is Middle Class?

Clouding the debate is the inability of economists to settle on a definition for the middle class. People generally think of themselves as middle class unless they are paupers or millionaires. And sociologists often divide the vast middle class into upper and lower strata. But many economists use the income category of $15,000 to $35,000 a year for the middle class because $35,000 is a Census Bureau break point in calculating income distribution. (The next, and highest, break point is $50,000 and above. Families earning $50,000 or more a year climbed to 11% of the population in 1982 from 9% in 1970, using 1982 dollars as a basis.)

Another commonly used definition of the middle class is households with incomes between 75% and 125% of the median. That would bracket the middle class between $15,100 and $25,200 in 1982. By this measure, the middle class has also been declining, to about 23.7% of households in 1982 from 28.2% in 1967.

Those who consider the middle class to be declining often link the trend to the decline in smokestack industries and the rise in the service sector. "High-technology industries such as microelectronics tend to have two levels of income distributions"—high for engineers and other professionals and low for assembly workers, says Prof. Thurow. In contrast, such smokestack industries as automobiles, steel and machine tools have been "repositories of middle-class jobs," he says, "and when they shrink, the middle class shrinks with them."

People employed in producing durable goods make up 11% of the work force today, down from 13% a decade ago. Meanwhile, the services sector, characterized by uneven income distribution, has been gaining. An example is the fast-growing medical industry, which includes brain surgeons as well as orderlies. Another is the fast-food industry, with a handful of well-paid executives and legions of minimum-wage hamburger flippers.

"For services as a whole, the most important observation is that there tends to be a concentration of employment in better-than-average and poorer-than-average jobs," says Thomas M. Stanback Jr. in his book "Services: The New Economy."

Some who subscribe to the view that the middle class is shrinking predict certain consequences. Candee Harris, a Brookings Institution research analyst, says the trend will spur low-income workers, such as secretaries, to unionize. She fears that increasing competition for high-paying jobs will lead to "more conflicts in the lower economic strata." As evidence, she cites the violence that occurred last year when Greyhound Corp. tried to replace striking drivers with newly hired workers.

Johnstown, where a forerunner of the Bessemer steelmaking process was developed in 1858, has long been a magnet for succeeding generations of German, Welsh, Slavic and southern European immigrants with middle-class aspirations. In the last century, the city has weathered three catastrophic floods; now, it is struggling to overcome the woes of its steel and coal industries.

Local employment in those fields has plunged to 12,000 from about 40,000 in the early 1950s, says Bill Findley, a labor-market analyst with the state's Bureau of Employment Security. "Johnstown is in step with the nation's transition from a goods-producing economy to a service-producing economy," he says.

Job growth is concentrated in such low-wage fields as health care, retailing and food service. "We're talking about jobs that pay anything from the minimum wage to $5 or $6 an hour, with few or any benefits," Mr. Findley says. In contrast, the average wage in Johnstown's metals industry is $10.58 an hour.

As a result, thousands of unemployed Bethlehem and U.S. Steel Corp. workers here face the prospect of a permanently diminished standard of living. "There are jobs starting to pop up, but the wages and benefits are so skimpy that you've got to wonder whether this is really a recovery," says a 30-year-old unemployed riveter who doesn't want his name used because he is embarrassed by his plight. "There's a difference between getting a job and making a living," he adds. He made $11 an hour at a Bethlehem plant.

His complaint is heard often by counselors at Mainstream Access Inc., a firm here that teaches job-hunting skills to laid-off workers. "We get a lot of people who say, 'That job isn't worth my while; it only pays $5 an hour,'" says Ann Horner, a counselor. "They usually come back in a month or two and say, 'Well, I'll consider it.'"

"The polarization here is alarming," says William Pilder, managing partner of Mainstream Access. Johnstown is being split into two camps: relatively well off retirees, whose savings and pensions allow them to enjoy a high standard of living here, and "a growing number of very poor people who don't want to leave the area and aren't well employed," Mr. Pilder says. He says a similar phenomenon is occurring in other old industrial towns such as Akron, Ohio, and Gary, Ind.

Polarization is also occurring in major urban centers such as New York and San Francisco as the middle class is forced out by the high costs of housing. In San Francisco, Rick and Jean Williams, for example, own a $150,000 home in a formerly working class neighborhood. They can afford the neighborhood with their combined income of over $50,000. He is a research attorney for the California Court of Appeals and she is a saleswoman at Macy's.

While people like the Williamses are propelled above the middle class by their two incomes, some working-class families are propelled into the middle class when the woman goes to work. It all goes to show that "it's very difficult to draw sweeping conclusions on the fate of the middle class from the data we have," says Gordon Green, a Census Bureau demographer.

Senator RIEGLE. Do you know what the merchandise trade deficit is running at on an annual level basis at the present time?

Dr. SEGER. A little over $100 billion.

Senator RIEGLE. It's about $130 billion based on the most recent data. We're on sort of an exponential curve here so we're up. The first estimate was that we might break $100 and the next estimate was that we might break $120. Then the next estimate was we might break $130. Now the talk is, based on last month's numbers, we're running at about $135 billion level.

In other words, it's changing so fast that even an economist like yourself who pays attention to these things——

Dr. SEGER. I'm sorry. I hadn't taken just 1 month and multiplied it by 12.

Senator RIEGLE. Yes, but the most relevant information normally, unless you've got some reason to think that the most recent month is an aberration if you're on a sharply rising trend curve, the most recent month probably tells you a lot more than the month 4 months ago, especially if they all show this number sort of breaking out and going higher and higher. And I can just tell you that the serious economists in this town are concerned about it.

They are very concerned. They're more concerned today than they were 3 months ago and stories are being written about that. I don't know if you've been reading those stories or not but there is a genuine sense of alarm about the size of the merchandise trade deficit and how rapidly it's increasing and no one knows quite what to make of it because we've never been there before.

This is a whole new kind of problem for the United States in terms of this scale of problem. So now we are finding roughly $135 billion. If we stay at this level for a 12-month cycle here, leaving the country, I mean, it's like equity going out. Some of it comes back in the form of loans which is of course debt rather than equity and we are finding ourselves not just losing the value added in this economy, so it's not just the sum total of the $130 billion.

It's the stream of what that money would otherwise do if it were kept in our society. It's an enormous problem. It's one that I am personally extremely concerned about in terms of what it means for the future of the country.

It's part of this story. One of the reasons the middle class is shrinking is that those are the jobs that are disappearing.

Dr. SEGER. I said that was part of the problem in smokestack America. I didn't specifically go into that, but that is one of the problems.

Senator RIEGLE. And I'm taking it the next step because the merchandise trade deficit now having achieved this level and rising as sharply as it is, taking this money out of the country is creating a problem where in order to get the money back interest rates have to go higher because, if interest rates aren't higher, if we're not successful in the bidding that has to go on for the capital that's floating around—now you start connecting all of these things and we find ourselves in an odd situation where we are becoming a net borrowing Nation. A strange condition for the United States to be in. As our savings rate is low we're spending more money than we can afford, including a massive Federal deficit that keeps piling up. With all of the Federal debt refinancings that are coming along and we've got to finance the trade deficit, suddenly we need money. More money than we are able to generate in our own society.

So we are borrowing it from the rest of the world at very high rates. Fortunately for us at least they've been willing to loan us the money so far, so we haven't run into a crunch where suddenly the whole thing stops because we can't get our hands on somebody else's capital.

It may stop. There's great concern, as you know, as to whether the value of the dollar might change and even with high interest rates, we may not be able to attract as much capital as we have.

I take this time to say this because all of this winds right back around to the Federal Reserve Board table where it is proposed that you will sit. Again, I'm not sure today around that table that all these relationships are being interconnected. That people are putting it all together and sort of taking it all the way back through the chain of commerce, taking it through value added, taking it back to smokestack America. Taking it back because I have a feeling that these problems are so big, and they are so new and different, that the textbooks and the language—none of the nice handy techniques for dealing with it have been invented yet because the problems are of a different scale and a different type and are overtaken by new realities.

My hope is—and I talked with Paul McCracken about you yesterday. My hope is that rather than have somebody who would show up at the Federal Reserve Board who is there with sort of a smattering of a lot of different sort of economic information, sort of little bit of supply side, little of this, little bit of that and so forth. Some of that is fine.

NEED FOR INSIGHT AND PERCEPTION

If somebody is going to come out of our region I want them to be able to walk into the Board with some insight and some perceptions that relate to this whole new profound, interconnected set of problems. But I don't see much evidence that the Fed today recognizes or understands or is necessarily taking account of and if you weren't in there to sit down representing our region and couldn't reflect those new realities in a way that would help them start thinking about these problems differently, then in my view you shouldn't be there because that's the value of having somebody out of our region right now and that's to take these kinds of things that people are struggling to try to sort of quantify.

This also leads back to another question. When I asked at the outset of the hearings, you know, the things that you might have written, I asked you in person; I asked because I really wanted to know and I want to know today because I'd like to find out that you've got some views on the problem.

I'd like to find that you've been concerned enough about it that you've done some digging on it. That maybe you've given some lectures or some speeches or you've written an article, or that you have an informed view because that's what has to be taken into the Fed Board. So I wouldn't have to ask you about it now if I knew it or if I had read it a week ago and so forth. We could be talking about something different. In fact, we wouldn't be having the hearing now. We'd have been able to wrap it up a long time ago.

I think you have an affirmative obligation to make sense out of these kinds of things coming, as you do, from where we do if you are going to take this job. I feel very strongly about that and it wouldn't matter who else was coming out of our region. I would have exactly the same expectation and requirement.

You happen to be the person that was nominated. It could have been somebody else from some other part of the State. But this is a requirement I think you carry with you. So I think you've got to try to make some sense out of this. The Ph.D. and the business experience that you have and what you've seen in your personal life and the way you've come along, you ought to be able to make as much sense out of this today as anybody. Even if we are having to invent new ways of thinking about it. Invent new language. Invent new concepts to get outside of the rigid talk that other people have been peddling for a long time that may not fit the new reality. So that's the obligation that I see you as carrying and I might say to you I carry the same obligation only in a different job responsibility. I have to try to make sense out of these new things the same way you do.

So I take the time to explain this to you because if you don't see what I'm driving at, we've spent a lot of time here for nothing. We must deal with the requirement to be able to make sense out of what's happening in our region in a way that really would let you make a contribution to the Board. I don't think you're there just as a traffic cop. I don't think you're just there as one more vote on the margin to sit through the debate and be a pleasant person. I think your requirement there is to go in there and take something that's fresh and solid and meaningful and insightful with respect to our region of the country.

