S. HRG. 103–905

NOMINATIONS OF: JANET LOUISE YELLEN AND JULIE D. BELAGA

HEARING

BEFORE THE

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

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

ON

NOMINATIONS OF:

JANET LOUISE YELLEN, OF CALIFORNIA, TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

JULIE D. BELAGA, OF CONNECTICUT, TO BE A MEMBER OF THE BOARD OF DIRECTORS OF THE EXPORT-IMPORT BANK

JULY 22, 1994

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FRIDAY, JULY 22, 1994

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

The Committee met at 10:14 a.m. in room 538, of the Dirksen Senate Office Building, Senator Donald W. Riegle, Jr. (Chairman of the Committee) presiding.

OPENING STATEMENT OF CHAIRMAN DONALD W. RIEGLE, JR.

The CHAIRMAN. The Committee will come to order. Let me welcome all those in attendance this morning and apologize for a little delay in our starting time.

I am going to invite our colleague, Senator Lieberman, to come on up to the table. I know he wants to make an introduction of one of our two nominees this morning. We are delighted to have you. I know Senator Dodd will also want to introduce one of our nominees at a later time, and so, Senator Lieberman, we are pleased to have you here and we would like to hear from you now.

OPENING STATEMENT OF JOSEPH I. LIEBERMAN A U.S. SENATOR FROM THE STATE OF CONNECTICUT

Senator LIEBERMAN. Thank you, Mr. Chairman, and Members of the Committee. I appreciate your courtesy to me. Senator Dodd will be here in a while. I am pleased to be able to come by at this moment to introduce and speak in support of President Clinton's nomination of Julie Belaga, of Connecticut, to be a Director of the Exim Bank.

Mr. Chairman, it amazes me how long Julie and I have known each other since we are both obviously so young and vibrant, but it has been a long time since we served in the State legislature together, since we worked together when Julie was a Regional Administrator for the United States Environmental Protection Agency. She continues in public service in Connecticut today as a mem-

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ber of the Board of Directors of the Connecticut Development Authority and serving also on the Connecticut Environmental Industries Initiative Advisory Board.

Julie Belaga is a great person. She is obviously bright. She is thoughtful. She is energetic, involved. She has wanted to make a difference and she has, in fact, made a difference.

I would say she has two abilities that are critical to this new position for which she has been nominated. One is that she has the capacity to imagine a long-term vision here, to have some goals. She is tough-minded enough to take us to the realization of that vision.

Combining, as she does, particularly her background in environmental protection work with her own interest in economic development, Julie Belaga seems to me to be the perfect nominee for this position at this time in two ways which I will mention very briefly.

First, the Congress has given the Exim Bank new responsibilities to assess the environmental impact of the policies and projects that the Exim Bank makes possible. Here we have the possibility of bringing in, as a Director of the Bank, somebody whose life has been so involved in sensitivity to environmental concerns and protecting natural resources.

Second, in a sense on the affirmative side, Congress is also giving and will continue to give to the Exim Bank real responsibilities to develop this booming world market for environmental technologies which can be such a great producer of jobs for our country, and I think she will be great in doing all of that.

Mr. Chairman, I have a full statement which I ask to be included in the record. I thank you for your courtesy and I wish my friend, Julie Belaga, the best in this new chapter of her distinguished career.

The CHAIRMAN. Very good. We appreciate your coming over and sharing those thoughts with us. It is certainly important support that she is receiving from you today and from your colleague. Let me allow you to excuse yourself. I know you have other things to do.

Is Representative Shays here? I am not seeing him here at the moment. He may come as well, and so, if and when that occurs, we will call on him for similar comments.

At this point, Senator Boxer, let me call on you to also make the introductory comments that you wish to make about Janet Yellen and then I will go ahead and make a formal statement about both nominees this morning. I think I would ask you to do that now if you would.

OPENING STATEMENT OF SENATOR BARBARA BOXER

Senator BOXER. Thank you very much, Mr. Chairman and Members of the Committee. I am very honored to be here today to introduce Dr. Janet Yellen, the President's nominee for Governor of the Federal Reserve System.

Dr. Yellen will bring an incredible wealth of experience and expertise to the Federal Reserve. Her academic and professional background is impressive and her list of publications and honors are extensive. She is currently the Bernard T. Rocca, Jr. Professor of International Business and Trade at the Haas School of Business

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at the University of California at Berkeley. She serves on the panel of Economic Advisers for the Congressional Budget Office, and as the Senior Advisor on the Brookings Panel of Economic Activity. I would also add she is a wife and a mother of a 13-year-old son.

Dr. Yellen's skills and leadership will be an important addition to the Federal Reserve during this critical time of economic recovery and transition. Last year, Mr. Chairman, as you know, we set this Nation on a new and bold course toward economic growth. We face very tough choices. We enacted the largest deficit reduction package in history and we have seen results. Inflation is low. Over 3 million jobs have been created since January 1993, more than were created in the previous 4 years. The nationwide unemployment rate continues to drop from 7.1 percent in January 1993 to 6 percent in June 1994. This is a strong start.

But, as my colleagues know, my State of California is just stepping up to the starting block. Our unemployment rate still lags more than 2 percentage points higher than the national average. Therefore, the policies of the Federal Reserve are particularly crucial to California.

As we work to meet these challenges, I am proud to say that Dr. Yellen and I have a lot in common. We were both born in Brooklyn, New York. We have both chosen the Bay area as our home, and we both care deeply about reviving the California economy. We are also, I think, about 5 feet tall.

[Laughter.]

As one of the most respected economists of her generation, Dr. Janet Yellen truly understands California's unique economic problem. In her post at UC-Berkeley, she has not only focused her writings and her teachings upon the causes, mechanisms, and implications of unemployment, but has also seen, firsthand, the personal impact of job loss felt by the people of California. I think we need that expertise on the Fed.

Leading the international trade education program at Berkeley, Dr. Yellen also fully understands the golden opportunities that the emerging Pacific Rim trade will provide for the economic future of California and our Nation as a whole.

She is a recognized scholar in international economics and her teaching has emphasized what U.S. managers will need to know in order to compete in the new global economy.

With these skills and perspectives, Mr. Chairman, I believe Dr. Yellen will serve the Federal Reserve and our Nation with great distinction. I want to congratulate her on her nomination and once again thank the Chairman for giving me this opportunity to introduce this truly impressive woman.

The CHAIRMAN. Thank you very much, Senator Boxer. Those are important comments and observations and they are very helpful to us.

The Committee this morning is going to hear from both Presidential nominees, and I want to welcome them: Janet Yellen, who has been nominated, of course, for the 14-year term as a Member of the Board of Governors of the Federal Reserve System and who we will hear from a little later; Julie Belaga, who has been nominated to complete a very short term as a Member of the Board of

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Directors of the Export-Import Bank and then to a subsequent full 4-year term.

I will call on colleagues here for any opening comments and then we will go to Ms. Yellen's nomination. Let me make a few comments about that at this point.

Federal Reserve Board Members have the principal responsibility within the Government for economic stability. Their goal is to maintain a healthy rate of growth in jobs while permitting only a low rate of growth in prices. It is obviously a difficult job and it is a vitally important job. Mistakes, when they occur in policy formulation and adjustments, can be extremely costly.

In fact, the recession that we have just essentially recovered from cost us, over its duration, more than $700 billion in lost production over a 4-year period of time. We do not tend to focus too much on what the Fed's role was during that period of time, but if one were to go back and read the record of hearings of this Committee, there were 23 policy adjustments, none of which seemed to be very effective in dealing with the problem, although eventually we see, now, a recovery, but at great cost over that period of time.

We certainly cannot expect the Fed to be able to, by itself, help us avoid recessions entirely, but I think it is absolutely fair to say that Fed decisions can have a powerful effect on how costly recessions are and how frequently they occur. These are not cosmic events and the Fed has an enormous role to play in terms of both anticipating events and helping to ameliorate harmful effects in the economy if they do a good job. Sometimes they do, often they do not.

The Federal Reserve also has other significant tasks. It is the principal Federal regulator for a large share of our State-chartered banks. It supervises and partly operates our financial payments system, and it has an absolutely key role in helping to avoid any systemic financial market failures.

The Fed also has a number of noteworthy issues to resolve, together with the other financial regulators. This includes finding a way to significantly consolidate our bank regulatory agencies and ensure that public risks posed by the private use of derivatives are limited and contained and certainly under some reasonable degree of supervision and control.

The Fed must also do a better job of enforcing and applying our community reinvestment and fair lending laws. There has been progress in that area, but it has been very slow in coming.

This nominee's qualifications for the job are excellent. She has been a highly regarded economics professor at the University of California in Berkeley now for 14 years. Her work has focused on improving our understanding of unemployment and business cycles. She has also examined German economic reunification, trade responses to exchange rate changes, income distribution, and a variety of other important economic issues. She has also taught at Harvard and the London School of Economics.

We very much look forward to hearing her views on some of the pressing issues of the day.

Let me now call on Senator Faircloth for any comments that he might have.

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OPENING STATEMENT OF SENATOR LAUCH FAIRCLOTH

Senator FAIRCLOTH. Thank you, Mr. Chairman.

I want to welcome Dr. Yellen. Thank you for being with us. I had a chance a couple of weeks ago to visit with you in my office.

This is an extremely crucial time in the Nation's monetary policy. Our dollar has been falling not just against the yen, but against a whole basket of currencies, most of them in fact.

The truth of it is the Federal Government has taken on obligations which it cannot possibly hope to meet. The long-term outlook for the Federal deficit and, consequently, the debt, is bleak and it is a condition that the world financial markets are now recognizing.

The pressure will be on the Federal Reserve for easy money to try to cure problems caused by runaway spending, out-of-control spending, and of course out-of-control debt. Easy money will only make matters worse for working men and women.

I hope you will say loud, clear, and often that your first, second, and third priorities are no inflation, no inflation, and no inflation. It is time for the Congress to cut spending and bring about a balanced budget, and certainly it is going to hurt, but we can stop penalizing the people who do work, save, and invest.

Ending barriers to economic growth is the job of Congress, but your job is going to be protecting the value of the working people's dollar. That is the job of the Federal Reserve.

The Federal Reserve cannot bail out the politicians in Congress and in the White House, past and present, by trying to inflate away the Federal debt. The country is going to have to face economic reality. If we do not, the world capital markets are going to shove it down our throat and they are already beginning to do it.

I heard, I visited with, and I recognize and have admired your academic credentials. But I would hope in another appointment, that the Board of Governors would also have proper representation from those who have worked in the private sector. It is one thing to have written about the economy, to have lectured on it, and to have studied it, but it is another thing to have gotten up every day and faced it in a day's work.

I thank you.

The CHAIRMAN. Thank you, Senator Faircloth.

Senator Sarbanes.

OPENING STATEMENT OF SENATOR PAUL S. SARBANES

Senator SARBANES. Thank you very much, Mr. Chairman.

First, for the sake of the record, I want to just comment on the one observation that Senator Faircloth made. The dollar, in fact, on a trade-weighted average is where it was a year ago. It has fallen by only 2 percent versus all its trading partners since last October.

Now, the relationship of the dollar to the yen is quite different and to some extent the relationship of the dollar to the German mark is different, but the yen/dollar situation has been commented by some observers as being a Japanese problem, not an American problem with respect to that relationship.

It is not accurate to say that the dollar has, in effect, had a comparable or anywhere near similar fall against other partners. In fact, the dollar has risen significantly in recent months against

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both the Canadian dollar and the Mexican peso, who are, of course, two of our three largest trading partners.

I just wanted to put that into some context.

Senator FAIRCLOTH. May I ask, Senator Sarbanes, what is the dollar doing against the French franc, the Swiss franc?

NAFTA would make the difference. We certainly passed NAFTA, so consequently the Canadian dollar and the peso become tied to us.

In what major currencies has the dollar not collapsed, skipping Mexico and Canada?

Senator SARBANES. The only currency where there is anything—I would not use the word "collapsed" in any event even to describe the dollar/yen relationship, but that is the only one where you can raise that kind of an alarm flag. As I indicated, there are a lot of commentators who see that as essentially a problem of Japanese economic policy rather than American economic policy.

Senator FAIRCLOTH. What kind of commentator? What is a commentator? Who? There are a lot of commentators.

Senator SARBANES. Yes, analysts who have looked at that and have commented about it in the public press.

You can make the point. I just want the point to be accurate and I want it to be in context. That is all. It is not accurate to, in effect, assert that there has been a collapse of the dollar against all currencies. It is just not the case.

Senator FAIRCLOTH. With the exception of the peso and the Canadian dollar——

Senator SARBANES. Well, of course, those are important exceptions because they are two of our three largest trading partners.

Senator FAIRCLOTH. All right. It has held up against the peso and the Canadian dollar. All right.

Senator SARBANES. Against the Asian currencies, the dollar has been essentially stable, leaving out the yen.

Senator FAIRCLOTH. What is the predominant currency in Asia?

Senator SARBANES. Pardon?

Senator FAIRCLOTH. What is the predominant, overpowering currency in Asia? What currency dominates Asia?

Senator SARBANES. The U.S. dollar.

Senator FAIRCLOTH. How about the yen?

Senator SARBANES. No. The dollar is the standard worldwide and, in fact, so much so that a lot of purchases made by other countries of significant resources are made in dollar terms, interestingly enough.

Senator FAIRCLOTH. The dollar has been collapsing against most major currencies in the last 2 weeks.

Senator SARBANES. That is just not accurate. That is the point I am trying to make. It is exactly the point I am trying to make.