One piece of it has to be this. You don't have to take it from me that it's an important issue because I don't do the copy assignments for the Wall Street Journal. When the Wall Street Journal is writing this as a lead item in their newspaper it's because it's an important problem. Therefore, it's one that I think you have the responsibility to be out in front of and not sort of trailing along somewhere behind, you know, just having general familiarity. I think you've got to get into these things.

Do you think banks today can be profitable if they stick to their traditional lines of business? In other words, my question is this——

Dr. Seger. New bank powers.

Senator Riegle. I'm asking from the point of view of profitability. Can a well-managed bank in today's society go out and do the traditional banking functions and be profitable? Or in order for a well-run bank to be profitable today, in your mind, does it have to be given new kinds of business in which it can go and earn the profits that it can't earn by traditional methods?

Dr. Seger. I think banks have to be given some new powers. The exact extent of the new powers and the exact nature of them and the importance of those powers to the profitability of the banks, I think, is very closely related to the type of bank it is, if it's a regional or an international bank or if it's some little bank, say, out in a rural area in Michigan. They probably wouldn't take advantage of a lot of the new powers if we gave them to them because they still have a more traditional way of operating and that's OK. Many of them do very nicely. They have good profit margins and they are solid as a rock, so to speak.

COMPETITION GREATER IN LARGE CITIES

But others, some of the bigger ones, particularly in the larger cities, are the ones that I think have felt more of the competition from outside banking. That's where the lines are crossing and in those areas they do need the additional powers so they can compete effectively with nondepository institutions that are coming in and trying to offer what we used to think of as bank-type services.

Senator RIEGLE. I'm not clear on this. Let me try to get this clear in my mind.

When I think of the traditional lines of banking in terms of commercial lending, personal lending, home mortgages, the kinds of activities we normally have associated with banking, if I take those lines of business and on the other hand I take certain advantages that banks are given, deposit insurance, the Federal Reserve window, the multiplication of reserves to create lending power. I take tax treatments that are unique to banking. I take all these things and say to myself, a well-managed bank—I'm not talking about one that starts with huge problems from predecessor generations—but a well-managed bank it seems to me ought to be able to make money in a deregulated interest rate environment. You know, you pay more, you charge more. That's sort of the way things work in the retail business, whether selling T-shirts or selling credit. A well-managed bank ought to be able to be profitable in the traditional lines of work without having to branch into whole new lines of business because if you carry that argument far enough you could say, well, sporting goods, for example, is a good business so let's get the banks into the sporting goods business. Or long-term health care facilities because, you know, they can't make a profit that's required in the other area.

Tell me why it is in your opinion that banks can't be profitable? Well-managed banks carrying out the traditional lines of business, and I'm talking about banks generally. Obviously they go from Citicorp down to the small bank. But I'm talking about taking the whole range of banks as such. Why can't they be profitable if they are well managed.

Dr. SEGER. You referred to deregulation. I was in favor of deregulation and still am.

One thing deregulation brought about is a major pickup in competition. Furthermore, deregulation has led to a narrowing of what we call the net interest margin, the gap between the interest that is paid for funds and the interest that's earned on loans and investments. This is a very competitive environment, you know. When you go to make a loan there are other people out there, other institutions out there that are also willing to make those loans; it's a dogfight. This is leading to a narrowing of margins and those narrowing trends show up, by the way, in industry statistics. It's not just for a bank or a couple of banks. There is that aspect.

In order then to compensate for this narrowing net interest margin, the banks are having to try to earn more of their income in the form of fees for services, because the way they will cover their noninterest expenses—which are wages, property taxes on the building, lights and all those—is to generate this fee income. The big push, as I see it, is to have new opportunities for earning those fees, and that is basically the statement of the problem.

Senator RIEGLE. If banks can't be profitable in the traditional lines of business, there's two ways we can approach it. Net profit. I'm not necessarily at the point where I'm prepared to buy the premises that they can't be profitable and successful. I think that most can and many are. Obviously, if you go through a transition from one sort of historical level of interest rates and ratchet up to a new level of interest rates, you're stuck with obligations in the lower rates, like mortgages. That's a special issue, but I'm setting that aside here and talking about a bank that isn't saddled with decisions of that kind. I'm talking about whether today, starting from scratch with the advantages banks have been given, could they be expected to be profitable in well-managed traditional lines of business.

My basic judgment tells me that they ought to be able to; perhaps I'm wrong, but let's say they couldn't be, which seems to be the proposition you're arguing. You're arguing, competition has gotten so tough from nonbanking sources, that a well-managed bank today can't expect to be profitable in the traditional lines of business. That I take it is your assertion.

Dr. SEGER. Definitely. They would be less profitable in this environment and perhaps unprofitable; many would be unprofitable.

Senator RIEGLE. They would all be less profitable, and some would not be profitable. So help me a little more here. I mean, 10 percent wouldn't be profitable; 50 percent wouldn't be profitable or 90 percent wouldn't be profitable? Just give me a rough sense as to how you see that. Is it just impossible, or do you think most of them would be profitable, but maybe not at the profit level they might like?

SHRINKING PROFITABILITY

Dr. SEGER. We've already seen their overall profitability shrink in the last couple of years. That's been an industry trend—not just net interest margins, but looking at, say, the broad measures of profitability, such as returns on assets. Those numbers have been skinnying down.

Senator RIEGLE. Let's say, if it's your feeling that in the traditional lines of business a well-managed bank can't be profitable enough, either because it's not making any profits or because it's making less profits; something's got to be done to improve profitability. It seems to me that there's two ways you can go. Banks perform a service. They are special. That's why there are all kinds of special features, including deposit insurance, which we don't give, for example, to Merrill Lynch. If Merrill Lynch wants to make a loan to somebody, fine, but we treat banks quite differently, and properly so.

It seems to me that if banks on balance need to be more profitable, there are two ways we could do it. We could help them in some fashion, for instance, tax policy, paying interest on reserves, various things trying to strengthen their profitability. That would be a way to get their profitability up if that's perceived as the problem. Or we can say, "Look, you can't be profitable in traditional lines of business, so we're going to let you, even help you, go into four or five new lines of business." Maybe it's selling corporate securities, or underwriting corporate securities. Maybe it's the real estate business, or maybe it's selling dogfood. Whatever it is. But in some way to go out and increase profits, presumably in a way that doesn't create a problem of safety and soundness, doesn't impair the public confidence in terms of the security of the money in the banking system, and so forth and so on. And, of course, not too much financial concentration. We don't want to imitate the Germans with a handful of banks rather than a nice diversified system that we've had in this country.

Why are you automatically persuaded, or why are you persuaded that the way to go here is to move them out into new lines of business, whether it be in the securities area or some of the other areas we talked about earlier? What has prompted you to decide that that's the route to go rather than the alternative I've described which is that: If the banks have a profit problem, there is another way to fix it besides moving them off into other lines of business?

Dr. SEGER. Two reasons, basically. One is, using your example of Government aid of some sort, many banks already have a relatively low tax bill, so we say, because they hold municipal securities, or they have a lot of leases on their books, or they've got tax credits of various sorts.

Senator RIEGLE. Many banks pay no taxes.

Dr. SEGER. We're not on different sides on this. I think the latitude for assistance in that way is probably limited. The second thing is, I really believe, as a public policy matter, that giving banks more powers in those areas where it makes sense—and as I said, I've never written a long list that lets them do everything, sell dogfood or run an auto repair shop; that's never been part of my view—in areas that are related to the things they do now, that they have the expertise to do, that do not violate the safety and soundness standards is good, because it also means more options. If they're supplying these services, it means more options for individuals like myself.

Senator RIEGLE. OK. Let me ask you this question. I see what your logic is. If what has happened is that the competition has come along, and is so tough, so skilled, or somehow, more effective that it has whittled away the profit margins of all the traditional lines of business within banks and the banks haven't been able to figure out how through greater efficiency or whatever, to control their profit margins, so their profits have been eaten away in those lines. Why isn't that same thing going to happen in the new lines of business? If, in the area where they've had the greatest expertise and the greatest experience, their profit margins have been whittled down to the point now where we're prepared to say that they can't be profitable enough, why isn't precisely that same thing going to happen in the new lines of business that you offer them?

Dr. SEGER. If I may use my example of underwriting municipal revenue bonds, I think if the banks were to be allowed to enter this arena, that, in fact, there would be some squeezing of what are now maybe typical fees that are paid by municipalities for these kinds of financing. That's a plus for the municipality, but I don't think they would be squeezed from today's levels to almost nothing.

Senator RIEGLE. What does it do for bank profitability?

I mean if they come in and they're not competing against other Wall Street types who do the revenue bond business, and they're going to try to come in, and they're going to try to offer that service at presumably a lower price, a better service and get it, why aren't the Wall Street people—they're going to fight back. They're not going to give up this business without a fight. They know the business.

What is there to suggest that there's some nice, neat incremental profit margin to be made in what will obviously be an intensely competitive business, especially the prohibition on any tie-in relationships, so that somebody doesn't have to strong arm to have to deal with the bank because of their techniques of credit relationships. But assuming all that's ruled out, why aren't we likely to find that even if the municipality out there gets a somewhat lower rate, and you might want to argue that, but that they're just as likely to get the lower rate, because the margins won't go down in terms of the guys who are now doing the business rather than the banks coming along and, bang, moving into an area that they've not been in, and somehow they're going to be able to come up with a whole new profit margin that nobody else has been able to find.

I am wondering if there is a pot of gold down that track. That really is my question. If there is, why do you think there is. Explain that to me.

Dr. SEGER. I don't believe I used the words "pot of gold."

Senator RIEGLE. No, that's mine. We're trying to beef up net profitability.

OPPORTUNITY TO EARN FEE INCOME

Dr. SEGER. Giving them more powers of a limited type, gives them an opportunity to earn fee income. Even if the fees on such things as underwritings or discount brokerage, would be less than they are today with the banks outside of that market—I can't prove this, of course, that the market is so limited that having the banks enter it would drive the fees from something to nothing; I think the banks could still earn fees on this kind of business.

Senator RIEGLE. Presumably, they might be able to do so, but the question is, if you look at that fee as a percent of the assets of the bank——

Dr. SEGER. I'm not looking at it that way.

Senator RIEGLE. But you have to in the end, because that's what determines the question of whether the increment of profitability has really improved your situation, because we're starting from a premise that says banks today can't be profitable enough in the traditional lines of business off their asset base.

Now we're saying, OK, we're going to give them new lines of business to get in, but there are costs associated with that, so they've got to devote a certain amount of resources of the bank to go into the new line of business, management, building, utilities, as well as the direct costs, and so forth.

So the premise that you're advancing is that there's new profit there. There's profit there that is greater than the relationship to assets, the profits that they're now able to earn on the old lines of business.

I want to know what you base that supposition on that there is this differentially higher profit margin, in terms of utilization of asset and a new line of business that's going to solve their problem.

Dr. SEGER. The kinds of powers that I'm talking about are ones that I support based on my experience in banking, which certainly does not include working for 15,000 banks but only for two. These are powers that involve activities that I think are sufficiently closely related to the kinds of things banks now do legitimately and legally. I hate to beat this example to death, but it's one that I happen to know very well, because I used to work with bank investment people who did underwriting: The people wearing the same hats, sitting at the same desks, in the same building, with an MBA, can underwrite municipal revenue issues just as they've been underwriting the municipal GO's. Maybe you'd have to add a little more man or woman power, I don't know, but it's not like starting from scratch. There are economies of scale here, and I think that, in fact, they would be adding more to their fee income or their noninterest income—that's the way banks refer to it—than they would be adding to their noninterest expense.

As long as that's true, if you add more to noninterest income than to noninterest expense, then that's a net contribution to your profits.

Senator RIEGLE. It's an interesting question as to whether or not this is the degree to which we've got a bank profit problem and what the bank profit problem stems from and how to solve it. And you've presented some of the thoughts that you have on this issue.

I'm going to ask you one more question and then, as I say, we're going to give you some questions to answer for the record.

If the Federal regulatory agencies are going to make ad hoc decisions to insure deposits above $100,000 for people that put their money in the Continental Illinois Bank, shouldn't they do the same thing for depositors—I'm looking forward now—who go above $100,000 in another bank, the bank down the street from Continental Illinois, maybe First Chicago? Shouldn't it be true for a smaller bank in Michigan or Illinois that has to go out and compete to try to get the same $100,000 plus deposit, that they're going to try to go to a city government or something that's got $150,000 that they want to put in an account? Shouldn't all banks be on an equal footing with respect to at least deposit protection, so that all the rest of the banks will not get aced out because you're giving special privileges to Continental Illinois that you're not giving to other banks, particularly to small banks? They have a tough enough time as it is.

If we're going to extend that special privilege, shouldn't it be extended to all banks?

FDIC POLICY WITH FAILING BANKS

Dr. SEGER. The way the FDIC operated in dealing with bank problems, failing banks, until the Penn Square incident in 1982, was basically to give full insurance protection to these accounts above the cut off. When it had a bank that was in trouble, the regulators would try to find a merger partner to avoid a failure. If that didn't work, the bank would be declared insolvent and the FDIC appointed receiver.

The FDIC and other regulators would have other banks that were somewhat healthier standing in the wings that would bid on the carcass. We were really pushed to handle failure in this way. We had this other institution assume all the liabilities of the carcass and purchase selected assets from it, and the FDIC would take those that the acquiring bank didn't take. I don't care what it's called, but the effect on the banking system and on the American economy was to make our bank failures in this country painless.

If you think about it, this was not changing the insurance coverage and saying, "All deposits are covered in a straightforward way"; but behind the scenes, we were really doing that. That was the way it happened. Where policy really changed its direction rather dramatically was the failure of Penn Square in July 1982. Here's a bank that got into deep trouble, was closed on Fourth of July weekend, as I recall, and there wasn't a bank able to assume all those liabilities and to purchase selected assets. They just let it go flop and, for the first time, in my recollection anyway, we had a real failure.

People had money in Penn Square above the cutoff. Right in our State of Michigan we had a number of credit unions, for example, that were in there with several million dollars. It hurt when that bank was closed and you discovered that deposit coverage is really $100,000. It isn't for $5, or $6, or $7 million.

Senator RIEGLE. You know what the smaller size bankers are saying now? They are saying there's two sets of rules here. If you're a big bank like Continental Illinois and if you get into trouble, your deposits above $100,000 are going to be covered 100 percent which is a signal to all the people who have deposits to make to dump them into Continental Illinois. Whereas the bank this person would be speaking for somewhere else which is trying to compete for the same money can't do so because they can't offer the insurance above $100,000. So they lose that deposit to Continental Illinois and they say, wait a minute, this isn't fair. And if Manufacturers Hanover goes in the soup the same way at some point, as some thought it might, and they get the same kind of treatment, the big guys are operating under a different set of rules than anybody that's smaller. Doesn't that bother you? Don't they have a legitimate complaint? Or do they have to take a look at it and say the world's not fair because they are not big and in trouble and they have to work with a handicap that the others don't have to work with.

Dr. SEGER. I certainly understand their gripes, their arguments; absolutely. And as indicated when we were talking about Continental's situation, a liquidity crisis at a very big bank, one of the biggest in this country, is, as a national policy issue, or policy problem, greater for us than when a $16 million bank in southern Illinois gets into trouble. I agree, it is not fair, but apparently, when pushed to the wall with a crisis, decisions are made on a crisis.

Senator RIEGLE. And you are willing to accept that as necessary?

Dr. SEGER. I didn't make those decisions. But when you get into a real crisis I think you do the best you can; not all decisions are perfect. There are trade offs. And at that point, I think they look at the damage that would have been done by just letting this thing go versus the issues of fairness and equity. The decisionmakers said, "based on our evaluation of the pluses and minuses, we are going to go with it."

Senator RIEGLE. What do you think this means today for somebody in New York, say, that's thinking about putting $1 million into Citicorp or putting $1 million into a savings bank, or some other financial institution, an S&L, or whatever, at a competitive rate, an equivalent rate, in the State of New York. If that person knows, based on what they've just seen in Continental Illinois and what everybody who is in a position of responsibility says, "It's the way the world is and you've got to face it that's the breaks of the game and the world isn't always fair," and in a sense, you are signing on to that same philosophy with your answer, why doesn't that automatically mean that that person, that decisionmaker with a $1 million to put in some depository institution, is going to figure that there's no sense breaking this into a lot of different pieces? We can send it over to Citicorp because Citicorp is as big as Continental Illinois, and if Citicorp gets into big trouble, obviously they are going to take the same position that they took in Continental Illinois and $1 million is covered. So I'm going to put it over there and I'm not going to put down the street in the savings bank, or the savings and loan or something else because the deposit insurance protection is going to cut off at a $100,000 there because these are the small fry and the small fry don't matter.

Now I think that kind of thinking is going on today and I think if you and I were sitting there having to manage as fiduciaries for a $1 million investment, we had to place and you wanted protection on the full million, not just the first $100,000, you could break it into 10 pieces and farm it around to 10 institutions or, because that isn't even an ironclad guarantee if they all go down at once, you might very well be better off to send it all down to Citicorp, because there is this great big neon sign which has just gone on that the Federal Government regulators are saying, "Put it in the big guys and we'll cover it all." And you are in a sense, affirming that that has to be the case just as a pragmatic judgment.

How do we live with that in the future? I mean if that's going on now, if that's the message we're giving and it's altering investment decisions, where is the fairness in that? Don't we have to correct this somehow?

STATED CLEARLY THE UNFAIRNESS

Dr. SEGER. I thought I stated clearly, that it is unfair.

Senator RIEGLE. But isn't it distorting our investment decisions as it relates to other institutions, not just Continental Illinois.

Dr. SEGER. Of course the Continental incident happened rather recently, a little over 1 month ago. I don't pretend to have the last word on this, but so far I don't see evidence of this happening in the numbers.

An individual institution may be able to tell you that they are feeling that, and I would certainly respect their knowledge of their institution more than my knowledge of their institution. But I don't think it shows up this soon in the broader numbers; I hope it doesn't. It's too bad that kind of precedent had to be set, because then it does raise these issues.

But the reason I mentioned the way things operated until 1982 is that little banks, big banks, medium banks—everybody—was basically sheltered because of the way a failure was dealt with, which was as a P&A. As I said, we really went through a period, sir, of practically pain-free failures and, therefore, a lot of people, big corporations, school districts, individuals——

Senator RIEGLE. That's what we've got here now. We've got a pain-free failure in the case of Continental Illinois for anybody that's deposited over $100,000. I mean this is the very thing you are worried about, which is now being perpetuated now in a new form.

Dr. SEGER. It was that way for everybody. There was no discrimination.

Senator RIEGLE. Now the problem is that it's just that way for some and not for others. Intead of having that there for everybody, it's an inequity that's there for the big guy and not for the little one.

Dr. SEGER. I don't run the FDIC but, as I have heard Mr. Isaac, I thought what he was trying to do was to ultimately introduce some discipline into the system.

Senator RIEGLE. But he caved in. That was the whole party line until suddenly something happened that was so big that it didn't work any more. So now you've got a double standard. The big guys get taken care of and the little guys don't and, you know, I think that's a legitimate matter of concern. I think you have some responsibility to figure out how to get rid of the inequity. I don't think it's enough to do to just step back from it and say that's the way it is and we are going to do something special for the big ones and that that's going to have an impact on funding flows over a period of time but that we're not going to do the same for the small ones. That's not acceptable; is it? I don't think it is.

Dr. SEGER. The answer is once we get through this period of fragile confidence and near-crisis atmosphere, I think we have to deal with the FDIC issue. How much insurance should be provided per account? How is the insurance handled? Do we have risk-based premiums? Do we try to put more of a burden on the individual depositor who is placing these funds so that he knows that in fact these are at risk.

All these kinds of things that were being talked about I suggest are going to have to be put on the table again. Over these next few months we are trying to limit the fallout, shall we say, of the Continental affair; then we can get back to handling the basic issues of what we do with FDIC insurance. I'm not saying we can just walk away from it.

Senator RIEGLE. Let me touch on one other item and then we'll be finished here.

I've not raised this before and I don't think we want to raise it now because it's not a pleasant subject to raise and it takes us off on an entirely different road but I want to raise it enough so that I can put a question to you and get an assurance from you.