Mr. Chairman, having dealt with that matter, I would like now to turn——

Senator FAIRCLOTH. You have not dealt with it.

Senator SARBANES. —to Janet Yellen who is before the Committee this morning for us to review her nomination to be a Member of the Board of Governors of the Federal Reserve System.

The review of her background makes it clear that she brings very high qualifications to this nomination to serve on the Board of Gov-

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ernors of the Federal Reserve Board. A summa cum laude graduate of Brown University, she holds a Ph.D. in economics from Yale University. She has been an assistant professor of economics at Harvard, a lecturer at the London School of Economics, and is currently the Professor of International Business and Trade at the School of Business at the University of California at Berkeley.

In addition to her various academic positions, she has held a number of significant public responsibilities which actually are relevant to this nomination. She served, actually, as an economist in the Division of International Finance of the Federal Reserve—so, she has been on the inside at an earlier point in her career—a Member of the National Science Foundation Advisory Panel in Economics, and is a Member of the Panel of Economic Advisers of the Congressional Budget Office.

By all accounts, Ms. Yellen is a professional economist of the highest order. She has published widely in the fields of macroeconomics and international economics. As she says in her opening statement, much of her work has focused on understanding the causes of unemployment and how they might be dealt with. She will bring to the Federal Reserve important analytical talents combined, I think, with a sense of the impact of economic policy decisions on the lives of everyday people.

As has been commented here, the Federal Reserve plays a very important role in shaping the economic framework of the Nation, making economic policy. It requires people of the highest caliber. I have expressed in the past some concern that there has been a tendency to focus on the caliber of the highest order when we have discussed the Chairman of the Federal Reserve, but seemingly to drop the standard when we talk about the Members of the Federal Reserve. I am happy to say that I think President Clinton, both in nominating Alan Blinder and now Janet Yellen, has shown a sensitivity to the need to have high standards on the part of all Members of the Board of Governors. They, after all, all have a vote. The Chairman is their spokesman and their leader in a sense, but they all have a vote. When they gather around the table in that sense, they are equals. I think it is very important, therefore, that anyone going on the Board of the Federal Reserve bring the highest standards and qualifications to the nomination.

I welcome this nomination here this morning. I look forward to the dialog which will ensue. Thank you very much.

The CHAIRMAN. Thank you.

Senator Sasser is also Chairman of the Senate Budget Committee.

OPENING STATEMENT OF SENATOR JIM SASSER

Senator SASSER. Thank you very much, Mr. Chairman.

I want to welcome Dr. Yellen here this morning and also our other nominee, Julie Belaga. I think both of these nominees have excellent credentials and their well-deserved reputations precede them.

Dr. Yellen is one of the Nation's brightest economic minds. I believe her work on macroeconomics and labor markets and her insights on international economics will serve the Federal Reserve and the Nation well.

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It is also my hope that Dr. Yellen will bring some balance to a Federal Reserve Board that, in my judgment, has ignored the human implications by some of its actions.

I am most interested in Dr. Yellen's views on inflation and monetary policy. As you are well aware, Dr. Yellen, I have been very critical of the Federal Reserve's repeated interest rate hikes over the past 6 months. I think the Fed's fear of inflation is vastly overblown, and I see no reason why working men and women should be punished because we might be on the verge of some economic growth. The penance that the Fed has administered in the form of higher interest rates only serves to dampen a healthy economy. I think those who are seeking desperately to elevate their standard of living after a period of 4 years of stagnation ought to be allowed a little oxygen to breathe in this new economic environment.

We here in the Congress, in spite of some of the remarks you might have heard to the contrary, have been doing our share. We passed a budget bill last year that was calculated to reduce the deficit over 5 years by $500 billion. Thanks to a number of other recalculations and a better economy, and the fact that we used accurate figures, these savings over the next 5 years have now accelerated from $500 billion to around $650 billion in savings over 5 years. Included in the deficit reduction was over $255 billion worth of spending cuts, a $90 billion cut in entitlement programs, and a hard freeze in discretionary spending.

That is something that the Congress and the Administration did. That was fiscal policy. That was targeted to reducing the deficit, to reducing the long-term debt of the country so that we could have a more liberal monetary policy and move in the direction, once again, of economic growth.

I am perplexed that when we have a fiscal drag on the economy as a result of a tighter fiscal policy being pursued by the Federal Government, that the Fed feels that it is incumbent upon them to also impose a tighter monetary policy.

I think we have to move away from this hysteria over inflation. I might remind our listeners that we had no inflation in the 1930's, but we had a 25 percent unemployment rate at the height of the Great Depression. We do not want to move in the direction of deflation as opposed to providing some modicum of economic growth in this economy. I, for one, think economic growth figures of 2.5 percent or 3 percent are certainly not cause for concern over inflation, and I think they are really inadequate to grow the kind of economy that we need.

Mr. Chairman, I also think that Julie Belaga is an inspired choice to go on the Board of Directors of the Export-Import Bank. My good friend, the Junior Senator from Connecticut, has outlined in detail Ms. Belaga's impressive range of public and private sector experience, and there is little I can add to that. In my opinion, she is the right candidate with the right qualifications to carry out the Bank's new mission to promote the export of environmentally beneficial U.S. goods and services.

Once again, I want to welcome both of our nominees to today's hearing. I look forward to receiving their testimony.

Senator SARBANES. Mr. Chairman?

The CHAIRMAN. Yes, Senator Sarbanes.

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Senator SARBANES. Mr. Chairman, I would like to put in the record in full—and I just want to quote very briefly from them—three articles with respect to this exchange that I had with Senator Faircloth. One is an article by Paul Krugman that appeared in the New York Times at the end of June, and I will just quote briefly from it:

Why isn't the dollar's slide to date cause for concern? For one thing, the dollar has not fallen all that far. Over the past year it has declined only about 10 percent against the yen and less than 7 percent against the mark.

For another, the dollar has not been weak on all fronts. While it has slumped against Japan and Germany, other important trading partners like Canada and Mexico have actually devalued against the dollar.

All told, in the last year the dollar has fallen no more than 3 percent on average against the currencies of America's trading partners.

Compare these currency movements with those between 1985 and 1987. Then, the dollar fell from 258 yen to 129 yen and from 3.3 marks to 1.6 marks, and its average exchange rate fell more than 30 percent. The great dollar slump of those years was a good 10 times as big as this one. Yet, even that spectacular slide was not enough to derail the economic recovery then in progress.

Now, the Washington Post, in an editorial on July 3, 1994, headed "It's the Yen That's Out of Control," and I quote them:

Americans have been wondering why their own currency seems to be falling at a time when the economy here is performing well. Now it is beginning to be clear that the dollar isn't falling. It is down a little against some currencies, up a little against others, and trading in normal ranges against all but one, Japan's. It's the yen that's out of control.

Finally, from the Wall Street Journal of July 22, 1994, this morning, quoting Under Secretary Summers:

'The dollar has, in fact, been stable when you look at its relationship with the currencies of all major trading partners. The U.S. dollar has been particularly strong against the Canadian currency.'

Mr. Summers, yesterday, pointed out that while currency fluctuations can be an irritation in the global economy, they aren't as extreme as they used to be. 'Charts of dollar moves in the mid-1980's looked like the Himalayas,' he said, 'while movements in recent years resemble the rolling hills of Yorkshire.'

Of course, the period he is referring to of the mid-1980's is the period that Krugman was referring to in his article.

Thank you very much. I ask that the full articles be put in the record.

The CHAIRMAN. Without objection, it is so ordered.

Senator Faircloth.

Senator FAIRCLOTH. Senator Sarbanes.

Senator SARBANES. Yes.

Senator FAIRCLOTH. You quoted from the Wall Street Journal. I assume you have it there in front of you.

Senator SARBANES. No. I have the article in front of me. I do not have the whole paper in front of me.

Senator FAIRCLOTH. All right. If you look at section C, money invested this morning, you would be interested in knowing that the J.P. Morgan index value of the U.S. dollar today against 19 currencies is down, that it has clearly fallen all year long.

Senator SARBANES. I said there was a 3 percent fall. That is what Krugman said. "All told, in the last year the dollar has fallen no more than 3 percent on average against the currencies of America's trading partners." So, there has been a 3 percent drop.

Now, as I pointed out, in 1985 to 1987, the exchange rate fell more than 30 percent, 10 times as much.

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Senator FAIRCLOTH. Are you through? I would like to talk if I may.

Senator SARBANES. Certainly.

Senator FAIRCLOTH. It has had a 3 percent gain, the dollar against the Canadian dollar. It has had a 32 percent gain against the Chinese yen, but now against France, it is down 9.9 percent; Germany, 9.7 percent; the Italian lire, 10.2 percent; the Japanese yen, 13.3 percent; South Korea, .8 percent; Taiwan, .5 percent; the United Kingdom, 5.4 percent. So, it is losing. To argue otherwise is ludicrous.

It has held against the Canadian dollar and the Mexican peso because of NAFTA. Mark out those two, and it has fallen. I am through.

Senator SARBANES. Let me be very clear, Mr. Chairman. I stated and quoted that the dollar had slipped a bit on average, 3 percent over the year. I am perfectly happy to put that right up front.

What I was addressing was the Senator's assertion at the outset, which he continues to assert, that the dollar has just collapsed against all currencies, and that is just not accurate. There is a problem with respect to the yen, but as the Washington Post points out in this editorial, and as other commentator's have also indicated, that really may well be more a problem with the Japanese economy than it is with our economy. I just want to put the thing in context.

Yes, I would like to put in a good article by Robert Samuelson, "The Yen: Japan's Reality Check." He ends that article by saying, "The problem is not the dollar, it's the yen," after going through a careful analysis about the Japanese economy and Japanese economic policy.

The CHAIRMAN. We have had a good discussion. There are obviously at least two points of view on that issue.

[Laughter.]

It lays a good foundation of point of view for your comments which will come shortly.

Senator SASSER. Thank you, Mr. Chairman. I am looking forward to hearing from Dr. Yellen at some point today.

[Laughter.]

The CHAIRMAN. It will not be long.

Senator Boxer, did you have anything else to say? You gave us a very fine introduction of this witness.

Senator BOXER. I am looking forward to the statements.

The CHAIRMAN. Before you begin your statement, let me do what is routine in situations such as this and that is to ask you to take the oath. Would you stand and raise your right hand please?

Do you swear or affirm that the testimony you are about to give is the truth, the whole truth, and nothing but the truth, so help you God?

Dr. YELLEN. I do.

The CHAIRMAN. Do you agree to appear and testify before any duly constituted Committee of the Senate?

Dr. YELLEN. I do.

The CHAIRMAN. Very good. Please introduce anybody that may be with you or any acknowledgements of that kind and then we would like your comments. After that we will go right to the questions.

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STATEMENT OF JANET LOUISE YELLEN, PH.D. OF CALIFORNIA, TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Dr. YELLEN. I would like to introduce two members of my family, my brother, John Yellen, and my sister-in-law, Alison Brooks.

The CHAIRMAN. Delighted to have you.

Dr. YELLEN. Chairman Riegle, Members of the Committee, I am pleased to appear before you today as President Clinton's nominee to serve on the Board of Governors of the Federal Reserve System. I am deeply honored that the President has nominated me to serve as a Member of the Board.

The decisions of the Federal Reserve affect the economic well-being of all Americans through their impact on output growth, job creation, inflation, interest rates, and the value of the dollar. The Fed also has important regulatory and supervisory responsibilities for the safety and soundness of the banking system, for the integrity of the payments mechanism, the enforcement of the fair lending laws, including the Community Reinvestment Act, and for other consumer issues.

If I am confirmed, I pledge to work with other Members of the Board to craft a monetary policy geared toward maximum employment, stable prices, and moderate long-term interest rates, the goals established in the Federal Reserve Act, and to faithfully execute the regulatory responsibilities entrusted by Congress to the Federal Reserve Board. These are challenging and important tasks and I will devote my full energies to carrying out these duties to the best of my ability.

Before commenting on some of the issues confronting the Federal Reserve, let me briefly describe my background and qualifications for the position as Governor. As Senators Boxer and Sarbanes noted, I was born and raised in Brooklyn, New York, but I have lived in California since 1980 where I serve as Bernard T. Rocca, Jr. Professor of International Business and Trade at the Haas School of Business at the University of California at Berkeley, and I teach macroeconomics and international economics to MBA's and to executives. My interest in economics is longstanding. I majored in economics at Brown University, graduating in 1967, and received my Ph.D. in economics from Yale in 1971. As Senators Boxer and Sarbanes also noted, I have held a variety of academic positions and have also worked at the Board of Governors of the Federal Reserve.

I have published original research on a wide variety of topics relating to international economics and to macroeconomics. My research has explored the causes of cyclical fluctuations and the potential for monetary policy to mitigate them, the wage setting policies of firms, the measurement of labor market slack, and the impact of macroeconomic performance on job switching and job satisfaction. I have also studied the implications of globalization for international investment and employment, the linkages between exchange rate changes and the U.S. current account deficit, and the consequences of German monetary union for East German reconstruction.

I hope that this broad background and experience have equipped me with the analytical tools and historical perspective needed to

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analyze emerging trends in the domestic and world economies and to help in the formulation of appropriate monetary policies.

Furthermore, as a faculty member in a professional school of management, I have been immersed in the problems of business and have gained an appreciation of the economic conditions which foster a willingness on the part of firms to hire and train workers, to invest in plant and equipment, and to undertake new research and development, the investments which are necessary for long-run economic growth and enhanced living standards of American families.