In the past there have been times when you've gotten into sort of a verbal slugfest with people and have made statements that have been sort of questionable: When you were in your regulatory capacity in Michigan some critics were impunging your motives or characterizing your behavior in cutting personal terms. You are aware of what I'm referring to, I'm sure.

And there are articles that I have seen and I have here where you've responded in kind. In other words somebody's taken a swipe at you. I think in a tasteless fashion, and you've responded to them in the same vein and have been quoted that way, particularly in one article here for example. It's in the Detroit Free Press, which I'm sure you're probably familiar with.

The headline is "Bank Regulator Puts In Her 50 Cents Worth" and it goes on in this vein. I'm not going to get into the characterizations here back and forth between yourself and anybody else, whether it be legislators or interest-group persons. But I want to say to you that I question in my own mind whether that's appropriate conduct. I don't have any reach over that because this is when you were a State regulatory figure. So, this is sort of in that ball park.

But I want to say to you that I think that kind of conduct is totally inappropriate. I think at this level in terms of both the Federal level and the Federal Reserve Board, no matter how provocative a comment someone might make about you or is reported to have made about you, I don't think that is sufficient grounds to respond in kind.

OPERATE ON HIGHER STANDARDS

I just would like to get an assurance from you that you see it that way and that no matter how somebody else might choose to conduct themselves and how excessive they may be in their language or characterizations, that you won't operate to that standard. That you'll operate to a higher standard.

Dr. SEGER. I can assure you that I would.

As long as you've raised the issue, I would also like to be given a couple of minutes to explain it. First of all, it goes back to December 1981. Second, I was introduced at a meeting by an employee of the Michigan Bankers Association. This fellow gave me a roast-type introduction, kidded me about being tall; kidded me about eating too much. It was funny; people were laughing. The writer of that article, sir, was not there. After the employee got through with this whole long roast, including his characterization of me, I stood up and, before talking about deregulation and some legislative changes in Michigan, in response to his roast humorously spoke the couple of sentences which you have there.

If you just recorded what's on one of these TV roast shows and then ran it as a newspaper column, I suggest to you that it would look far different than if someone said this at a roast-type introduction. This was a humorous response, two sentences worth. Then I went on to give a talk.

Senator RIEGLE. I don't particularly want to dignify it by using the quotes here, and I'm not going to.

Dr. SEGER. I'm telling you what the background is.

Senator RIEGLE. I understand, and I'll get to that in just a second. I don't want to dignify this by including the verbiage as such in the record here, because I think it's unworthy of the kind of hearing that we've been conducting, but I think the larger question of the characterizations and the choice of language of the characterizations is important, profoundly so, at the level of the Federal Reserve Board. Whatever anybody else might do isn't necessarily a justification for somebody else to do something, I mean, you know——

Dr. SEGER. That's what I argued; I'm just saying it was humorous.

Senator RIEGLE. Well, I don't know whether it was humorous or not. I wasn't there, and I take your account for it in terms of it sort of being a roast-type situation, whether it was or wasn't, you were nevertheless a banking commissioner, and when you open your mouth in a public setting, even if the press isn't to your knowledge, there, when you're speaking to a group, you're speaking as a public person. You were then; you would be if you were on the Fed. So, you know, it's not sufficient to make a differentiation that if you're there and somebody introduced you in a roast fashion, you're still a public official, that that gives you a license to go ahead and use, I think, uncouth characterizations here which someone else may have used on you before. I don't think that's the proper kind of conduct, and I don't want to rehash the whole thing, because I'm concerned about what your sense of the norms of conduct would be if you were on the Federal Reserve Board.

I guess what I'm saying to you, if the same kind of an event happened, and you were introduced somewhere else as a member of the Federal Reserve Board and somebody introduced you in a roast-type introduction, with sort of some wisecrack comments, that use, I think, bad language and insulting characterizations from whatever their source, I think if you were to respond in kind, that would be inappropriate to a Fed Board member. I think it would reflect badly on you and reflect badly on the Board. It would reflect badly on anybody that had anything to do with this process.

So if you thought that standard was appropriate at that level, I would say to you that I don't think it was, even in the setting that you described, if you're quoted accurately, if these are the words you spoke. But I don't think the words were appropriate in that setting then for a public officeholder responsible to, I think, set a standard of conduct that's on a higher level. If another public official believes imprudently, that's their responsibility. It doesn't justify the response by yourself.

But I would hope, if you're confirmed at this level, that this kind of thing, if you're ever confronted by this kind of a situation again, that you'll resist whatever temptation you have to respond in kind and will not respond in kind.

Dr. SEGER. I certainly would behave differently.

Senator RIEGLE. I appreciate that. Frankly, I don't even like bringing it up, because I think it demeans this process, but I want to make sure we are not going to encounter this thing in the future, because I think it would be unfortunate if that happened, and you've assured me that would not happen, and I appreciate that assurance.

Let me say that I appreciate your responses to the committee over the whole period of time, and to me particularly, because there have been a number areas you and I have gone into, in addition to the private conversation that we had before your hearing took place. And I appreciate your patience. It's not easy to sit in the witness chair and go through these things. And I appreciate the fact that that's a trying experience.

I think the reason that there have been a lot of questions raised is because this is a critically important appointment coming at a critically important time where there is great apprehension about the financial system and where things are going. So I think, but for that, this would have moved along faster.

As I also said at the outset, I think if your views on a lot of these subjects had been known or had been public so that they could have been digested ahead of time, there would not have been a need to sort of spent all the time going through it either by me or by others.

In any event, we appreciate your being here. I hope you can still make the plane today. We'll look forward to talking again on another occasions.

The committee stands——

Dr. SEGER. I was just going to thank you for giving me the opportunity to talk with you here and in your office and to say, in general, these are to me terribily complex issues, terribly complex problems. I'm unable to give one or two sentences, off-the-top-of-my-head, simplistic answers to issues that I think need a lot of study and a lot of analysis and a lot of looking at; many of them are very controversial.

Maybe we don't have the absolute answer at this moment. That's the impression that I want to leave, I think. I take the issues very seriously, and I don't have "smart alec" type answers to them.

Senator RIEGLE. I appreciate that point, and I appreciate the fact that you're working on them. We're not known for short answers around here either. That's not something that's a mark of the Senate, generally. And these are complex issues. So I know that you're working on them and thinking about them and don't have a reflex answer, an ideological sort of one-line fix-it answer on given issues, and I appreciate the fact that that's the case.

Certainly, I'm going to consider everything you said in that vein.

Dr. SEGER. Thank you.

Senator RIEGLE. The committee stands adjourned.

[Whereupon, at 2:30 p.m., the hearing was adjourned.]

[Biographical sketch of nominee and appendix follow:]

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: SEGER (LAST) MARTHA (FIRST) Romayne (OTHER)

Position to which nominated: Governor - Fed Reserve Date of nomination:

Date of birth: 17 (DAY) Feb (MONTH) 1932 (YEAR) Place of birth: Adrian, Mich, USA

Marital status: single Full name of spouse: —

Name and ages of children: —

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Leelanau School	1948-50	high school diploma	1950
U. of Michigan	1950-55	BBA + MBA	1954 + 1955
U of Michigan	1959-64	Ph.D	1971

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

High School Valedictorian + National Honor Society
Phi Kappa Phi
Beta Gamma Sigma
1976 selected by Business Week as one of Top 100 Corporate Women in USA

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

Organization	Office held (if any)	Dates
Economic Club of Detroit		
Women's Economic Club		
National Assoc. of Business Economists		
American Finance Assoc.		
American Economic Assoc.		
Citizens for America	Mich. Co-Chair	1984 –
Detroit Boat Club		
President's Club – U. of Michigan		

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

see attached sheet.

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

1981 & 82 Commissioner of Financial Institutions,

US Dept. of Commerce Economic Advisory Board

(as shown under employment, I worked at the Federal Reserve early in my career.)

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

I am not primarily a researcher or writer, but rather a teacher and lecturer but I did co-author a book — "Consumer Finance Companies in Michigan" Gies, Fricke & Seger. Published by U. of M. Bureau of Business Research in 1960

Political affiliations and activities: List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

I am a member of the Republican Party in Michigan and of the Bloomfield Hills Republican Women's Club.
In 1983, I helped to launch a women's group for the Michigan Republic

Political contributions:

Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

None

Qualifications:

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

I am a financial economist who specializes in financial institutions and capital markets. I have had roughly ten years' experience in commercial banking and five years at the Federal Reserve. In addition, I was chief regulator of financial institutions in State of Michigan for 2 [illegible]

Future employment relationships:

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

I am a professor and I have told the dean I will not be able to teach if this nomination materializes

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

I may teach after completing government service, but I have no agreement to return to my present employer.

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

No

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

Yes

Continuation of Question No. 15

October 1976 - December 1977

Independent research on "Redlining" and consulting jobs.

SUMMARY: October 1976 - Present

Whole period pursuing flexible schedule of teaching, research, lecturing, consulting and public service.

July 1974 - September 1976

Bank of the Commonwealth, Detroit, Michigan. (since merged into Comerica Bank-Detroit) Arthur F.F. Snyder, President (now Vice Chairman of the Board, U.S. Trust Company, 30 Court Street, Boston, MASS. 02108.- Phone: (617)726-7138). Vice President, Senior Vice President and Divisional Vice President in charge of Economics and Investments. Quit banking to pursue mid-career change of teaching, consulting and research.

February 1976 - July 1974

Detroit Bank and Trust (now Comerica-Detroit), Detroit, MI. Don Mandich, Chairman of the Board.
Chief Economist.
Quit to go to Bank of the Commonwealth.

September 1964 - February 1967

Federal Reserve Board, Washington, D.C.
Peter Keir, Chief
Financial Economist, Capital Markets Section.
Quit to go into banking.

September 1959 - September 1964

Went back to University of Michigan to work part-time on Ph.D. in Finance and Business Economics. Also, worked part-time at various campus jobs: Teaching Fellow in Finance for Professor Thomas Gies, 313-764-2323. Resident Assistant in Women's Residence Halls, Dean Deborah Bacon (now retired). Left to take full-time job when started working on dissertation.

February 1957 - September 1959

Federal Reserve Bank of Chicago - Trained in Chicago and sent to its Detroit Branch. Russ Swaney, Vice President-in-Charge (now retired), 753 S. Shore Drive, Holland, Michigan, (616) 335-5440. Research Associate. Quit to go to Graduate School for Ph.D.

February 1955 - February 1957

General Motors Corporation - Business Research Staff. Gene Steininger, now General Director of Market Analysis and Forcasting, Economics Staff, Detroit, Michigan, (313)556-3123. Research Assistant. Quit to take better job and one that was more involved with finance.

15. EMPLOYMENT. (List ALL employment dates starting with your present employment. Give both month and year for all dates. Show ALL dates and addresses when unemployed. Give name under which employed if different from name now used.)

FROM	TO	NAME OF EMPLOYER (Firm or agency) AND SUPERVISOR (Full name, if known)	ADDRESS (Where employed)	TYPE OF WORK	REASON FOR LEAVING
Aug.1983	Present	Central Michigan Univ. Richard Sussman, Chmn., Finance Dept. or Len Platka, Dean, Business School	Mt. Pleasant, MI	Prof.of Finance	Still there
Jan. 1983	July'83	Oakland University Ron Horwitz, Dean, School of Econ. & Mgt. Leave of absence to research "Bank Holiday in Michigan", lecture and do miscellaneous consulting.	Rochester, MI	Assoc.Prof.	Better offer
Jan.1981	Dec.'82	State of Michigan, as Commissioner of Financial Institutions for State of Michigan by Gov. William Milliken (now living in Traverse City, Michigan) I resigned to coincide with his term ending.	Lansing, MI	Political Appointment	
Aug. 1980	–	Oakland University, Ron Horwitz, Dean, School of Economics & Management. I had signed three-year contract with Oakland in Spring 1980, but that November, Governor Milliken appointed me to the financial regulator job effective January 1, 1981, so I took two-year leave of absence to serve in Lansing, Capitol, Michigan.	Rochester, MI	Assoc.Prof.	

July 1979–July 1980 – Independent research and consulting, lectures on banking and economic outlook.

Jan.1978 –June 1979 – University of Michigan, Ann Arbor, MI
Dean Floyd Bond (Business School Dean – now retired)
Adjunct Assoc. Professor of Business Conditions.
I was teaching the courses of a professor on leave.

APPENDIX

APR 12 1984

K.B.

March 2, 1984

President Ronald Reagan
The White House
Washington, D.C. 20006

Dear President Reagan:

Please accept this letter as support for the appointment of Dr. Martha Seger as a member of The Federal Reserve Board.

Dr. Seger served as Commissioner of the Financial Institution Bureau for the State of Michigan and has various educational credits and business experience which should qualify her to serve as a member of The Federal Reserve.

I would encourage your consideration for her appointment to The Federal Reserve Board.

Sincerely,

Kenneth F. Allen
1946 Trinity
Jackson, Michigan 49201

BENTLEY AND BENTLEY, P. C.
2532 Spring Arbor Road
JACKSON, MICHIGAN 49203
Phone: 787-5010

March 7, 1984

President Ronald Reagan
The White House
Washington, D.C.

Dear Mr. President:

I'm writing you to recommend that you appoint Dr. Martha Seger to the Federal Reserve Board. She has been a very capable and effective person, she has three degrees from the University of Michigan including a MBA in Finance and Ph.D. in Finance and Business Economics, she has a broad background and I feel would be of great value to you.

Sincerely,

Mary Bentley MD

Mary N. Bentley, M.D.

MNB:jw

CAPITOL FEDERAL SAVINGS
& LOAN ASSOCIATION

LANSING OFFICE • 112 E. ALLEGAN STREET • LANSING, MICHIGAN 48933
PHONE 517 374-3562

ROBERT E. CLARK
President

February 27, 1984

KB.

Martha
Seger

The President
The White House
Washington, D.C.

Mr. President:

I am writing to endorse and support the possible candidacy of Dr. Marhta Seger as an appointee to the Federal Reserve Board.

Dr. Seger served as Commissioner of the Financial Institutions Bureau for the state of Michigan for two years. During those two years I had many opportunities to work and meet with Dr. Seger, and was always impressed by the way she handled every situation. She was thorough and very fair in her decisions, and treated everyone in a satisfactory manner.

With Dr. Seger's economic education and experience, I think she would be an excellent choice as an appointee to the Federal Reserve Board.

Respectfully yours,

R. E. Clark

R. E. Clark
President

REC:ib

CENTRAL CREDIT UNION OF MICHIGAN
P.O. BOX 5210
DETROIT, MICHIGAN 48235
(313) 569-7979

April 3, 1984

The President
The White House
Washington, D.C. 20500

Mr. President:

This is to support the appointment of Dr. Martha Seger to the Board of Governors of the Federal Reserve.

Our experience with Dr. Seger is as a "banker's bank", a wholesale financial institution serving credit unions in Michigan. Dr. Seger has headed the Michigan Financial Institution Bureau which regulates our activity.

We have found Dr. Seger to be equitable and consistent in her administration of the laws and bylaws which regulate us, but most importantly, she brought to the organization a level of economic and financial understanding which was unique in that position.

Speaking for our Board of Directors and the many credit unions which appreciate the value Dr. Seger can contribute to our monetary system, we believe that her appointment will be of great benefit to this country.

Respectfully,

Richard W. Ayres
General Manager

RWA:bb

:onald L. Zile, President

CITIZENS
TRUST AND SAVINGS BANK Member F.D.I.C.
P.O. Box 449/South Haven, Michigan 49090/616 637-2141

March 5, 1984

President Ronald Reagan
The White House
Pennsylvania Avenue
Washington, D.C. 20500

KB

Dr.
Seger

Dear President Reagan:

I am extremely pleased to see that the Administration is considering the appointment of Martha Seger to the Board of Governors of the Federal Reserve System.

I've known Martha for the past 25 years when she was first employed as a research economist at the Detroit Branch, Federal Reserve Bank of Chicago, where I spent twenty years becoming a Vice President before moving into commercial banking. She has all the credentials, the intuitiveness, and the drive to be one of the better governors of our time. In addition, she is almost as big as Volcher, not only in physical stature. If you do appoint her, you will have a very strong candidate for his successor, should that day come along.

Currently, I am the Chief Executive Officer of a $115 million independent community bank and know Martha from the standpoint of a central banker, the large money center banks in Chicago and Detroit, and from the standpoint of a community banker in southwest Michigan. While a good many of her years were spent in academia, she also has developed a tremendous background in the real world and understands the difference between theory and practice.

I humbly add my strongest recommendation that you appoint this outstanding individual.

Respectfully submitted,

Ronald L. Zile

RLZ:kv

South Haven/South Haven Suburban/Bloomingdale/Saugatuck/Fennville

CUNA

Credit Union National Association, Inc.

5710 MINERAL POINT RD. • BOX 431 • MADISON, WI 53701 • 608-231-4000

1984 JUN 25 AM 1:11

HAROLD T. (TOM) WELSH
Chairman
544 Beckman Drive
Kankakee, IL 60901
Business: 815/937-7449
Residence: 815/933-1943

June 20, 1984

Chairman Jake Garn
U.S. Senate
Washington, DC 20510

Dear Senator Garn:

On May 31, 1984, President Reagan announced his intention to nominate Dr. Martha R. Seger to be a member of the Board of Governors of the Federal Reserve System. Soon the Senate will be asked to confirm Dr. Seger's nomination for a 14-year term on the Federal Reserve Board from February 1, 1984.

The Credit Union National Association (CUNA), which represents credit union leagues in each state, the District of Columbia and Puerto Rico, strongly endorse Dr. Seger's nomination for this Federal Reserve Board position. Dr. Seger's academic credentials as a professor of finance at the Central Michigan University and the University of Michigan, her regulatory expertise as a past Banking Commissioner for Michigan's state chartered financial institutions, as well as her previous tenure as a financial economist at the Federal Reserve, comprise an extraordinarily diverse blend of experience which is both substantive and pragmatic.

The more than 19,000 federally and state chartered credit unions represented by CUNA are cooperative, non-profit associations that serve more than 50 million members. These credit unions, specializing in the consumer credit needs of working America, applaud the standards of excellence and public service demonstrated by Dr. Seger in her professional career.

On behalf of the credit union movement, and the CUNA membership in particular, I ask you to expeditiously approve the Federal Reserve Board nomination of Dr. Martha Seger.

Sincerely,

Tom Welsh

Harold T. (Tom) Welsh
Chairman

HTW:vs

MEMBER WORLD COUNCIL OF CREDIT UNIONS

DETROIT AREA ECONOMIC FORUM

JOSEPH F. NEUSSENDORFER
CHAIRMAN
1351 E. Jefferson Avenue
Detroit, Michigan 48207

June 26, 1984

Honorable Edwin (Jake) Garn
United States Senate
Washington, D.C.

Dear Senator Garn:

This letter is in total support of Martha Seger's nomination by President Reagan to serve on the Federal Reserve Board.

Ms. Seger has been a member of the Detroit Area Economic Forum and several other economists' organizations in Detroit and Michigan.

She has distinguished herself amongst her Michigan peers as a practical and hard-working economist.

We hope you will vote to confirm her nomination.

Sincerely,

Joseph F. Neussendorfer

Joseph F. Neussendorfer

JFN/ljm

Detroit & Northern
Savings

Home Office
Hancock, Michigan

400 Quincy Street / Hancock, MI 49930
(906) 482-2700

K13

February 21, 1984

The President
White House
Washington, D. C. 20500

Dear Mr. President:

I highly recommend Dr. Martha R. Seger as an appointee to the Federal Reserve Board.

During the past two years in which she served as the Commissioner of the Financial Institutions Bureau in Michigan, she did a very commendable job for the financial industry and also for the citizens of the State of Michigan.

She is knowledgeable about the industry and also is a strong economist.

I hope you will give Dr. Seger every consideration.

Sincerely,

F. J. Halonen

F. J. Halonen
President

FJH/bjm

Detroit & Northern
Savings

. SEATON
d Chief Executive Officer

400 Quincy Street / Hancock, MI 49930
(906) 482-2700

February 21, 1984

The President
White House
Washington, D. C. 20500

Dear Mr. President:

The name of Dr. Martha Seger has been submitted to you as an appointee to the Federal Reserve Board. I highly recommend her candidacy.

She is a capable administrator. When she was Commissioner of the Financial Institutions Bureau in Michigan, she aggressively addressed the problems facing the financial institutions during a very difficult period. She was well thought of and respected by the government people with whom she worked and by the financial institutions she supervised.

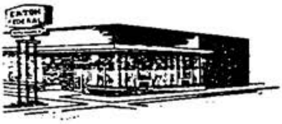
I hope you will give her name every consideration.