Price stability should be a central goal of monetary policy. There are many reasons for according high priority to this objective. With high and unstable inflation, profits derive disproportionately from outwitting the financial system rather than from producing the products that consumers need. Inflation creates uncertainty and distorts price signals, complicating business planning. Under the current tax system, higher inflation raises the cost of capital, diminishing the incentives to save and invest. Inflation erodes the wealth of small savers whose assets are fixed in dollar terms. And, as interest rates rise to compensate for inflation, debt service burdens increase as a fraction of income, making purchases of homes and cars unaffordable for many families. Workers worry about how to cope with rising prices and meet their current bills, and with uncertainty as to whether wages and salaries will keep up with needs, times of inflation often become times of labor strife.

Many factors, including fiscal policy, oil prices, exchange rates, wars, and productivity shifts, affect the behavior of prices in the short run, but in the long run, inflation on a sustained basis cannot occur unless monetary policy accommodates it. The Federal Reserve controls the Nation's money supply, and thus the FOMC effectively determines the level of inflation over the longer run. The Fed's responsibility is to choose policies that are designed to maintain a noninflationary environment.

The second objective of the Federal Reserve should be to keep the economy growing as close as possible to the natural rate of unemployment, the maximum feasible employment level consistent with stable inflation. The natural rate of unemployment is the lowest rate of unemployment that the Fed can target without risking accelerating inflation. My goal, as a Governor of the Federal Reserve Board, would be to confine unemployment to this level.

My personal agenda as an economist has been to understand the causes of unemployment and discover ways to alleviate its pain. In times of high unemployment, workers who lose their jobs face the terror of being unable to support themselves and their families. The toll of high unemployment, like that of a regressive tax, falls most heavily on groups in the work force that are least able to bear the burden.

Young workers deprived of gainful employment may have careers which are permanently stunted because they cannot develop the skills which are critical to their long-term job prospects.

In addition, in times of high unemployment, even those who have work often become stuck in jobs and places where they are unhappy with limited possibilities to move.

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A slack economy lowers corporate profits, diminishing the ability of firms to invest and fund R&D, and it creates unused capacity, diminishing their incentives to add to capacity.

Through this channel, high unemployment harms long-term living standards. A rough rule of thumb is that each percentage point of unemployment, in excess of the natural rate, costs the economy about 2 percent of GDP, roughly $130 billion in today's economy. Thus, the costs of unemployment are great and, as a Governor of the Federal Reserve, I will do my utmost to maintain the maximum feasible level of employment consistent with the achievement of price stability.

In the short run, the Federal Reserve faces a tradeoff between the goals of low inflation and high employment. But a monetary policy which pushes the economy beyond its potential for the sake of current job gains is shortsighted and ultimately unfair to American workers. Such gains are transitory, a loan which must be repaid in the form of job losses at a later date. The pursuit of job gains in the short run, in excess of what the economy can sustain, engenders inflation, and later job losses constitute the cost of bringing inflation down. The recession of 1982–1983 illustrates the enormous price that workers and businesses paid to bring inflation under control after it built up in the 1970's. Having incurred such a high price to lower inflation then, it would be foolhardy to squander the fruits of this effort.

If I am confirmed, I will join the Federal Reserve at a time when the macroeconomic fundamentals are sound. Inflation is the lowest it has been in almost 20 years, except for a brief period in 1986 when oil prices were tumbling, and with strong GDP growth, the unemployment rate has declined substantially. I believe that the Federal Reserve's major goal at this juncture should be to create monetary conditions conducive to stable real growth at a pace matching the economy's growth in potential output.

This is a challenging task. The impact of Federal Reserve policies on the economy occurs with a substantial lag, and random shocks and uncertainties concerning the strength of key economic linkages make forecasting difficult. I agree with the Fed's decision to reduce monetary stimulus, before the emergence of obvious inflationary pressure, in order to avoid overshooting the natural rate. On the other hand, the appropriate amount of tightening involves some guesswork and it is difficult to know whether the actions that have been taken thus far will prove sufficient to prevent overheating, insufficient to the task at hand, or possibly excessive.

The role of a Fed Governor now, as always, is to monitor every available economic indicator in order to continually update forecasts of economic performance and to make needed policy readjustments, constantly balancing the risk, on the one hand, of choosing a monetary policy which is too expansionary, threatening overheating of the economy, and on the other, of a policy which is too tight, threatening jobs and income growth. This is a difficult task, and no simple formula or single performance indicator, including the price of currency, gold, bonds, stocks, fluctuations in inventories, durable goods orders, monetary aggregates, or whatever, should receive undue attention. Instead, the job of a Fed Governor is to make reasoned judgments about likely future trends in light of all available

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economic data. In this task, I hope to make a constructive contribution to the work of the Board.

I am a strong believer in the independence of the Federal Reserve. A policy regimen geared toward long-term economic health must avoid the temptation to conduct policies which overheat the economy for short-term gains. Occasionally, a dose of bitter medicine must be administered for health to be restored. Congress wisely devised a system which enables the Federal Reserve to take the long view. I believe that this system best serves the interests of the American people and ultimately enhances economic performance. I also appreciate the necessity for accountability on the part of the Fed to Congress and ultimately to the American people. If I am confirmed, I pledge my full cooperation in this process.

In conclusion, I would like to thank you, thank the Committee for the speed with which this hearing has been scheduled—I know how busy your agenda is—and note that in my opening remarks I focused on just one of the responsibilities of the Federal Reserve, the conduct of monetary policy. I am well aware of the many other duties of the Federal Reserve, with respect to supervision and regulation of the banking system, and am learning more about challenging policy issues confronting Congress and the Federal Reserve in such areas as product line deregulation, enforcement of fair lending laws, reduction of regulatory burden, and possible measures to reduce any risks posed by derivative instruments to the safety and soundness of the financial system.

I will be happy to answer any questions that you may have.

The CHAIRMAN. Very good. Let me just, at this point, interrupt the proceeding. Senator Dodd is here. I know he has an introductory comment that he wants to make with respect to Ms. Belaga. I know Congressman Shays is here as well and wants to also make an introductory comment. Senator D'Amato wants to put his opening statement in the record at this point, and I am going to recognize him for that purpose. Then, I am going to call on Senator Dodd and invite Mr. Shays to come up, as well, and we will deal with those introductions.

Senator DODD. I didn't follow you, but I will be glad to do that. [Laughter.]

The CHAIRMAN. All right, very good. Stay with me.

Senator DODD. I will just stay tuned here.

The CHAIRMAN. Senator D'Amato.

OPENING COMMENTS OF SENATOR ALFONSE M. D'AMATO

Senator D'AMATO. Mr. Chairman, thank you so very much.

Mr. Chairman, in the interest of time, I am just going to ask that my statement be inserted in the record as if read in its entirety and wish both nominees good luck in their important jobs. I feel confident that you bring the kind of judgment and experience that will be important in these important positions, and I look forward to supporting you and working with you in the years to come.

The CHAIRMAN. Very good. Without objection, the statement will be included as part of the record.

Senator Dodd, do you want to go ahead, then, with your introduction. We will just suspend for the moment, Ms. Yellen—I know

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you will understand—so we can do this and accommodate Congressman Shays as well.

Senator DODD. If it is appropriate, Mr. Chairman, I am going down to join Congressman Shays and appear before the Committee.

The CHAIRMAN. Please do.

OPENING STATEMENT OF SENATOR CHRISTOPHER J. DODD

Senator DODD. Mr. Chairman, first, I appreciate your courtesy in allowing us to break up the schedule here just a bit, but this is a moment of great pride in the Nutmeg State, if I may say so, to be joined here by my colleague and friend, Chris Shays, the Congressman from the Fourth Congressional District in Connecticut and our nominee's Congressperson.

I have had the pleasure, honor, and distinction of knowing Julie Belaga for many, many years. I am going to ask unanimous consent that a prepared statement be included in the record regarding her nomination.

As you know, Mr. Chairman, Ms. Belaga is before the Committee today as the President's nominee to be a Member of the Board of Directors of the Export-Import Bank, and I want to commend the President for this selection. I am confident that the Committee will look favorably upon this nomination and move it as expeditiously as possible.

We all know—and I do not need to belabor it in front of this Committee—the crucial importance of exports to our economy in both the near- and the long-term, and how tremendously important they are to all of our States. I know my own State of Connecticut has benefited tremendously to the tune of almost $80 million as a result of Export-Import Bank activities.

Julie Belaga, Mr. Chairman, has had a long and very distinguished career in public service in our State and in the country. She was a State Representative in Connecticut for 10 years. She served as a lecturer on public policy at Harvard University, and worked with our media in the State as a commentator. She was the Regional Director of the Environmental Protection Agency, and a candidate for Governor. I am pleased to say, an unsuccessful candidate for Governor——

[Laughter.]

—as a Republican candidate for Governor. I am teasing when I say that, but Bill O'Neill won that election. You would probably expect me to say nothing less.

In our State, Mr. Chairman, by and large we have our differences politically and substantively and we debate them out, but we are a small State. We are a little more than 3 million people. We all know each other pretty well. It is an area 100 miles by 60 miles. It is not even the size of Los Angeles County by population or geography. So, we get to know each other very, very well, and we may have our differences from time to time.

I will tell you, here today, that Julie Belaga is one fine person and a tremendous public citizen who always keeps the best interests of her constituencies paramount. She has been chosen one of the top legislators in the State, over the years, by both Democrats and Republicans, including Outstanding Freshman Legislator of 1977—an award voted on by other legislators in Connecticut.

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I am just pleased that President Clinton, in looking for diversity, has chosen someone like Julie Belaga to be one of the Directors of the Export-Import Bank. I think it strengthens all of us.

During her tenure as the Regional Director of EPA—and again, we all know what that can be like in trying to work with people and the politics of it—she always made sure the Democrats were included at any kind of information session or ceremony. I know I got as early a word as anyone else, regardless of party or political persuasion. Chris did not like to hear that or see that, but that is just the kind of individual she is.

I have been a promoter of this idea that she come to Washington, particularly to work in the area of environmental areas of the Export-Import Bank. We are trying to promote those technologies. We all know the difficulties in the new emerging republics, and the tremendous environmental problems in promoting the export of U.S. technology in these areas. Given her background, I think she will be extremely helpful.

You have the resume in front of you. You see her credentials. I am here to join my colleague in the House in telling you that we think this is a terrific nomination. We are deeply pleased that President Clinton has put it forward. It says a lot about him that he has nominated her and it says an awful lot about our nominee that she has accepted and is excited about this opportunity. I am sure when you get to hear from her, you will sense that enthusiasm that all of us have known for so many years in the State of Connecticut.

The CHAIRMAN. I might just say, Ms. Belaga, that I spent my first 6 years in the House as a Republican. Then I changed parties. So, I can identify with what it sounds like your brand of Republicanism is.

Mr. SHAYS. Don't get carried away, Senator.

[Laughter.]

The CHAIRMAN. Congressman Shays, we are pleased to have you and we would like your comments now.

STATEMENT OF CHRISTOPHER SHAYS
A U.S. REPRESENTATIVE FROM THE STATE OF CONNECTICUT

Mr. SHAYS. Thank you. In one minute, first, thank you for letting us interrupt your hearing and thank you, Senator, for the opportunity to testify.

I just want to congratulate President Clinton for this appointment and to thank, in particular, Senator Dodd, for his interest in this candidate because he has found the very best and to just tell you about the quality of this individual since you have her background and experience. She is highly intelligent. She has impeccable integrity. She is creative. She is dedicated. She is very hard-working. I just have awesome respect for this individual. She will play it by the rules. She is not partisan. She just wants this country to move forward. I just think she is the best example of an American citizen you can have and I am just pleased that this appointment has been made.

The CHAIRMAN. Very good. Thank you for coming over and making your comments. I am delighted to have both those statements.

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Ms. Yellen, do you want to come back up? You had finished your statement and I am going to have a number of questions for the record. I am mindful of the time today, because we have a banking conference Committee meeting that will take place early in the afternoon, and a number of important matters to be settled there.

Let me ask you a question, initially, on the general area of regulatory consolidation in terms of bank regulation. Last November, Secretary of the Treasury Bentsen proposed a bank regulatory restructuring plan that would streamline the regulatory function of the four Federal bank regulators.

Then, in March, this Committee held hearings on the Treasury's proposal and we heard from the heads of the Federal Reserve, Comptroller of the Currency, the Office of Thrift Supervision, and the FDIC, and they all described the need for a more consolidated and efficient Federal bank regulatory structure. I strongly support that concept and have advanced that legislatively.

I would like your opinion. Do you think that consolidation of the Federal regulatory apparatus is desirable and necessary?

Dr. YELLEN. Yes, I do. I think that there are definitely efficiencies to be gained in the process of bank supervision and regulation. The system, as it stands, strikes me as Byzantine. It is unduly complex, and I think that duplicative Federal bank examinations and overlapping regulation across the agencies ought to be eliminated because it is costly both to the Government and to banks. I would certainly like to see a proposal work its way through Congress to consolidate the system. I think it would result in a fairer system with lower regulatory burden.

The CHAIRMAN. Then we can count on you, if confirmed as a Member of the Federal Reserve Board, to work with us here in the Congress and with the Administration on a restructuring plan that would increase efficiency and reduce the cost of the current bank regulatory system and some of the inherent conflict there.

Dr. YELLEN. Yes, Senator Riegle, you can certainly count on my cooperation to work toward that goal. I strongly endorse it.

The CHAIRMAN. Thank you.