Sincerely,

K. D. Seaton

K. D. Seaton
Chairman

KDS/bjm



EATON FEDERAL
SAVINGS & LOAN ASSOCIATION

204 S. BOSTWICK, CHARLOTTE, MICHIGAN 48813

February 16, 1984

President Ronald Reagan
The White House
Washington, D. C. 20500

KB

Dear Mr. President:

I'm writing this letter in support of Dr. Martha Seger to be appointed to the Federal Reserve Board. I have been aquainted with Dr. Seger for a number of years. The closest association we have had with her was during her term as Commissioner of the Financial Institutions Bureau for the State of Michigan. She served in this capacity under Govenor William Milliken, being appointed in January 1981. In my opinion, she was the most outstanding Commissioner we have had in the State of Michigan for many years. She handled her job in a very professional manner and she is extremely adept in dealing with people.

Dr. Seger's educational and employment background is extremely impressive. She belongs to many important associations and has been named by Business Week as one of the top 100 corporate women in the United States.

I urge you to consider the appointment of Dr. Seger to this important position.

Very truly yours,
Eaton Federal Savings and Loan Association

By: Floyd M. Jewell,
President

FMJ/km

Empire of America
A Federal Savings Association

BENJAMIN L. ELDER
Regional President

February 22, 1984

The Honorable Ronald W. Reagan
The White House
Washington, D.C. 20500

Dear President Reagan:

I have learned that Dr. Martha Seger has been proposed as an appointee to the Federal Reserve Board and I am writing to you today to express my sincere endorsement of Dr. Seger's candidacy.

Dr. Seger served under Governor Milliken as Commissioner of Financial Institutions for the State of Michigan from January, 1981 to December, 1982, in which capacity she acted as the regulating authority over savings institutions in the state. I found her an outstanding administrator who maintained her independence and balance despite tremendous pressure from the Democratic controlled state legislature and organized labor. She was straightforward, consistant and evenhanded in her administration during a period of extreme anguish for the thrift industry, particularly in the state of Michigan.

Dr. Seger is an educator in the fields of finance and economics, having taught at Windsor, University of Michigan and most recently at Oakland University here in southeastern Michigan. She has also served as Vice President and Chief Economist for the Detroit Bank and Trust Company, now Comerica, Inc., for seven years.

As a lifelong Republican and a member of the Republican National Committee I heartily endorse Dr. Martha Seger and respectfully urge you to consider her as your appointee to the Federal Reserve Board.

Sincerely,

24700 Northwestern Highway • Southfield, Michigan 48075-2306 • (313) 827-6600

FIRST FEDERAL Savings Bank and trust

MAIN OFFICE
761 WEST HURON STREET
PONTIAC, MICHIGAN 48053

JAMES CLARKSON
PRESIDENT AND
CHAIRMAN OF THE BOARD

February 17, 1984

President Ronald Reagan
The White House
Washington, D.C. 20500

Dear Mr. President:

K.B.

This letter represents our support of Dr. Martha Seger as an appointee to the Federal Reserve Board.

I have personally known Dr. Seger for many years and know her to be highly qualified for this position. She very capably served as Commissioner of the Financial Institutions Bureau during the last two years of the Milliken administration, and served as Financial Economist studying financial institutions and capital markets at the Federal Reserve Board in Washington for 3 years.

Dr. Seger has three degrees from the University of Michigan including an MBA in finance and PhD in finance and business economics. In 1976, she was named by Business Week as one of 100 top corporate women in the United States.

Based on Dr. Seger's impressive credentials, as well as her knowledge and experience in the field of financial economics, I am sure you will agree that she belongs on the Federal Reserve Board.

Sincerely,

James Clarkson

sc

FIRST FEDERAL SAVINGS
AND LOAN ASSOCIATION OF KALAMAZOO

NORMAN P. HAHN
PRESIDENT

346 WEST MICHIGAN AVENUE
KALAMAZOO, MICHIGAN 49007
TEL. (616) 342-7200

February 20, 1984

The President
The White House
Washington, D.C.

Dear Mr. President:

The purpose of this letter is to help introduce you to Dr. Martha Seger, who I suggest you consider as an appointee to the Federal Reserve Board.

Dr. Seger served as Commissioner of the Financial Institutions Bureau of the State of Michigan for several years and performed her many duties in an outstanding and exemplary manner. Martha's credentials prepare her ideally to sit on the Federal Reserve Board. Her biography is included for your information.

From time to time, outstanding people touch the public sector in a manner that is unique. Martha is one of those people. I heartily recommend that she be appointed to the Federal Reserve Board.

Respectfully yours,

Norman P. Hahn

Norman P. Hahn
President

NPH:nd

FIRST FEDERAL OF MICHIGAN

JAMES A. ALIBER CHAIRMAN OF THE BOARD
CHIEF EXECUTIVE OFFICER

February 21, 1984

President Ronald Reagan
The White House
Washington, D.C. 20500

Dear President Reagan:

Dr. Martha R. Seger, currently on leave from the faculty of Oakland University, has an outstanding reputation as an economist and expert on financial institutions. I believe she is an excellent candidate for consideration to an appointment to the Federal Reserve Board.

A graduate of the University of Michigan with MBA and Ph.D. degrees in Finance and Business Economics, she served on the staff of the Federal Reserve Board from 1964 to 1967. Following that, she was an economist for Detroit Bank and Trust and Bank of the Commonwealth.

From 1981 to late 1982, she was the Commissioner of the Financial Institutions Bureau for the State of Michigan.

I sincerely believe she has the background and experience to qualify for this appointment.

Yours very truly,

James A. Aliber
Chairman of the Board

JAA:of

1001 WOODWARD AVENUE • DETROIT, MICHIGAN 48226 • TEL: (313) 965-1400

4-016099M178003 06/26/84 ICS FRDWILB POMH
25687
17:17 EST

western union

Telegram

SENATOR JAKE GARN
U.S. SENATE
WASHINGTON D.C. 20510

PLEASE ADD MY NAME TO THOSE WHO URGE SUPPORT FOR MARTHA SEGER'S APPOINTMENT TO THE FEDERAL RESERVE BOARD OF GOVERNORS. MS. SEGER IS A RESPECTED ECONOMIST WOS SERVICE IN BOTH THE PUBLIC AND PRIVATE SECTORS AMPLY DEMOSTRATES HER QUALIFICATIONS FOR THIS IMPORTANT POST.

PHILIP CALDWELL
CHAIRMAN
FORD MOTOR COMPANY
DEARBORN, MICHIGAN

17:17 EST

IPMPOMX WSH

June 20, 1984

1984 JUN 25 AM 1: 11

JGP Public Relations, Inc.

17315 Rougeway
Livonia, Michigan
48152

313/421-8693

Jeanne G. Paluzzi, APR
President

The Honorable Jake Garn, Chairman
Senate Banking Committee
Dirksen Senate Office Building, #534
Washington, DC 20510

Dear Senator:

When president of the Michigan chapter of the National Association of Women Business Owners, I became acquainted with Martha Seger as head of the state's Financial Institutions Bureau. Since then, I have also seen her expertise and eloquence with the Detroit Economic Club economic forecasting lunches, Republican party events, and other occasions.

Her willingness to listen and discuss various issues of great concern to small businesses and her interest in assisting women entrepreneurs into the system speaks well of her capabilities.

I am pleased to join the sentiments of the Small Business Association of Michigan, of which I am a board member and incoming Vice President-Federal Legislation, in support of her confirmation to the Federal Reserve Bank.

Sincerely,

Jeanne Paluzzi

JGP/ct

cc: Members of Senate Banking Committee

GUY VANDER JAGT
9TH DISTRICT, MICHIGAN

2409 RAYBURN HOUSE OFFICE BUILDING
TELEPHONE (202) 225-3511

COMMITTEE:
WAYS AND MEANS
SUBCOMMITTEES:
TRADE
SELECT REVENUE MEASURES

ADMINISTRATIVE ASSISTANT
JAMES M. SPARLING, JR.

Congress of the United States
House of Representatives
Washington, D.C. 20515

DISTRICT OFFICES:
ROOSEVELT PARK
[illegible] WEST NORTON AVENUE
MUSKEGON, MICHIGAN [illegible]
(616) [illegible]

31 WEST 8TH STREET
HOLLAND, MICHIGAN [illegible]
(616) [illegible]

124 NORTH DIVISION STREET
TRAVERSE CITY, MICHIGAN [illegible]
(616) [illegible]

✓

January 20, 1984

Honorable John S. Herrington
Assistant to the President for
Presidential Personnel
The White House
Washington, D. C. 20500

Dear John:

Enclosed please find a copy of a letter which I have recently received from the Michigan Bankers Association in support of the appointment of
Dr. Martha Seger as a member of the Federal Reverse Board of Governors.

I would like to join the association with my support, and would appreciate being advised as to the outcome of this appointment. Thank you for your time and attention to this matter.

With all good wishes,

Sincerely,

Guy Vander Jagt
Member of Congress

GVJ:lc

(0020)

La Salle Federal Savings
AND LOAN ASSOCIATION
720 E. FRONT STREET
BUCHANAN, MICHIGAN 49107
AREA (616) 695 3884

February 14, 1984

KB

The President of the United States
The White House
Washington, D.C. 20500

Re: Appointment to the Federal Reserve Board

Dear Mr. President:

Shortly you will be reviewing candidates for Governor of the Federal Reserve Board. Martha R. Seger is one of the candidates and I would urge you to appoint her to this Board. I have known Martha, through the savings and loan industry, to be highly qualified, and I am sure you will agree after reviewing her credentials.

Again, I would certainly appreciate your considering Martha Seger for this position.

Thank you.

Sincerely,

Eugene B. Rokely
President

EBR/d

LOF PLASTICS INC. 1150 Stephenson Highway, Troy, Michigan 48007-3230 313/583-2020

WESLEY R. JOHNSON
PRESIDENT

February 29, 1984

The President
The White House
Washington, DC 20500

Dear Mr. President:

I am writing this letter to you to recommend that Dr. Martha R. Seger be appointed a member of the Board of Governors of the Federal Reserve System.

Dr. Seger began her career at General Motors Corporation, where she worked for two years before going to work at the Federal Reserve Bank of Detroit. After that, she obtained her MBA and Ph.D. degrees from the University of Michigan, where she also did work for Dr. Paul McCracken. Her experience also includes two years as an Economist with the Federal Reserve Board in Washington, seven years as Chief Economist with Comerica Bank (Michigan's second largest bank), two years with the Bank of the Commonwealth and seven years in various teaching and lecturing positions at three large universities. Her latest experience has been with the State of Michigan as Commissioner of Financial Institutions.

I personally came in contact with Dr. Seger when I was a director of the Bank of the Commonwealth. I worked closely with her since, as Vice President in Charge of Economic Investments, she was the bank officer working with the directors on the Investment Committee.

I am sure you have a file on Dr. Seger which details her accomplishments in more detail. I would appreciate it very much if you would include my letter of recommendation in her file. I also understand that one of my predecessors as President of The Economic Club of Detroit, Russ Swaney, has written to you on her behalf.

Sincerely,

W. R. Johnson

/jlp

THE MacRITCHIE AGENCY
Insurance — Real Estate
68 WALDRON STREET, BOX 328
HILLSDALE, MICHIGAN
437-7381

February 27,1984

President Ronald Reagan
The White House
Washington, D.C. 20006

Dear Mr. President,

It's my understanding that Dr. Martha Seger is being recommended for appointment to the Federal Reserve Board. Everything I know about her indicates that she is highly qualified for the position and I would hope that her appointment would be approved. I've been in the Real Estate and Insurance business for over 20 years and am very much aware of how important it is to have the right people on the Federal Reserve Board. I believe her to be one of the kind we need. Thank you for taking into consideration my letter when a decision is made.

Sincerely,

John D. MacRitchie
John D. MacRitchie,
REALTOR

JDM/lm

DONALD A. BOOTH
Executive Vice President

mba

MICHIGAN BANKERS ASSOCIATION
6105 West St. Joseph Highway, Lansing, Michigan 48917
Telephone: 517/321-1600

January 13, 1984

The Honorable Guy Vander Jagt
United States Representative
2334 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Vander Jagt:

The Michigan Bankers Association wishes to commend to your attention our support for the appointment of Dr. Martha Seger as a member of the Federal Reserve Board of Governors.

We are aware that Dr. Seger's credentials are known to your office and that others are actively supporting this effort. The purpose of this communication is to advise you that the Michigan Bankers Association enthusiastically supports her candidacy.

Our officers enjoyed an excellent working relationship with Dr. Seger while she served as Michigan's Financial Institutions Bureau Commissioner. Her energy, candor and aggressiveness benefited the financial industry and the State of Michigan. She is highly regarded in Michigan financial circles and we believe would make an excellent contribution on the Board.

We urge favorable consideration of her appointment to the Board.

Sincerely,

Donald A. Booth

Donald A.. Booth
Executive Vice President

MICHIGAN CREDIT UNION LEAGUE

MCUL

P.O. BOX 5210 DETROIT, MI 48235
15600 PROVIDENCE DRIVE SOUTHFIELD, MI 48075 (313) 557-3200

GWA 2

37
K.B.

March 23, 1984

The President
The White House
Washington, D. C. 20500

Mr. President:

It has been widely publicized in Michigan that Dr. Martha Seger is your choice for appointment to the Federal Reserve Board. Michigan credit unions are extremely pleased that Dr. Seger's talents are being thus recognized for so important a position.

The Michigan Credit Union League is the trade association representing nearly 700 credit unions in our state. The League's Board of Directors, which numbers 23 men and women, voted a strong endorsement for Dr. Seger's nomination at its March 15-16 meeting and directed that this action be conveyed to you and to the Senate Banking, Housing and Urban Affairs Committee.

Credit union people know Dr. Seger from her two years as commissioner of the Michigan Financial Institutions Bureau. Her forthright approach to her position, and her knowledge of financial matters, made a very favorable impression within the Michigan credit union movement and gained her many admirers. There were numerous occasions when she was the speaker at credit union gatherings, invariably receiving a friendly and positive response. Of course, Dr. Seger has impressive academic credentials as an educator and economist.

We believe you have made a good choice in Dr. Seger.

Respectfully,

Robert T. Lynch

Robert T. Lynch
Chairman

FHB:ja

Proud of our past...prepared for the future.

Michigan Retailers Association

Larry L. Meyer
President
Chief Executive Officer

1984 JUN 25 PM 4:33

June 20, 1984

The Honorable Jake Garn, Chairman
Senate Banking Committee
S.D. 536, Senate Office Building
Washington, D.C. 20510

Dear Senator:

By means of this letter, the Michigan Retailers Association would like to go on record in support of the nomination and confirmation of Dr. Martha Seger as a member of the Federal Reserve Board of Governors. We feel that her membership on the board will very definitely be a positive force in the future monetary policy of this nation.

We would hope that her confirmation process would reach a satisfactory conclusion in the very near future so that she can take her seat on the board. We have found here to be extremely competent in both monetary and fiscal matters during her tenure as Financial Institutions Commissioner in Michigan.

We appreciate the opportunity to recommend Dr. Seger.

Sincerely,

Larry L. Meyer

Larry L. Meyer

LLM/mb

221 North Pine St. Lansing, Michigan 48933 517/372-5656

:E 1887

2

MUTUAL SAVINGS AND LOAN ASSOCIATION

623 WASHINGTON AVE. • BAY CITY, MICHIGAN • (517) 892-3511

February 23, 1984

K B

President Ronald Reagan
Washington, D. C.

Dear Mr. President:

This letter is in support of the proposed appointment of Dr. Martha Seger to the Federal Reserve Board.

You undoubtedly have a resume of Dr. Seger's many academic and professional qualifications for such an appointment. To those, I wish to add my personal recommendations based on her excellent accomplishments while Commissioner of the Financial Institutions Bureau of the State of Michigan.

With over thirty years of management contacts with the Financial Institutions Bureau and four different commissioners, by comparison Dr. Seger did by far the most outstanding job. Her decisions were based on solid preparation and sound logic. Industry financial problems received fair hearings and conservative, progressive solutions.

It is a pleasure for me to forward this endorsement of Dr. Seger's appointment to the Federal Reserve Board based on my personal business experiences with the Financial Institutions Bureau of the State of Michigan while she was its commissioner.

Sincerely,

Laurence H. Cook
Laurence H. Cook
Chairman of the Board
MUTUAL SAVINGS & LOAN ASS'N.

LHC:fw

SERVING THE HEARTLAND OF MICHIGAN

NATIONAL ASSOCIATION OF WOMEN BUSINESS OWNERS
CAPITAL AREA CHAPTER

June 19, 1984

The Honorable Jake Garn,
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Chairman Garn:

The National Association of Women Business Owners supports the nomination of Martha Seger to become a member of the Federal Reserve Board. NAWBO is a national membership organization with chapters across the country which is devoted to increasing opportunities for women entrepreneurs. As such, it recognizes the fundamental importance of the Federal Reserve Board and believes that this qualified woman should join its ranks. Accordingly, we urge the Committee to vote favorably on this nomination and send it promptly to the Senate floor.

Sincerely,

Virginia Littlejohn

Virginia Littlejohn,
President
National Association of
Women Business Owners

VL/al

1710 Connecticut Avenue, NW • Washington, DC 20009 • 202-667-9337

GWH

PEOPLES SAVINGS BANK

February 17, 1984

The President
The White House
Washington, D.C.

Dear Mr. President:

It has come to our attention that the name of Dr. Martha R. Seger has been submitted to the White House for consideration as an appointee to the Federal Reserve Board. This letter is being written in support of Dr. Seger's candidacy.

Dr. Seger has an outstanding professional and educational background that would bring much talent and experience to the position. She has served as the Commissioner of the Financial Institutions Bureau during the last two years of the Milliken administration for the State of Michigan and has dealt fairly with the various types of financial institutions she regulated. Her background is both extensive and thorough, and rather than enumerate her accomplishments in this letter, please read the attached biography.

After knowing Dr. Seger on both a personal and professional level, we would like to highly recommend her for this candidacy.

Sincerely,

John L. Cherpak
John L. Cherpak
President

W J Bacarella Jr
W. J. Bacarella, Jr.
Vice-President/Secretary

POST OFFICE BOX 714 / 2353 SOUTH CUSTER ROAD / MONROE, MICHIGAN 48161 / TELEPHONE 313 241-2500

Peoples Savings
AND LOAN ASSN

Two W. Michigan Mall
Battle Creek, Michigan 49016
616/968-9351

February 21, 1984

KO

The President
The White House
Washington, D.C. 20500

Dear Mr. President;

I am writing to recommend that you appoint Martha R. Seger, Ph.D. to the Board of Governors of the Federal Reserve Board.

Dr. Seger has served with distinction in academic, banking and government positions.

As Chairman of the Michigan Savings and Loan League, I had the pleasure of working with Dr. Seger while she was Commissioner of Financial Institutions for the State of Michigan.

Her academic background in finance and economics and her brilliant career in education, banking and government make her eminently well qualified to serve on the Federal Reserve Board.

I believe that you would find her views on politics, economics and the proper roll of government very much akin to yours.

Sincerely yours,

Wendell C. Gates, II

Wendell C. Gates, II
President

WCG/bl

Battle Creek • Richland

FSLIC

SECURITY SAVINGS
AND LOAN ASSOCIATION

115 WEST MICHIGAN AVENUE • JACKSON, MICHIGAN 49201
(517) 787-9700

February 22, 1984

President Ronald Reagan
The White House
Washington, D.C. 20006

Dear Mr. President:

I am writing concerning the recommended appointment of Dr. Martha Seger to the Federal Reserve Board.

I became acquainted with Dr. Seger when she was appointed as Commissioner of the Financial Institutions Bureau for the State of Michigan by Governor Milliken. She very capably served in that capacity and I was very impressed with how she efficiently handled her responsibilities and how she fairly dealt with the various types of financial institutions which she regulated.

Dr. Seger has three degrees from the University of Michigan including an MBA in Finance and a Ph.D. in Finance and Business Economics. She has taught at various universities and has a broad financial background. She has also served as Financial Economist studying financial institutions and capital markets at the Federal Reserve Board in Washington.

Dr. Seger has served in various civic capacities and is a member of the following organizations: Economic Club of Detroit, Women's Economic Club, National Association of Business Economists, American Economics Association, American Finance Association and the President's Club - University of Michigan. In 1976, Dr. Seger was named by Business Week as one of the 100 top corporate women in the United States.