Yesterday, when Mr. Summers was here—reference has been made to the news stories, today, about his appearance when he was talking about the semiannual exchange rate report. Japan is going to have a global trade surplus this year of about $130 billion. Nearly half of that is with the United States. That is $60 billion, a $5 billion a month drain, if you will, on our economy. I am just wondering what, in your view, are the consequences of that if that continues year after year after year as it has now for well over a decade?

Dr. YELLEN. From the United States' side, we run an overall current account deficit, of which part is with Japan, but part is with the rest of the world. From my standpoint, that is a problem. It is a reflection of the fact that the United States is a country that is not saving enough. A country runs a current account deficit when it spends in excess of its income. By spending, I mean purchases by households, firms, and the Government. When total spending is in excess of what a country produces, it ends up with a current account deficit.

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A current account deficit is a problem if it reflects the fact that we are not providing well enough for the future. I think a significant part of that deficit in the past has been reflective of Federal Government budget deficits.

A current account deficit is not invariably a problem, however. If a country, like a firm, were spending in excess of its income in order to invest, then in the future it would generate a reward from that investment that would help it pay its bills later on; but to the extent that the United States is not investing and that the current account deficit does not reflect extraordinarily high investment, it is a problem and generally reflective of our low savings rate. Of course, from Japan's side, the opposite is true. Japan is a country that saves a great deal.

The CHAIRMAN. We will pursue that another time.

I want to ask you about derivatives. There are many people—and I am among them—who have a concern about the rapidly growing involvement of banks in derivative activities. Yesterday, the Comptroller of the Currency issued an advisory letter to banks concerning "structured notes," debt instruments with embedded options or forwards. Now, some people tend to dismiss the risks of derivative activities and say that banks have the situation in hand and we ought not to worry about it.

Are you confident that the regulators have the capability to adequately measure and constrain banks from taking on excessive levels of risk through derivative activities?

Dr. YELLEN. I would not want to say that I am fully confident. I believe that the regulators are working together effectively to address this issue. I believe it is an important issue because there is some small probability of events that can have systemic repercussions, and it is an area where regulators should not be complacent.

On the other hand, I do see that the regulators on this question are trying to get ahead of the curve in a number of different ways. I know that they have done a great deal to insure that banks have in place solid risk management systems. I think one of the causes of the growth of this market is the fact that banks and other agents have become very much more sophisticated themselves in their ability to deal with risk management.

Bank regulators, of course, have a very great responsibility to ensure that the safety and soundness of the banking system and the insurance funds are protected. I think adequate capital requirements are key here, so that if there is gambling that is occurring, those who are gambling are doing so with their own money and risk losses that will not overwhelm the capital that they have. Improving the measurement of risk to take account of market risk, and not just credit risk, is something that is also important and I know the regulators are working on that.

So, I do not think we should be complacent in this area, but I do see a lot that is positive going on.

The CHAIRMAN. Let me just give you a cautionary thought here. There is a lot going on. I think that there is alertness now that was not necessarily present sometime back. I want to make sure we are on top of this problem. I am not confident that we are today. I have not found a single regulator yet that is able to demonstrate to me

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a sufficient personal knowledge of how the whole derivatives system is working and they are frank to say that in private discussion.

I do not want an ounce of complacency on this issue. I want to make sure you get into it, if confirmed, that you understand it, that you can come back and tell me you understand it, and no if's, and's, or but's. I do not want a problem out there that comes circling around some day and then everybody says, well, we thought we understood that, we thought we were on top of that. That is not a tolerable situation. I have enough concern about it that I want to emphasize to you, as directly as I can, that I am attaching a personal responsibility to you to take this mental capability and expertise that you have and get on top of this problem.

Dr. YELLEN. I am happy to promise you that I will involve myself in this problem. I agree with you that it is something that there should not be a feeling of complacency about. It is a complex issue and there are risks. They are low probability events, but ones that are very serious should they occur, and I think the bank regulators have to be on top of this.

The CHAIRMAN. Let me make one other point about this, and that is that I am concerned—and I have seen this happen in other situations where we tend to look at a piece of a problem. You may look at the derivatives issue through the eyes and the focus of the banking system and not sufficiently understand the cross-relationships where activity may be out there related to the nonbanking system. I do not want a chain reaction problem developing that comes crashing through into the banking system and hits the deposit insurance system again.

The fact that there is a capital cushion out there is all well and good. I do not want to see us burn through that, and I have seen a lot of very sophisticated players take big hits recently. I am not confident, as I sit here, that one class of players, whether it is the GE's of the world or others, are necessarily any less sophisticated than are some of the banking institutions that are also involved in this activity.

I do not want to leave this to the theorists and guesswork and so forth. I want a competence applied to this so that, at the end of the day, we have some rather certain knowledge that we understand the magnitude of all the cross-connections on a global basis as well, because this is a global issue. I do not want to have us get hit in the back of the head by this problem, and I think it has that potential.

Dr. YELLEN. I agree with you that it has that potential and I pledge to do my best on this subject.

The CHAIRMAN. Very good.

Let me yield now to Senator Sasser.

Senator SASSER. Thank you, Mr. Chairman.

I am going to ask you some questions, Dr. Yellen, some of which you might be able to answer rather briefly.

Dr. YELLEN. I will try.

Senator SASSER. Do you believe that monetary policies should focus exclusively on fighting inflation at the expense of everything else, or should the Federal Reserve also be concerned about recessions and unemployment?

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Dr. YELLEN. Senator Sasser, as I emphasized in my opening statement, the Federal Reserve's job is to do what it is instructed to do in the Federal Reserve Act, as amended, and that is to focus on inflation, namely price stability, maximum employment, and moderate, long-term interest rates. It does not say to focus on price stability exclusively, and I care about all of those goals.

Senator SASSER. Dr. Greenspan, the Chairman of the Federal Reserve Board, has testified repeatedly before the Congress that anti-inflation policies promote long-run productivity growth. Are you familiar with the academic literature on this question and, if you are, will you give us your views on this matter?

Dr. YELLEN. I am familiar with some of the academic literature on this question, and I would say that the jury remains out on whether or not there exists a relationship between higher inflation and slower productivity growth at moderate rates of inflation.

I am not talking here about the kinds of problems that occur in hyper-inflationary situations where it is clear that money has lost its value as a medium of exchange with serious consequences for the functioning of the system. But, if we are talking about inflation rates that have not reached the double digits, I would say there are tantalizing correlations there, but correlation is not causation.

Countries rarely run high inflation rates purely as an experiment that central banks have decided it would be interesting to engineer so that they can see what the consequences would be. Almost always there is something more fundamental that is driving the inflationary process—whether it is Government budget deficits that a central bank is under pressure to finance or other problems in the economy. All of those factors—oil shocks, wars, other problems—can be driving that correlation. So, I would say the jury is certainly out.

But it is an important question because if there is a link between higher inflation and slower productivity growth, that is certainly an important consequence of inflation that we ought to know about.

Senator SASSER. Strong productivity growth can keep inflation down, of course——

Dr. YELLEN. Yes. The causation can also run in that direction.

Senator SASSER. —by allowing firms to increase their profits without boosting prices.

Dr. YELLEN. Yes. The correlation could be a matter of reverse causation from high productivity to low inflation.

Senator SASSER. Isn't that exactly what is going on in many sectors of our economy now?

Dr. YELLEN. I think that may, to some extent, be going on, that good productivity growth is helping on the inflation front.

Senator SASSER. A while ago, you were talking about the 1970's and the inflation that built during the 1970's and culminated in the excessively high interest rates of the late 1970's and early 1980's that finally plunged us into the deepest recession since the Great Depression of the 1930's. In your judgment, what were the primary factors that contributed to the inflation of the 1970's?

Dr. YELLEN. I think it began during the Vietnam War period when Government spending increased and pushed the economy up against capacity. It began to grow slowly. Then the economy was hit by a series of adverse supply shocks, the oil price increase of

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1973, and as we were beginning to recover from that, there was the second oil price hike.

I think the Federal Reserve was faced with a very difficult problem during that period of whether to accommodate those price increases that were coming from the supply side or not. They partially accommodated the price increases coming from supply shocks and found out later that, as a consequence, inflationary expectations began to rise. So, even when the supply shocks were over, the economy was left with what most regarded as an unacceptably high rate of inflation——

Senator SASSER. Due to inflationary expectation?

Dr. YELLEN. Yes, due to inflationary expectations.

Senator DODD. If my colleague would yield. Just on that Vietnam War issue, it was not so much that there was spending as it was that we did not pay for the spending.

Dr. YELLEN. That is right, yes.

Senator SASSER. So, it would be accurate to say, in your judgment, Dr. Yellen—and I do not want to put words in your mouth—the inflation of the 1970's was really caused by the Vietnam War, spending that was not paid for, as Senator Dodd said, and the two rather severe oil shocks that occurred during the 1970's.

Dr. YELLEN. Yes, but the Federal Reserve chose, at least partially, to accommodate that. Had they taken an extraordinarily tough stance against inflation, we would have had less of it, but during that period I think the consequence would have been much higher unemployment rates prior to the 1982–1983 recession.

Senator SASSER. There is no question you would have had a tighter monetary policy which would have resulted in higher unemployment rates during that period of time and less economic growth.

So, this culminated in Dr. Volcker's extremely high interest rates of the early 1980's that plunged us into the deep recession of 1983.

Do you think we would have been better advised during the decade of the 1970's to pursue a tighter monetary policy? I think the Japanese did that in response to their oil shocks, did they not?

Dr. YELLEN. I believe they did do so.

Senator SASSER. Yes.

Dr. YELLEN. I think it is a tough issue. I think we paid a very great price in 1982–1983. I would not like to live through that again. It was not a straightforward issue, though.

Senator SASSER. Yes. Some of us think we paid too high a price. We think that Dr. Volcker, or Professor Volcker, let the rates go higher than was really necessary, that he tightened the monetary policy and put on the monetary brakes too abruptly. Before it was over, I think he ended up perhaps even frightening himself with the results of it.

All right. One final question, Dr. Yellen. It appears to me that there is a widespread fear on the part of some in the financial world, that is reflected, I think, to some extent, by the leadership of the Fed now, of economic growth. The fear is that if we get some economic growth going, we have got to shut it down quickly because if we do not, we may get some inflation.

Now, my question to you is, do you think you can have substantial economic growth without excessive inflation?

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Dr. YELLEN. I think what the Fed needs to do is make sure that growth in aggregate demand matches the growth in the economy's ability to supply goods and services. The growth of potential output depends on productivity growth and labor force growth. Unfortunately, productivity growth has fallen in the United States since 1973 for reasons that economists have studied in great depth and yet do not fully understand. If, on a perpetual basis, the Federal Reserve allows aggregate demand to grow at a faster pace than that, eventually they will encounter inflationary pressures, so that is not a sustainable situation.

Senator SASSER. This is my final question, Mr. Chairman.

I thought that productivity growth in the industrial sector had picked up appreciably during the 1980's.

Dr. YELLEN. I think it has picked up, and estimates of productivity growth in the nonfarm sector vary, but people see productivity growth in the range of 1.5 percent.

Senator SASSER. But isn't there a difference between the industrial sector and the service sector? In other words, I was under the impression that productivity growth in the industrial sector of our economy had been doing very well during the latter part of the 1980's and in the 1990's, and productivity growth in the service sector is very, very difficult to measure.

Dr. YELLEN. I agree. It is difficult to measure. It is very hard, in assessing productivity growth, to distinguish between movements over business cycles and trend movements and a number of researchers have tried to determine whether or not there appears to be a permanent increase in productivity growth. Certainly, there is anecdotal evidence that would suggest that corporations are doing business in a different way, that they really have become extraordinarily oriented toward continually reengineering the way they do business in order to get continual productivity improvements. That would lead us to have some hope that there will be a permanent pickup in the pace of productivity growth. I would hope to see it, but I think the jury remains out at this point.

Senator SASSER. Yes. I will just leave you with this one final observation. I think we have to remember the human equation here. It is one thing to move in the direction of zero inflation. It is another thing to have high productivity growth. All of these are, I think, laudable goals, but in the final analysis, what an economy does is provide the wherewithal for human beings to exist and grow in a quality environment. That is really what it is all about in the final analysis.

Dr. YELLEN. I agree with you.

Senator SASSER. I sometimes have the sense that we get lost in all of the statistics of zero inflation, productivity growth, et cetera, et cetera, et cetera. If you are on a street corner without a job and homeless, it is not much solace to say, well, we've got zero inflation, high productivity growth, the budget is totally balanced. So what?

Dr. YELLEN. I hope to keep my eye on the people behind the numbers.

Senator SASSER. Thank you.

The CHAIRMAN. I am going to have some questions for the record, but I want to cover a couple of things here.

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I do not know if you saw the jobless claims data out this morning. Have you had a chance to see that?

Dr. YELLEN. I did hear that the jobless claims had risen.

The CHAIRMAN. Let me just read you the account from the New York Times this morning:

> The number of Americans filing new claims for State jobless benefits shot up last week, the Government said today. The Labor Department said new claims for State unemployment benefits, ended July 13, climbed to 392,000 from a revised 365,000 the prior week, putting it to the highest level since late January. The number far exceeded Wall Street economists' forecasts of 358,000 new claims in the week. The average climbed to 363,500 in the week ended July 16 from a revised 353,500 the prior week.

There is a question as to whether some of the temporary layoffs in the auto industry are affecting these numbers, but we just saw the day before the fall-off in housing starts and sales of completed homes also came down. I think there is a growing sense on the part of many that the Fed tightening, both the signal that it gave, the psychological signal of the change in direction and now the actual effect of higher interest rates, is beginning to start to impact the economy. Greenspan, when he was here, said that he thinks there is a 6-month, to 9-month, to even an 18-month time over which those effects are fully felt, but I think it is clear we are already seeing some effects. We have had market effects, and other effects.

We try, as best we can, to see how much inflation may be appearing out there as an offset to this softening economic data. I do not see too much. I suppose if one isolates on a given item, one might say, well, wait a minute, what does this mean? But, if you take it all, I do not think there is any significant body of economic analysis by so-called experts that indicates that there is a major inflation problem that is surfacing here. At least it certainly does not appear to the naked eye. Would you agree with that, by the way?

Dr. YELLEN. I would agree with you that inflation appears to be stable at this point, to be well contained. I think it is the Fed's job to keep its eye both on what is happening to inflation and what is happening to jobs and economic growth. The Administration has said that the high growth rates that we had at the end of 1993 and the beginning of 1994 could not be sustained, and I think we know that the pace of growth and demand has to come down to something matching the economy's potential to grow.

I would like to see that happen, but I do not want to see the economy slip into a recession. I want the Fed to be ready to act if the slow-down that we see occurring now goes too far, and by the same token, if we see signs of emerging inflation, if they appear on the horizon, the Fed also has to be prepared to act. I would hope they would be prepared to act in either direction, depending on the risks.

The CHAIRMAN. I would agree with that. I think there is a very careful balance to strike here. We do not want to go back into a recession. We do not want to kill this recovery before it fully takes hold.

I am of the view that while we have been repairing the balance sheets in financial institutions, there are still a lot of family balance sheets that took a terrible pounding that have not been repaired. There are an awful lot of people that have lost jobs and either have not found jobs yet or have gone from full-time work to

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part-time work or, if they have gone from one job to another on a full-time basis, they have left a job that was maybe paying $27,000 a year and ended up with a job that may now pay $18,000 a year. So, there has been an enormous backward slide of a lot of people, in effect, either out of the middle class or down from higher wage levels to lower wage levels. I think that is buried in the numbers.

I think it is a real problem in the country. It is part of the, I think, disaffection and frustration that people are feeling about what is happening to America and even with our ability to respond to it with policy that seems to work for them.

In any case, I am very sensitive, as you have just expressed a sensitivity, to striking the right balance here between the lowest level of unemployment that we can achieve and, at the same time, not reigniting inflation. I do not want inflation reignited either. I do not want to be misunderstood on that issue.

By the same token, high interest rates or higher interest rates are, by themselves, inflationary. If you want to buy a house—you have had a lot of your students come through your classrooms who are now out in the private sector putting families together, trying to put together the down payment for a home, pay student loans, and so forth. If the long-term interest rates kick up a point or two and if they are higher than perhaps they need to be, there are going to be certain people who are priced out of home ownership.

Senator Sasser did a very good job the other day of talking about the principal and interest payments per month for families with certain incomes to show who gets priced out of the market. More and more people get priced out of the market.

Interest rates that are higher than they perhaps have to be have an inflationary impact. They get built into the price of everything under the sun. In a sense, it is a cost of capital and it goes into the base price of things just the same way an energy cost or something else might go in. So, I think a missing part of this debate is the fact that when interest rates go up, because it also gets built into product pricing, it has an economic effect in and of itself quite apart from inflation fighting because it becomes a factor in the inflation even if it is aimed at inflation fighting.

Of course, I think the people who are the hard-liners on this want to talk about the part that is the inflation fighting without talking about the part that, in fact, adds to the inflation. To working people who have to live with the burden of high interest rates or having credit choked off to them, it is a very real problem.

I am concerned, sometimes, because the theorists and the ivory tower people, sometimes academics, people in the Government bureaucracy, and so forth, live up on a more elevated plane and oftentimes are somewhat removed from being on the front line of the effects of what is happening. That concerns me because I see too often the Government veering off with policy decisions that do not really have a very adverse effect on the very people who are making the decisions. It is all very abstract. It is all very distant and, out across the country where people live, it is a different story. I think we need to really understand that if we are going to hold this country together in terms of the sense of equity and fairness.

I want to add one other point to this because it is an important part of understanding, I think, the psychology in the country and

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bringing it back to how the economy actually works. That is, that there has been an enormous shift in income distribution in the United States over the last dozen years or so, that the tax policies of the 1980's, when one looks at income distribution figures, show an enormous gain at the very highest levels of the income scale and a certain strip-mining of the amount of national income going to people in the middle and in some of the lower categories of the income scale in the country.

I must tell you that I am concerned about this because I think part of what makes the American system work is a broad middle class, the ability to get to the middle class, stay in the middle class, and avoiding radical income distribution problems that really tilt the economy, in an equalitarian sense, way off its axis. Unfortunately, we have a problem in that area.

That is where we start from now. We are not starting from some textbook model of a normal condition. We have gone through a period of time that has moved us to a point where there is a lot of income imbalance and inequity in the country, I think, as the data just tells us. When you throw in high interest rates on top of that preexisting condition, it has a different kind of an effect than it might have if we had a different starting point.

To the people who are at the top of the asset-holding scale and the income scale, it is incidental. If you are going to buy a luxury yacht that costs $750,000, and it is going to have a captain and a crew of four and all the other goodies that go with it, the degree of what you are paying as an interest rate cost, if you are even financing with a loan, is probably incidental to that particular buyer. If that is somebody that is out there, to them a small change in the interest rate, or what they would view as a small change in the interest rate, is rather insignificant. It becomes an academic point to them.

What I have to tell you in terms of the State where I come from, the band of people who are in economic circumstances where the interest rate sensitivity is real in terms of the impact on their lives, what they can do in terms of either going from being a renter to a buyer, being able to put enough money aside to have income security in old age, to put enough money aside in the course of a year maybe to invest in an IRA for the year—a lot of people who can get the full tax advantage from an IRA cannot afford to save enough money in the course of the year to do it. A lot of people in the country cannot afford to do it. You well know that, because you study these statistics. This never gets into the debate, or almost never gets into the debate, and that is why I want to shove it into the debate here.

I am very much concerned that we understand exactly what we are basing our decisions on when we ratchet up interest rates. If we have a real inflation problem that is building, then we have to do something about it. I understand and I support the need to do that. Or, if we have too much speculation in the financial markets, which I think the Fed was convinced we had a few months ago, one of the ways to nip that is with a shift in interest rate policy. I can understand and support that.

What I cannot support is an ideological fervor and a reflex that chases nonexistent inflationary fears that, in turn, come and grind

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down the living standard of a lot of people who are not in a position to defend themselves from capricious and arbitrary decisions and whose lives are affected and hurt by what may seem to be a fairly benign event. It is not a benign event. It is a very real, practical, economic event.

I have seen in the past, when there has been an economic strip-mining of the middle class, that oftentimes there is a desire on the part of some to heat up a lot of social issues and to get people focused on the social issues so that their attention is diverted there while their economic situation is being strip-mined. I have seen this too many times, by lots of different skillful operators, and that is part of the contemporary political scene in this country. Perhaps it has been over the whole history of the country.

It is, I think, quite a real factor now, except the erosion of the middle class since World War II is occurring in a new and a more dangerous way than it has before. It is a whole new phenomenon in our country, and it is a very worrisome problem because if you want to tear America apart, hammer and shrink the middle class enough, and I guarantee you we are going to have social problems in this country beyond people's present imagining.

It makes people mad. It makes them frustrated. It makes them feel that Government cannot work, is not on their side, and so forth.

Why do I take all the time to say this? Because I think the Federal Reserve is a very lofty place that often is disconnected from an understanding of the hurly-burly of what is going on down where real people live and are trying to pay the bills day in and day out, week in and week out. I have seen too much disconnection. I have seen too much theory, too much ideology, too much philosophy of an individual or a group of individuals playing in here without a very careful calibration of what this is doing to the country as a whole, what happens to our society, what happens to the equities within our society, what happens to people's ability to have upward mobility in the society, or the degree to have a broad middle class that really gives the strength and the cohesion and the stability to our country.

Those are very real factors, and I never hear them talked about, quite frankly. We troop the Federal Reserve in here all the time. We get off into arcane economic analysis, and that is all well and good. That is a big part of the job. It is not the whole job.

When you look backward in time, the Fed did not do a good job of bringing us through the last recession. The fact that there were 23 policy adjustments while we were losing over $700 billion in national output is not a good performance. I do not care. Anybody who wants to come along and put the good housekeeping seal on that now, I do not think fits with what, in fact, happened. The Fed freely confessed, as they came down through this long period of policy adjustments that did not work, except over a very, very long period of time, vastly different from what they imagined, that there was an awful lot of pain, suffering, and hardship that was done, and we unraveled an awful lot of the economic structure of the country. We have a lot of ex-middle class people in America today that have moved down several notches partly as a result of the fact

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that the Fed did not do a very good job with their part of the economic policy strategy effort.

They are not the sole culprits by any means. I think our fiscal policy, our tax policy, and a lot of other things contributed to it. Certainly our trade policy did as well.

In terms of coming back and isolating where Federal Reserve policy fits in now, starting from today's conditions, given all the damage that has been done—even taking the story today on IBM. I used to work for IBM. IBM finally announced some very positive earnings yesterday. There is a question as to whether that is a one-quarter deal or if it will be longer than that. But, embedded in the story was the fact, if it is accurately reported in the Washington Post, that over the last 12 months IBM has gotten rid of 23,000 employees and those are not all people who have reached retirement age. There are a lot of people who have been flushed out of IBM and a lot of other companies in America who are out there now, many of whom, if they found jobs, have found jobs at lower income levels. Part of that restructuring has to go on in any case.

I have detected, over the last several years, a lack of understanding at the Fed about the guts of the economic structure of the population of our country and what that means to having a solid, cohesive, unified country that is gaining ground, not just some people in the society gaining a lot of ground, but the fact that, over the broad sweep of the economy, people who work hard and who really are doing the most they can are gaining ground and not substantially losing ground.

So, when interest rates go up, we better make darned sure they need to go up and that it is not a capricious act, not a situation where we go out and price somebody out of a child's education or a retirement account or the chance to become a homeowner rather than a renter because we are off in a world of arcane theory and not the practical effect of what it is we are doing.

I want some practical effect, and I have spent enough time myself in academic settings, both teaching in colleges and working on my doctorate at the Harvard Business School, that I have developed a healthy skepticism for academics. Don't take this personally, but I think there is something to be said for understanding that theory works up to a point, but if it does not square with what is happening to Mr. and Mrs. America out in the communities across this country, then the theories, as comfortable as they may be in academic circles and in textbooks and all the Lehrers and Hubers that are out there, may not be worth anything. In fact, they may be harmful.

I want, at the end of the day, policy decisions that work for the broad number of people in this country, and that is what we ought to be steering to. I think it would be helpful, sometimes, if we got the Federal Reserve Board out of Washington and out of the reserve banking system and into the communities talking with local people, sitting down with families in working class situations, and really getting a big dose of reality, of that reality.

Unfortunately, I do not see much of that and so I feel a great frustration about it. A lot of people in the country do. I want to voice some of this here, today, because I do not want you, as a new Federal Reserve Member, to get isolated up there in an ivory tower

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type setting and be removed from the kinds of things that I am talking about. I think you have to force yourself to go out and generate that information, get it into the discussion, and talk about it.

I do not want to just hear the anecdotal situations about somebody who sees a microscopic blip of possible inflation in the future. If we are going to talk about anecdotal situations like that, then let's talk about what is happening in the lives of working class people as well. Let's get some balance into the discussion. I would appreciate it if you would make an effort to do that.

Dr. YELLEN. I assure you I will make an effort to do it. I think that the ultimate clients of the Federal Reserve are the American people, and what the Fed should be pursuing is the economic welfare of ordinary working Americans and Americans generally. That is what the Fed should have its eye on.

I certainly agree with you that when interest rates rise, it places a burden on American families and it should not be done unless there is a good reason for it. It should never be—you used the word "capricious." That would be irresponsible. Sometimes it is necessary, but it should never be done lightly and it should be done only for a good purpose.

I was pleased that you mentioned the trends in the American economy regarding rising disparities in income distribution in this country. I think that is an extremely important phenomenon, a very disturbing one that deserves a great deal of attention. I do not think that it is the Federal Reserve's fault, but we have a situation in the United States where, between 1979 and 1987, young men with a high-school education have seen their real wages decline by almost 20 percent. I do not think economists yet understand what has caused that shift. I do not think it can be blamed on the Federal Reserve.

I think it perhaps is a technological change that is occurring in our economy and other industrial economies throughout the world. It is shifting the demand for workers away from less skilled people toward more skilled people, and this is showing up in a widening of the income distribution. Clearly, this is something that is tremendously frustrating to ordinary Americans and that the Federal Reserve should be sensitive to, although it is not within the power of the Federal Reserve, I am afraid, to remedy that problem entirely.

The CHAIRMAN. No. I fully agree with that and I appreciate what you have said.

I just want to make another point about it, and that is I think somebody should write this book or do this body of work and go out and win a Pulitzer Prize with it, maybe even a Nobel Prize. There is a relationship between the health and well-being of the social contract in this country, the civil order, the degree of harmony that we either have or do not have in our society, the measure of economic justice and opportunity, and how the economic system is working. These are not separate and disconnected elements. They are absolutely cross-connected.