Dr. Seger is very knowledgeable about the various financial intermediaries, her business and educational background demonstrate her capabilities and makes her an excellent candidate for consideration as an appointee to the Federal Reserve Board. I am happy to recommend her and encourage your consideration of her appointment.

Sincerely yours,

Richard E. Clifton

Richard E. Clifton
President

REC/dej

SECURITY SAVINGS
AND LOAN ASSOCIATION

115 WEST MICHIGAN AVENUE • JACKSON, MICHIGAN 49201
(517) 787-9700

March 5, 1984

President Ronald Reagan
The White House
Washington, D.C. 20006

Dear Mr. President:

It has come to my attention that Dr. Martha Seger has been recommended for consideration as an appointee to the Federal Reserve Bank. Many of us in Michigan have come to know of Dr. Seger well.

As you know, she has been involved in various financial areas all of her professional life. Certainly, many capable people have been recommended to you for this appointment. However, I feel the fact that Dr. Seger has held high-level positions in both the private as well as the public-sector uniquely qualify her for this position.

I recommend Dr. Seger highly and urge you to give her serious consideration.

Sincerely yours,

Alessandro P. DiNello
Vice President

APD/dej

SECURITY SAVINGS
AND LOAN ASSOCIATION

115 WEST MICHIGAN AVENUE • JACKSON, MICHIGAN 49201
(517) 787-9700

February 27, 1984

President Ronald Reagan
The White House
Washington, D.C. 20006

KB

Dear Mr. Reagan:

Consideration is currently being given to the appointment of Dr. Martha Seger to the Federal Reserve Board.

Dr. Seger was appointed as Commissioner of the Michigan Financial Institutions Bureau in January of 1981 by Governor Milliken. She is very knowledgeable of financial institutions and has handled her responsibilities efficiently.

The degrees Dr. Seger received from the University of Michigan were an MBA in Finance and a Ph.D. in Finance and Business Economics. As Financial Economist, she studied Financial Institutions and capital markets at the Federal Reserve Board in Washington. In addition, she has taught at various universities, which has broadened her background.

Dr. Seger is a member of the following organizations: Economic Club of Detroit, Women's Economic Club, National Association of Business Economists, American Economics Association, American Finance Association, and the President's Club of the University of Michigan. In 1976, Dr. Seger was named by Business Week as one of 100 top corporate women in the United States.

Dr. Seger's knowledgeable business and educational background make her an excellent candidate for consideration as an appointee to the Federal Reserve Board. I am very pleased to recommend her and encourage your consideration of her appointment.

Sincerely yours,

Barbara J Chapin

Barbara J. Chapin,
Assistant Vice President

SECURITY SAVINGS
AND LOAN ASSOCIATION

3045 E. MICHIGAN AVE. • JACKSON, MICHIGAN 49202
(517) 787-0215

February 28, 1984

President Ronald Reagan
The White House
Washington D. C. 20006

Dear Mr. President,

I would like to express my support for the appointment of Dr. Martha Seger to the Federal Reserve Board.

I feel she is an excellent choice. Her background makes her very knowledgeable in the Financial Industry. She has worked at several Financial Institutions, has served under Governor William Milliken as commissioner of Financial Institutions, and has taught Finance for several years. She was also chosen by Business Week as one of the top 100 corporate women in the United States.

I am happy to recommend Dr. Martha Seger and encourage your consideration for her appointment.

Sincerely yours,

Pamela I. Sauber

Pamela I. Sauber
Assistant Vice President

SECURITY SAVINGS
AND LOAN ASSOCIATION

704 S. BROWN STREET • JACKSON, MICHIGAN 49203
(517) 784-3118

February 28, 1984

President Ronald Reagan
The White House
Washington, D. C. 20006

Dear Mr. President:

I am writing concerning the recommended appointment of Dr. Martha Seger to the Federal Reserve Board.

Dr. Seger was appointed as Commissioner of the Financial Bureau for the State of Michigan by Governor William Milliken. She capably served in that capacity and efficiently handled her responsibilities. Dr. Seger dealt fairly with the financial institutions she regulated.

Dr. Seger has several degrees from the University of Michigan, including a MBA and a PH.D. in Finance and Business Economics. She has taught at various universities and has a broad financial background. Dr. Seger has also served in various civic capacities and in 1976 was named by Business Week as one of the top 100 corporate women in the United States.

Dr. Seger is very knowledgeable about the various financial intermediaries. Her business and educational background makes her an excellent candidate for appointment to the Federal Reserve Board. We need more capable women in top government positions.

Sincerely,
Carmeline Chappel

Carmeline Chappel
Asst. Vice President
Operational Manager

50

Sturgis Savings & Loan
ASSOCIATION
119-125 E. CHICAGO RD. • BOX 600 • STURGIS, MI. 49091
TELEPHONE 616/651-9345

February 16, 1984

KB

Ronald L. Reagan
The President
The White House
Washington, D. C. 20510

Dear Mr. President:

I am writing this letter in support of Dr. Martha Seger as an appointee of the Federal Reserve Bank.

Being a president of a savings and loan in Michigan, I have first-hand awareness of her abilities and good thinking habits. She understands banking operations and financial management from the banking view, while remaining concerned about the consumers. She is a very strong woman who does not hide under the shield of "Woman's Lib"--she does not have to.

Our institution has no reservations about recommending her 100%.

Very truly yours,

Leonard L. Eishen
President

LLE:jlw
cc: file

STANLEY D. STEINBORN
CHIEF ASSISTANT ATTORNEY GENERAL
LANSING, MICHIGAN
48913

June 5, 1984

Dr. Martha Seger
Finance Department
School of Business
Central Michigan University
322 Grawn Hall
Mt. Pleasant, MI 48859

Dear Dr. Seger:

Congratulations on your nomination to the Federal Reserve Board. I know that you will bring to this important post both a high degree of professionalism and an equally high degree of knowledge about our economic and banking system.

I always enjoyed working with you when you were in state government and I am sure your colleagues at the "Fed" will find you a charming person to deal with. I suspect that you may even find a bit of stuffiness from time to time that you, in your own inimitable way, will be able to reduce.

Sincerely,

Stan

Stanley D. Steinborn
Chief Assistant Attorney
General

TELEPHONE
(616) 335-5440

RUSSEL ALGER SWANEY
ECONOMIC CONSULTANT
753 SOUTH SHORE DRIVE
HOLLAND MICHIGAN 49423
U S A

February 15,1984

e President,
ite House,
shington,D.C. 20500

ar Mr. President:

purpose in writing you is to recommend a former sociate of mine, Miss Martha Seger for appointment a member of The Board of Governors of The Federal serve System.

. Seger's first job after she received her BA degree the University of Michigan was with General Motors rporation. After two years with General Motors she me to work for me when I was the executive officer Charge of Detroit's Federal Reserve Bank.

ss Seger left the bank after three years to return the University of Michigan to get her MBA and Ph.D. grees. During this time she did research work for . Paul W. McCracken.

nce then I have followed her career with ~~-~~interest. . Seger is a well known economist with a tremendous ckground. In addition to working for the Federal serve Bank in Detroit and Chicago she spent two ars as an economist with the Federal Reserve Board Washington.

rrently she is Professor of Finance at Central Michgan University and is a director of Comerica Bank, troit, Michigan's second largest bank.

. Seger's experience in economics and banking makes er eminently qualified for this very important position. She also is a Republican and one of your fans.

 you are aware, your personnel officer in the Exective Office has a complete file on Dr. Seger.

ou will remember me as President of The Economic lub of Detroit when you addressed our club during he Presidential campaign of 1976.

hank you for your consideration.

Sincerly yours,

Russel A. Swaney

UNITED SAVINGS
& LOAN ASSOCIATION

February 17, 1984

:sident Ronald Reagan
· White House
)0 Pennsylvania Avenue
;hington, D.C. 20500

ır Mr. President,

The name of Dr. Martha R. Seger has been submitted your staff for consideration as an appointee to the ıeral Reserve Board.

Dr. Seger has a distinguished background in the ɛlds of education and commercial banking. She served a Financial Economist at the Federal Reserve Board, ıdying financial institutions and capital markets and :ved very capably as Commissioner of the Michigan ıancial Institutions Bureau.

Dr. Seger's credentials and reputation are of the ghest caliber and I strongly recommend her for the sition for which she is being considered.

Respectfully yours,

Dennis B. Deutsch

31731 Northwestern Highway, Suite 101, Farmington Hills, Michigan 48018 (313) 855-0550

United States Trust Company

Arthur F. F. Snyder
Vice Chairman of the
Board of Directors

March 1, 1984

The President
The White House
Washington, DC 20500

Dear Mr. President:

This letter is written on behalf of Dr. Martha R. Seger. It is my understanding that she is being considered as a member of the Board of Governors of the Federal Reserve System.

I am certain that you are aware of her educational and working history. I write to recommend her specifically because she worked with me as the Chief Economist of the Bank of the Commonwealth while I was its president. From there she went to the State of Michigan as Commissioner of the Financial Institution.

Dr. Seger is a woman of unique capacity. She would bring understanding to the Federal Reserve System and credit to the United States and to you as our President. I recommend her without reservation.

Sincerely,

Arthur F. F. Snyder

AFFS/cb

30 Court Street, Boston, Mass.

VERMEULEN

135 WEST CORTLAND STREET JACKSON, MICHIGAN 49204 TELEPHONE 782-8208

February 25, 1984

President Ronald Reagan
The White House
Washington, D.C. 20006

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Dear Mr. President:

I am writing in regards to the recommended appointment of Dr. Martha Seger to the Federal Reserve Board.

Dr. Seger has served as Financial Economist studying financial institutions and capital markets at the Federal Reserve Board in Washington. She has a broad financial background and has taught at various universities. She has three degrees from the University of Michigan, including an MBA in Finance and a Ph.D. in Finance and Business Economics.

Dr. Seger has served in various civic capacities and is a member of the follwong organizations: National Association of Business Economists, American Economics Association, American Finance Association, President's Club - University of Michigan, and the Economic Club of Detroit. In 1976 Business Week named Dr. Martha Seger as one of the 100 top corporate women in the United States.

Dr. Seger is very knowledgeable about the various financial intermediaries. Her business and educational background demonstrate her capabilities, and make her an excellent candidate for consideration as an appointee to the Federal Reserve Board. I am pleased to recommend her, and I encourage your consideration of her appointment.

Respectfully yours,

Lynn V. Vermeulen
Director-Security Savings & Loan Association