The great success of America, if one goes back and looks, say, at the part of this century when we were not caught in extraordinary events like the Depression, a world war, or things of that kind that were large scale anomalies, when we were making great progress,

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I think you can find a very clear relationship between the way the social contract was working and the civil order, sense of well-being, harmony in the society, people's faith in the system, faith in the country, their sense of hopefulness about the future, and how the economic system was working, the fact that people were making gains, and so forth. There are a lot of factors that have come in, technological changes, globalization, and a lot of other things. Tax policies obviously do it as well.

If you knock the economic justice system askew, it will not take very long before you find that you have a major problem with your social order and your social contract. A growing underclass cannot break into the system and a large part of the middle class is sliding backward and out of the middle class. It is an absolute prescription for great difficulty and disorder in this country. There are a lot of historical situations that one can look at to find that those elements, played out in other countries, have created those kinds of situations.

I think we have an element of that happening now. It is not part of the debate because there is an antiseptic tendency to disconnect these two things. Too many of the monetary policy and Fed type theorists live in a self-indulgent world of economic theory without connecting it up to whether or not it actually works in holding a society together. These things have to be put together. I do not say it should be tilted off its axis so that you sacrifice one for the other. They have to be accommodated together. I think they have been moving off their axis and that is a real problem in this country. I think we need to focus on that problem, to bring it to light, because I think now the facts and the logic are so powerful that only the most hard-nosed ideology would refuse to see it because it is there. It is there in the income distribution statistics. I think it is there in terms of dissolution of families and a lot of other things where, if you apply enough economic pressure, you can really destabilize a country and we get too much of that. That has to change and be part of the policy thinking and part of the policy formulation.

This is not a one-dimensional situation and it is not just economic modeling, a one-dimensional kind of analysis. It is much more complicated than that. If it were only that, we could do Fed policy almost by computer and that would really send us to a place where we do not need to go. I hope you can bring some of that into these discussions.

Dr. YELLEN. I hope I can be sensitive to this set of concerns. It is also my set of concerns. I share all of the concerns that you voiced. While I do not think that the Federal Reserve is in a position to fix all of the problems that you have mentioned, I think that——

The CHAIRMAN. I do not either, and I do not want to be misunderstood to that effect. I am not saying that.

Dr. YELLEN. I think that the Fed should be aware of what is going on in making its own decisions, and certainly take into account the repercussions of what it does for this set of problems.

The CHAIRMAN. Even more importantly, the Fed cannot be a cure-all, nor are they the cause of all these problems. But, on the margin, the Fed is an absolutely critical player as to whether we do things that help solve these problems or we end up inadvert-

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ently doing things that make these problems worse. That is a responsibility the Fed carries, whether it wants to see it or not. That is the one responsibility that has to be brought into focus.

Dr. YELLEN. I agree with you, that is a responsibility, and I certainly intend to assume that responsibility.

The CHAIRMAN. Thank you.

We will give you other questions for the record. I appreciate your patience in hearing me express those views.

Dr. YELLEN. Thank you very much. I appreciate it.

The CHAIRMAN. We will excuse you now and call our next nominee to the table.

Let me welcome Ms. Belaga to the table. You have been nominated, of course, as others have said, to be a Member of the Export-Import Bank's five-member Board of Directors.

I should say, for the record, that the principal role of the Exim Bank is to promote sales by American exporters to all parts of the world. This is done through a variety of financing export programs, including direct loans, financial guarantees to private lenders, commercial and political risk insurance, and working capital guarantees.

During the last Congress, this Committee, under the leadership of Senator Sarbanes who then chaired our International Finance Subcommittee, developed legislation that amended and renewed the Exim's charter for a period of 5 years until September 1997. That legislation also established, in statute, the Trade Promotion Coordinating Committee, or the TPCC as it has come to be known, and directed it to develop a Government-wide strategic plan for carrying out Federal export promotion and export financing activities. Obviously, that kind of a strategy is long overdue in an increasingly globalized economic setting, and it is my own view that at least part of our past poor performance in economic trade measured by the statistics is a result of our having failed in not having an effective and coordinated national export strategy.

On September 29, 1993, Ken Brody, who serves as President of the Exim Bank, along with Secretary of Commerce, Ron Brown, and Small Business Administrator, Erskine Bowles, presented the first annual report of the TPCC to this Committee. We welcomed that report and look forward to receiving the next one in September so we can continue to develop an ever stronger export strategy to help U.S. companies compete effectively and increase their sales overseas.

One of the initiatives is to enhance exports of environmental technologies. The first TPCC report stated that to enhance our international competitiveness and export performance, the U.S. Government should focus on the market for environmental goods, services, and technologies. That report went on to say that because the environmental industry is technology driven, its exports will help create high-wage jobs in this country. In fact, we have just seen an example of that in the news recently in terms of this foreign sales activity.

Ms. Belaga, I think your extensive environmental experience by itself, including service as a Regional Administrator of the EPA, gives you special knowledge and background to enable you to help, particularly in this area. I understand that, if you are confirmed,

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you will have a key role in promoting environmental technologies. That industry consists today largely of small- and medium-sized firms that are very likely unaware of some of the financing support that is available. Figuring out how we can get those connecting links in place, I think, is an opportunity and it is something that I would hope you could advance.

Let me now administer the oath to you and ask you to rise and raise your right hand. Do you swear that the testimony you are about to give is the truth, the whole truth, and nothing but the truth, so help you God?

Ms. BELAGA. I do.

The CHAIRMAN. Do you agree to appear and testify before any duly constituted Committee of the Senate?

Ms. BELAGA. I do.

The CHAIRMAN. Very good. Let me welcome you again. Please introduce anybody that is with you that you want to bring to our attention, and then we would like your opening statement.

STATEMENT OF JULIE D. BELAGA, OF CONNECTICUT TO BE A MEMBER OF THE BOARD OF DIRECTORS OF THE EXPORT-IMPORT BANK

Ms. BELAGA. Thank you. I would love to introduce my husband, Mike Belaga, and my son, David.

The CHAIRMAN. Mike, David, welcome.

Ms. BELAGA. I have family here, too, but I know the time is running.

The CHAIRMAN. We welcome them all.

Ms. BELAGA. Mr. Chairman, I can't tell you what an honor it is to testify before you on my nomination by the President as a Director of the Export-Import Bank of the United States. This is a unique opportunity for me. It is a truly superb distinction and a very, very proud moment for me and my family.

For the past 22 years, I have had a career as a public servant in both elective and appointive office and, if confirmed, the position at Exim Bank brings together all of those years of experience and enables me to employ the skills, interests, and abilities that I have developed. Frankly, the thought of making a real difference is exhilarating.

This past year and a half, I have served on the Connecticut Development Authority Board of Directors, and that organization's challenges dovetail precisely with the mission of the Exim Bank. Their goal is to enhance the export of the State's products and, in doing so, to increase the number of high-wage and high-value jobs for Connecticut workers. That is the basis for what Exim Bank does.

Furthermore, under the very able direction of Ken Brody, the Chairman and President of Exim Bank, the Bank is committed to important challenges, two of them relating directly to the one area of my expertise, and that is to the environment.

As you say, Mr. Chairman, the Bank is very interested in developing a broad initiative to stimulate the export of environmental goods and services. The United States has been on the cutting edge of developing a diverse range of technologies to deal with all of our precedent-setting environmental laws, and those technologies are

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now tried and tested and have the potential to be an important part of our export portfolio. It is a job that begs for energy and creativity.

The Bank is also developing a set of environmental procedures to more carefully and effectively consider the environmental effects of a project that Exim Bank may support. I have had 3 years of experience as the Regional Administrator of the six New England States for the Environmental Protection Agency. If confirmed, I will help guide the design of a system that will meet the Administration's environmental goals and, at the same time, assure that job creation and export opportunities move forward in a timely and effective fashion.

Your Committee, through the Trade Promotion Coordinating Committee legislation, has created a blueprint for well-coordinated, user-friendly trade promotion systems that emphasize assistance to small- and mid-sized businesses, as well as to large businesses. One-stop shopping, unified export promotion, outreach to small businesses, coordinated and consistent training programs, and a really user-friendly system are all part of the United States' new dynamic export promotion strategy.

As the Committee is aware, Chairman Brody is committed to implementing that blueprint. If confirmed, I will eagerly lend him a helping hand.

Exim Bank is not a new bank. It has a proud 60-year history. Under the able leadership of Ken Brody and Tino Kamarck, the Bank is charting new territories. I relish the opportunity to be a part of that high energy level team. I am committed to make all of their goals and your goals a reality.

I look forward to working closely with the Committee. Mr. Chairman, I would be pleased and proud to answer any of your questions.

The CHAIRMAN. I want to make a reference to the story that I mentioned in passing, a moment ago, of today's Washington Post, the headline, "Clinton Helps Raytheon Win Brazilian Contract;" subheadline, "$1.4 Billion Satellite Project Goes to the United States." Then, in the body of the article by Peter Behr, it indicates that this is to develop an environmental satellite project.

It is certainly good news that a contract of that size would come to an American company and to American workers. It sounds as if it was in the face of aggressive competition. I think it is an illustration of the kind of progress we can make where there is an aggressive, proactive strategy, and it turns out this is squarely in the area of an environmental application. It is encouraging that that has taken place.

I ask unanimous consent that that article be in the record at this point.

Just looking at the environmental technologies side of it and our export potential there, what do you have in mind as opportunities or first steps of things that you would like to try to do to see what more can be done there?

Ms. BELAGA. I think it is a double-barreled challenge, but very clearly there is a growing market, internationally, for what I call the environmental infrastructure. United States companies have been superb in developing our capacity to build wastewater treat-

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ment plants and sewer treatment plants. In the developing countries, those are major new challenges. I see us as being able to make those connections and help get some of those bids, if you will.

It is very clear to me, though, that a lot of the small- to mid-sized companies really do not know enough about Exim Bank. I think our challenge will be to reach out and make connections to these companies and let them know that we exist and that we have the capacity to help make them successful exporters.

The CHAIRMAN. I am hopeful that, in that area, you can bring a special kind of leadership because you have a sense for that area and certainly the rapid pace of change that is going on there.

It is interesting. Last September's report of the Trade Promotion Coordinating Committee estimated the potential world market for the environmental services industry as being somewhere in the range of $350 billion to $380 billion. If we could go out and get a good, solid, fair share of that kind of a growing market, that is a major achievement for our society, and it also obviously promotes a social good. I think, to the extent that we can preserve the global environment, everybody on the planet gains from that. This is obviously an area where we can, I think, make a good living for our people and use some of this leadership that we have developed in this area that is now out there in our own country but not necessarily out into those international business channels.

Ms. BELAGA. I see it as a real win-win situation. I have long decried the fact that we really are not aggressive enough in terms of marketing, that our private sector has not really marketed outside of our boundaries. I think there is a superb opportunity there. I really look forward to helping make that happen.

The CHAIRMAN. What other major priorities would you emphasize as you look forward to assuming this job?

Ms. BELAGA. One of the other projects that Ken Brody has started and I know is already in the works at Exim Bank is to develop some environmental rules by which the Bank can evaluate some of the applications that come before them. I think that is going to be a very interesting balancing act, to help the Bank identify environmental difficulties, if you will, and help companies through the system.

The worry that I have is that any kind of procedure that we put in place would bog down the system and not allow for the quick turnaround, which is absolutely critical in the export market.

The challenge to develop those procedures is going to be enormous, and I know that people at the Bank have already started to work with that. They have been talking with the environmental community and the export community and look forward to coming and talking to the Committee about that forward motion. That is a big challenge and I think a very important response to Congress' concerns.

The CHAIRMAN. I am struck by the fact of your own political history and I think it is very important that we have bipartisan Government, not just in terms of the working across the party aisle here, which is essential and something that I work hard to promote as best I can, but also, I think, in the very fabric of Government. We need people who come from both parties, both major parties, who bring that experience, but who bring the same objective, and

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that is how do we make the system work and how do we sort through these questions and hear the philosophic or political points of view but then work through them and get beyond that to the question of what constitutes good, solid, national decisionmaking that can win the broad support of people generally, regardless of their political orientation.

I welcome you into the Government, coming as you do, obviously, with that kind of spirit and that kind of record. I think the endorsement comments made about you today make it clear that you have been able to win the admiration and support of people across the board because of your own objectivity and your own commitment to a high standard of intellectual effort and leadership. I appreciate that. I really am glad that you are willing to take on this particular assignment and bring to bear the experience that you have. I think you can make a difference for us here and I appreciate the fact you are willing to do so and that your family is supportive of that.

Ms. BELAGA. I am very grateful to you. I am really looking forward to it. It is a unique opportunity and I am excited about it. I do not think that there is anything partisan about good jobs, good exports, and a strong economy. I think that is everybody's goal.

The CHAIRMAN. Very good. We will have other questions for you for the record.

That will do it for today. The Committee stands in recess.

[Whereupon, at 12:15 p.m., the Committee was adjourned.]

[Prepared statements, response to written questions, and additional material supplied for the record follow:]

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PREPARED STATEMENT OF SENATOR ALFONSE M. D'AMATO

ON THE NOMINATION OF JANET LOUISE YELLEN TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. President, I rise today to support the nomination of Janet L. Yellen to serve on the Board of Governors of the Federal Reserve System. Mr. President, Ms. Yellen is well qualified for the position.

Educated at the distinguished Brown University, and later earning a Ph.D. from Yale University, Ms. Yellen has demonstrated a mastery of economics and monetary policy. Through her extensive published research and her prior service at the Federal Reserve as an Economist in the Division of International Finance, she has demonstrated her analytical skills to assist the Fed in its complex mission as the central bank and its control over monetary policy.

More importantly, Mr. President, Ms. Yellen has openly expressed the importance of securing the independence of the Federal Reserve Board. Congress has devised a system where the Federal Reserve is accountable to the Congress and can best serve the American people by focusing on long-term growth. Ms. Yellen has pledged her support to this cause.

Mr. President, I recommend that this body support the nomination of Ms. Janet Yellen to the Board of Governors of the Federal Reserve.

PREPARED STATEMENT OF SENATOR CHRISTOPHER J. DODD

ON THE NOMINATION OF JULIE D. BELAGA TO BE A MEMBER OF THE BOARD OF DIRECTORS OF THE EXPORT-IMPORT BANK

Mr. Chairman and Members of the Committee, it is my great pleasure to introduce to the Committee a long time Connecticut resident and a dedicated public servant, Julie Belaga. Ms. Belaga is before the Committee today as the President's nominee to be a Member of the Board of Directors of the Export-Import Bank. I commend President Clinton for his selection of Ms. Belaga and I am confident that the Committee will look favorably upon this nomination.

Mr. Chairman, as we all know, exports are crucial to the economic base of this country. Exports make our companies more efficient and competitive and they provide essential opportunities for the working men and women of America. In Connecticut and throughout the country, exports are a critical source of high-paying, high-skill, high-quality jobs.

Central to the success of American exports is the role of the Export-Import Bank, which provides financing assistance for American companies that are seeking to gain a foothold in overseas markets. Last year the Export-Import Bank supported $17 billion in American exports, its highest level ever. In Connecticut, Exim supported nearly $80 million of exports in 1993, helping to create or to sustain thousands of jobs.

I have every confidence that the work of the Export-Import Bank will be strengthened by the addition of Julie Belaga to the Board of Directors. Julie has a long history of public service and she has extensive experience in important management and leadership positions. I've had the pleasure of knowing Julie for a number of years and I can assure the Committee that when she sets her mind to something, she knows how to achieve results.

Julie has held a number of public and private positions during her distinguished career in Connecticut. She held a 10-year term as a State Representative in Hartford, from 1976 to 1986. From 1987 to 1989 she served as an adjunct lecturer on public policy at Harvard University and as a television commentator for WTNH-TV, New Haven's ABC affiliate.

From 1987 to 1988 she served as a Presidential Appointee on the National Advisory Council on Adult Education. More recently, Julie has also served as a member of the Board of Directors of the Connecticut Development Authority, a State investment agency.

Julie has had extensive exposure to environmental issues, a matter of increasing importance for the Export-Import Bank. From 1989 to 1993 she served as the Regional Administrator for the Environmental Protection Agency in Boston. After leaving the EPA, Julie became Senior Vice President of Makovsky & Company, launching that company's Environmental Services Division.

Julie's expertise in environmental issues will be of great assistance to companies that are trying to tap into the growing worldwide market for environmental technologies—a market that, according to one estimate, could reach more than $300 billion by the year 2000.

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Over the course of her distinguished career, Julie has received a number of citations and awards, starting with being named the Outstanding Freshman Legislator in 1977 and later being named one of the Top Ten Legislators of the Year in 1985. She has also been the recipient of the Liberty Bell Award for Outstanding Public Service, in 1985, the Governor John Davis Lodge Award for Outstanding Public Service, in 1990, and the Women in Management Award, also in 1990.

Clearly, she is someone who has excelled at her field and who has been recognized by her peers and her associates for her accomplishments.

In conclusion, Mr. Chairman, I know that the Committee will move quickly to approve this nomination so that Julie Belaga can take her position at the Export-Import Bank. I commend the President for this timely and well-considered selection, and I look forward to working with the Committee in moving this nomination forward.

PREPARED STATEMENT OF SENATOR JOSEPH I. LIEBERMAN

ON THE NOMINATION OF JULIE D. BELAGA TO BE A MEMBER OF THE BOARD OF DIRECTORS OF THE EXPORT-IMPORT BANK

Thank you, Mr. Chairman. I am delighted to be here today to speak in support of President Clinton's nomination of Julie Belaga to be a Director of the Exim Bank. I've known and worked with Julie for over 20 years, from our days together in Connecticut's State Senate through her recent tenure as Regional Administrator for the U.S. Environmental Protection Agency. She is currently a gubernatorial appointee to the Board of Directors of the Connecticut Development Authority, and she serves on the Connecticut Environmental Industries Initiative Advisory Board. Julie has demonstrated two abilities critical to this newest honor; she can imagine a long-term vision and she's tough-minded enough to take you there.

As you know, the Congress has assigned new environmental responsibilities to the Exim Bank. Julie's the ideal candidate to help the Bank develop a system for assessing the environmental impacts of the projects it considers supporting.

I also anticipate that Julie will be an aggressive advocate for the Exim Bank's support of environmental technology exports. I know she believes, as I do, that this "win-win" proposition will create high-paying jobs and assist in the global effort to reduce pollution and other environmental risks.

There are enormous worldwide business opportunities in the area of environmental technologies, Mr. Chairman. The Organization of Economic Cooperation and Development estimates the annual global market is currently $200 billion and predicts that it could climb to $300 billion by the year 2000. An estimate by the Environmental Business Council of the U.S. places the market at $426 billion by 1997.

Unfortunately, in our own country, U.S. industries have been losing significant market share to their competitors in the last 10 years, notably in the areas of air pollution control and wastewater treatment technologies. This is particularly disappointing given that U.S. industries invented many of these technologies.

Our situation isn't much better worldwide. Studies cited by the U.S. Department of Commerce show that while German industries export between 30 and 40 percent of all the environmental technology they manufacture, U.S. industries export only between 5 and 10 percent of their production.

We know that the governments of our economic competitors routinely support the development, marketing, and export of new technologies. The United States must also help its businesses take advantage of these new opportunities. We need to adopt Government policies that strengthen the development of this industry at home and encourage efforts to export the technology.

The Exim Bank is a logical place to start. A recent report by the Congressional Office of Technology Assistance suggests that it hasn't always been easy for small businesses, in particular, to get assistance from the Bank. Smaller and new-to-export environmental firms are often not even aware of these financing mechanisms. OTA also noted that access to the Bank has been limited because it only has six domestic offices and no overseas offices; Japan's counterpart bank, on the other hand, has 16 overseas offices. Julie knows the importance of small businesses to the future of our economy, and she has worked with dozens of them over the years; I'm certain she'll help make sure they have access to the Bank's support.

President Clinton's nomination of Julie Belaga to be a Director of the Exim Bank signals a change in thinking and a new support for the development and export of U.S. environmental technologies. I'm very excited about her nomination and urge my colleagues to move it as quickly as possible. Thank you.

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PREPARED STATEMENT OF JANET LOUISE YELLEN, PH.D.

CONCERNING HER NOMINATION TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Chairman Riegle, Members of the Committee, I am pleased to appear before you today as President Clinton's nominee to serve on the Board of Governors of the Federal Reserve System. I am deeply honored that the President has nominated me to serve as a Member of the Board.

The decisions of the Federal Reserve affect the economic well-being of all Americans through their impact on output growth, job creation, inflation, interest rates, and the value of the dollar. The Fed also has important regulatory and supervisory responsibilities for the safety and soundness of the banking system, for the integrity of the payments mechanism, for the enforcement of the fair lending laws, including the Community Reinvestment Act, and for other consumer issues.

If I am confirmed, I pledge to work with other Members of the Board to craft a monetary policy geared toward "maximum employment, stable prices, and moderate long-term interest rates"—the goals established in the Federal Reserve Act—and to faithfully execute the regulatory responsibilities entrusted by Congress to the Federal Reserve Board. These are challenging and important tasks and I will devote my full energies to carrying out these duties to the best of my ability.

Biography

Before commenting on some of the issues confronting the Federal Reserve, let me briefly describe my background and qualifications for the position as Governor. I was born and raised in Brooklyn, New York, but I have lived in California since 1980 where I serve as Bernard T. Rocca, Jr. Professor of International Business and Trade at the Haas School of Business of the University of California at Berkeley, teaching macroeconomics and international economics to MBA's and executives. My interest in economics is longstanding. I majored in economics at Brown University, graduating in 1967, and received my Ph.D. in economics from Yale in 1971. After that, I was Assistant Professor in the Harvard Economics Department from 1971 to 1976 and taught at the London School of Economics and Political Science from 1978 to 1980. From 1976 to 1978, I was an Economist in the Division of International Finance at the Federal Reserve Board.

I have published original research on a wide variety of topics relating to international economics and macroeconomics. My research has explored the causes of cyclical fluctuations and the potential for monetary policy to mitigate them, the wage setting policies of firms, the measurement of labor market slack, and the impact of macroeconomic performance on job switching and job satisfaction. I have also studied the implications of globalization for international investment and employment, the linkages between exchange rate changes and the U.S. current account deficit, and the consequences of German monetary union for East German reconstruction.

I hope that this broad background and experience have equipped me with the analytical tools and historical perspective needed to analyze emerging trends in the domestic and world economies and to help in the formulation of appropriate monetary policies.

Furthermore, as a faculty member in a professional school of management, I have been immersed in the problems of business and have gained an appreciation of the economic conditions which foster a willingness on the part of firms to hire and train workers, to invest in plant and equipment, and to undertake new research and development—the investments which are necessary for long-run economic growth and enhanced living standards of American families.

The Goals of Monetary Policy

Price stability should be a central goal of monetary policy. There are many reasons for according high priority to this objective. With high and unstable inflation, profits derive disproportionately from outwitting the financial system rather than from producing the products that consumers need. Inflation creates uncertainty and distorts price signals, complicating business planning. Under the current tax system, higher inflation raises the cost of capital, diminishing the incentives to save and invest. Inflation erodes the wealth of small savers whose assets are fixed in dollar terms. And, as interest rates rise to compensate for inflation, debt service burdens increase as a fraction of income, making purchases of homes and cars unaffordable for many families. Workers worry about how to cope with rising prices and meet their current bills. With uncertainty as to whether wages and salaries will keep up with needs, times of inflation often become times of labor strife.

Many factors, including fiscal policy, oil prices, exchange rates, wars, and productivity shifts, affect the behavior of prices in the short run. But, in the long run, in-

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flation on a sustained basis cannot occur unless monetary policy accommodates it. The Federal Reserve controls the Nation's money supply, and thus, the FOMC effectively determines the level of inflation over the longer term. The Fed's responsibility is to choose policies that are designed to maintain a noninflationary environment.

The second objective of the Federal Reserve should be to keep the economy growing as close as possible to the "natural rate of unemployment"—the maximum feasible employment level consistent with stable inflation. The natural rate of unemployment is the lowest rate of unemployment that the Fed can target without risking *accelerating* inflation. My goal, as a Governor of the Federal Reserve Board, would be to confine unemployment to this level.

My personal agenda as an economist has been to understand the causes of unemployment and discover ways to alleviate its pain. In times of high unemployment, workers who lose their jobs face the terror of being unable to support themselves and their families. The toll of high unemployment, like that of a regressive tax, falls most heavily on groups in the work force that are least able to bear the burden.

Young workers deprived of gainful employment may have careers which are permanently stunted because they cannot develop the skills which are critical to their long-term job prospects.

In addition, in times of high unemployment, even those who have work often become stuck in jobs and places where they are unhappy, with limited possibilities to move.

A slack economy lowers corporate profits, diminishing the ability of firms to invest and fund R&D, and creates unused capacity, diminishing their incentives to add to capacity.

Through this channel, high unemployment harms long-term living standards. A rough rule of thumb is that each percentage point of unemployment, in excess of the natural rate, costs the economy about 2 percent of GDP—roughly $130 billion in today's economy. Thus, the costs of unemployment are great and, as a Governor of the Federal Reserve, I would do my utmost to maintain the maximum feasible level of employment consistent with the achievement of price stability.

The Tactics of Monetary Policy

In the short run, the Federal Reserve faces a tradeoff between the goals of low inflation and high employment. But a monetary policy which pushes the economy beyond its potential for the sake of current job gains is shortsighted and ultimately unfair to American workers. Such gains are transitory—a loan which must be repaid in the form of job losses at a later date. The pursuit of job gains in the short run, in excess of what the economy can sustain, engenders inflation, and later job losses constitute the cost of bringing inflation down. The recession of 1982–83 illustrates the enormous price that workers and businesses paid to bring inflation under control after it built up in the 1970's. Having incurred such a high price to lower inflation then, it would be foolhardy now to squander the fruits of this effort.

I join the Federal Reserve at a time when the macroeconomic fundamentals are sound. Inflation is the lowest it has been in almost 20 years, except for a brief period in 1986 when oil prices were tumbling, and with strong GDP growth, the unemployment rate has declined substantially. I believe that the Federal Reserve's major goal at this juncture should be to create monetary conditions conducive to stable real growth at a pace matching the economy's growth in potential output.

This is a challenging task. The impact of Federal Reserve policies on the economy occurs with a substantial lag, and random shocks and uncertainties concerning the strength of key economic linkages make forecasting difficult. I agree with the Fed's decision to reduce monetary stimulus—before the emergence of obvious inflationary pressure—in order to avoid overshooting the natural rate. On the other hand, the appropriate amount of tightening involves some guesswork and it is difficult to know whether the actions that have been taken thus far will prove sufficient to prevent overheating, insufficient to the task at hand, or even excessive.

The role of a Fed Governor now, as always, is to monitor every available economic indicator in order, continually, to update forecasts of economic performance and to make needed policy readjustments, constantly balancing the risk, on the one hand, of choosing a monetary policy which is too expansionary, threatening overheating of the economy, and on the other, of a policy which is too tight, threatening jobs and income growth. This is a difficult task, and no simple formula or single performance indicator (including the price of commodities, gold, bonds, stocks, or currencies, fluctuations in inventories, durable goods orders, monetary aggregates, retail sales, and so on), should receive undue attention. Instead, the job of a Governor is to make reasoned judgments about likely future trends in light of *all* of the available economic data. In this task, I hope to make a constructive contribution to the work of the Board.

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I am a strong believer in the independence of the Federal Reserve. A policy regimen geared toward long-term economic health must avoid the temptation to conduct policies which overheat the economy for short-term gains. Occasionally, a dose of bitter medicine must be administered for health to be restored. Congress wisely devised a system which enables the Federal Reserve to take the long view. I believe that this system best serves the interests of the American people and ultimately enhances economic performance. I also appreciate the necessity for accountability on the part of the Fed to Congress and ultimately to the American people. If I am confirmed, I pledge my full cooperation in this process.

In conclusion, I would like to thank the Committee for the speed with which this hearing has been scheduled. In my opening remarks I have focused on just *one* of the responsibilities of the Federal Reserve—the conduct of monetary policy. I am well aware of the many other duties of the Federal Reserve, with respect to the supervision and regulation of the banking system, and am learning more about the challenging policy issues confronting Congress and the Federal Reserve in such areas as product line deregulation, enforcement of fair lending laws, reduction of regulatory burden, and possible measures to reduce any risks posed by derivative instruments to the safety and soundness of the financial system.

I will be happy to answer any questions that you might have.

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STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: Yellen (LAST) Janet Louise (FIRST) _____ (OTHER)

Position to which nominated: Governor of the Federal Reserve Date of nomination: June 9, 1994

Date of birth: 13 (DAY) 8 (MONTH) 46 (YEAR) Place of birth: Brooklyn, New York

Marital status: Married Full name of spouse: George Arthur Akerlof

Name and ages of children: Robert Joseph Akerlof, 13

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Fort Hamilton High School	1960-1963	diploma	6/63
Brown University	1963-1967	B.A.	6/67
Yale University	1967-1971	Ph. D.	12/71

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, 1966

B.A. summa cum laude with highest honors in economics, Brown University

National Science Foundation Graduate Fellowship, 1967-1971

Honorary Woodrow Wilson Fellowship, 1967

Guggenheim Fellow, 1986-1987

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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	None	1976-81
American Economics Association	Member	1985-present
	Nominating Committee	1988-90
	Advisory Committee to Pres.	1986-87
Committee on the Status of Women in the Economics Profession	None	1985-present
International Trade and Finance Assn.	None	1990-present
Congregation Beth El	None	1983-present

(CONTINUED ON ATTACHMENT)

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.

1992-present	Bernard T. Rocca Jr. Professor of International Business and Trade, Walter A. Haas School of Business, University of California, Berkeley
1985-1992	Professor, Walter A. Haas School of Business, University of California, Berkeley
1982-1985	Associate Professor, School of Business Administration, University of California, Berkeley
1980-1982	Assistant Professor, School of Business Administration, University of California, Berkeley
1978-1980	Lecturer, London School of Economics and Political Science, London, England
1977-1978	Economist, Division of International Finance, Trade and Financial Studies Section, Board of Governors of the Federal Reserve System, Washington, D.C.
1971-1976	Assistant Professor of Economics, Harvard University, Cambridge, MA
1974-1975	Consultant, Division of International Finance, Board of Governors of the Federal Reserve System, Washington, D.C
1969-1971	Teaching Fellow and Research Assistant, Yale University, New Haven, Connecticut
1967	Summer Intern, Women's Bureau, U.S. Department of Labor, Washington, D.C.

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Memberships - cont'd

ORGANIZATION	OFFICE HELD	DATES
Highlands Country Club	None	1978-present
The Faculty Club, U.C. Berkeley	None	1982-present
California Public Interest Research Group	None	1987-present
National Abortion Rights Action League	None	1988-present
California Abortion Rights Action League	None	1988-present
Planned Parenthood	None	1988-present
Yale Club of San Francisco	None	1993-present
KQED	None	1984-present
Hadassah	None	1985-present
Economists Concerned About the Arms Race	None	1989-present

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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.

1993-1994 Congressional Budget Office--Panel of Economic Advisers, 1993-94

1977-1992 Served on National Science Foundation Advisory Panel in Economics and several other NSF review panels.

1977-1978 Economist, Division of International Finance, Trade and Financial Studies Section, Board of Governors of the Federal Reserve System, Washington, D.C.

1974-1975 Consultant, Division of International Finance, Board of Governors of the Federal Reserve System, Washington, D.C.

1974-1975 Consultant, Congressional Budget Office

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

SEE ATTACHMENT

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

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Publications of Janet L. Yellen:

"Consequences of a Tax on the Brain Drain for Unemployment and Income Inequality in Less Developed Countries," (with Rachel McCulloch), *Journal of Development Economics*, September 1975; reprinted in J. Bhagwati, editor, *The Brain Drain and Taxation: Theory and Empirical Analysis*, North Holland, 1976.

"Commodity Bundling and the Burden of Monopoly," (with William James Adams), *Quarterly Journal of Economics*, August 1976.

The Limits of the Market in Resource Allocation (with Kenneth Arrow and Steven Shavell), Japan Trade Council, monograph, 1977.

"Factor Mobility, Regional Development and the Distribution of Income," (with Rachel McCulloch), *Journal of Political Economy*, February 1977.

"What Makes Advertising Profitable?" (with William James Adams), *The Economic Journal*, September 1977.

"Factor Market Monopsony and the Allocation of Resources," (with Rachel McCulloch), *Journal of International Economics*, January 1980.

"On Keynesian Economics and the Economics of the Post-Keynesians," *American Economic Review, Papers and Proceedings*, May 1980; reprinted in *John Maynard Keynes: Critical Assessments*, Vol. 4, John Wood, editor, Croom Helm Ltd., 1983.

"Can Capital Movements Eliminate the Need for Technology Transfer?' (with Rachel McCulloch), *Journal of International Economics*, May 1982.

"Technology Transfer and the National Interest," (with Rachel McCulloch), *International Economic Review*, May 1982.

"Efficiency Wage Models of Unemployment," *American Economic Review, Papers and Proceedings*, May 1984; reprinted in *New Keynesian Economics*, Vol. 2, *Coordination Failure and Real Rigidites*, N. Gregory Mankiw and David Romer, editors, MIT Press, 1991.

"Unemployment through the Filter of Memory," (with George Akerlof), *Quarterly Journal of Economics*, August 1985.

"A Near-Rational Model of the Business Cycle with Wage and Price Inertia," (with George Akerlof), *Quarterly Journal of Economics*, September 1985; reprinted in *New Keynesian Economics*, Vol. 1, *Imperfect Competition and Sticky Prices*, N. Gregory Mankiw and David Romer, editors, MIT Press, 1991.

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"Can Small Deviations from Rationality Make Significant Differences to Economic Equilibria?" (With George Akerlof), *American Economic Review*, September 1985.

Efficiency Wage Models of the Labor Market (with George Akerlof), an edited collection of papers with an introduction by the authors, Cambridge University Press, 1986.

"Rational Models of Irrational Behavior," (with George Akerlof) *American Economic Review, Papers and Proceedings*, May 1987.

"Fairness and Unemployment," (with George Akerlof), *American Economic Review, Papers and Proceedings*, May 1988.

"Discussion" of "The New Keynesian Economics and the Output-Inflation Trade-off," (with George Akerlof and Andrew Rose) *Brookings Papers on Economic Activity*, 1988:1.

"Job Switching and Job Satisfaction in the U.S. Labor Market," (with George Akerlof and Andrew Rose), *Brookings Papers on Economic Activity*, 1988:2.

"Is There a J-Curve?" (with Andrew Rose), *Journal of Monetary Economics*, July 1989.

"Introduction" to "Symposium on the Budget Deficit," *Journal of Economic Perspectives*, Summer 1989.

"Discussion" of "The Beveridge Curve," (with George Akerlof), *Brookings Papers on Economic Activity*, 1989:1.

"The Fair Wage/Effort Hypothesis and Unemployment," (with George Akerlof), *Quarterly Journal of Economics*, May 1990.

"How Large are the Losses from Rule of Thumb Behavior in Models of the Business Cycle?" (with George Akerlof) in William Brainard, William Nordhaus and Harold Watts, eds., *Money, Macroeconomics and Economic Policy: Essays in Honor of James Tobin*, Cambridge, Mass: M.I.T. Press, 1991.

"Waiting for Work," (with George Akerlof and Andrew Rose) National Bureau of Economic Research Working Paper No. 3385, June 1990.

"East Germany In From the Cold: The Economic Aftermath of Currency Union," (with George Akerlof, Andrew Rose and Helga Hessenius), *Brookings Papers on Economic Activity*, 1991:1.

"Discussion" of "Unemployment, Non-Employment and Wages: Why Has the Natural Rate Increased through Time?" (with George Akerlof) *Brookings Papers on Economic Activity*, 1991:2.

Comment on "East German Economic Reconstruction," by Rudiger Dornbusch and Holger C. Wolf, in *The Transition in Eastern Europe*, Olivier Jean Blanchard, Kenneth A. Froot and Jeffrey Sachs, editors, NBER and University of Chicago Press, 1994.

"Gang Behavior, Law Enforcement and Community Values," (with George Akerlof), in Henry Aaron, Thomas Mann and Timothy Taylor, eds., *Values and Public Policy*, Brookings Institution, 1994.

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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.

Clinton for President Campaign: $1000

Dukakis for President $ 500

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.

I will initially be on leave of absence from the University of California, Berkeley.

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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Qualifications:

My knowledge and experience in the fields of macroeconomics and international economics qualify me for this position.

I have published original research on a wide variety of topics in international and macroeconomics. I am best known for my work exploring the causes of price and wage rigidity. This work provides a basic rationale for the use of monetary policy to stabilize the economy. My research on macroeconomics has also explored wage setting policies of firms and their impact on unemployment, alternative measures of unemployment, and the impact of macroeconomic performance on job switching and job satisfaction. In international economics, I have studied the linkages between exchange rate changes and the U.S. current account deficit and examined the implications of German monetary union for East German reconstruction. I have also published papers in the field of industrial organization. This background prepares me to analyze the wide range of monetary policy, and international and regulatory issues confronting the Federal Reserve Board.

I have served on the faculty of the Walter A. Haas School of Business Administration at the University of California, Berkeley since 1980 where I have taught international and macroeconomics in the MBA and executive education programs of the School. I have been Professor since 1986 and was named to the Bernard T. Rocca Jr. Chair of International Business and Trade in 1992. I am also a two-time winner of the Earl F. Cheit Distinguished Teaching Award.

I received my B.A. summa cum laude from Brown University in 1967 and my Ph. D. in economics from Yale University in 1971. From 1971 to 1976 I was on the faculty at Harvard University, after which I served as an economist in the International Finance Division of the Federal Reserve Board. I was a faculty member at the London School of Economics and Political Science before moving to Berkeley.

I currently serve as a Senior Adviser to the Brookings Panel on Economic Activity and as a member of the Economics Panel of the Congressional Budget Office. I have acquired administrative experience by twice serving as Chairperson of the Economic Analysis and Policy Group of the Haas School of Business and as Director of its International Business Program.

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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.

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.

Small investments in IBM and Wells Fargo Bank

Panel of Economic Advisers, Congressional Budget Office

Senior Adviser, Brookings Panel on Economic Activity

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

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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.

I will sell shares in these investments and resign from advisory positions.

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

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PREPARED STATEMENT OF JULIE D. BELAGA

CONCERNING HER NOMINATION TO BE A MEMBER OF THE BOARD OF DIRECTORS OF THE EXPORT-IMPORT BANK

Mr. Chairman and Members of the Committee, it is an honor to testify before you on my nomination by the President as a Director of the Export-Import Bank of the United States ("Exim Bank"). This is a unique opportunity for me and a truly superb distinction. This is also a very proud moment for me and my family.

For the past 22 years, I have had a career as a public servant in both elective and appointive office. If confirmed, the position at Exim Bank brings together all of those years of service and enables me to employ the skills, interests, and abilities that I have developed. The thought of making a real difference is exhilarating.

This past year and a half, I have served on the Board of Directors of the Connecticut Development Authority. That organization's challenge dovetails with the mission of Exim Bank. The goal is to enhance the export of the State's products and, in doing so, increase the number of high-wage and high-value jobs for Connecticut workers. That is the basis for what Exim Bank does.

Furthermore, under the very able direction of Ken Brody, the Chairman and President, Exim Bank is committed to important challenges, two of which relate directly to one area of my expertise, the environment. The Bank is developing a set of environmental procedures to more carefully and effectively consider the environmental effects of a project that Exim Bank may support. I have had 3 years of experience as the Regional Administrator of the six New England States for the Environmental Protection Agency. If confirmed, I will help guide the design of a system that will meet the Administration's environmental goals and, at the same time, assure that job creation and export opportunities move forward in a timely and efficient fashion.

Exim Bank has also started a bold initiative to stimulate the export of environmental goods and services. The United States has been on the cutting edge of developing a diverse range of technologies to deal with our precedent-setting environmental laws. Those technologies are now tried and tested and have the potential to be an important part of our export portfolio. It is a job that begs for energy and creativity.

Your Committee, through the Trade Promotion Coordinating Committee legislation, has created the blueprint for well-coordinated, user-friendly trade promotion systems that emphasize assistance to small- and medium-sized businesses, as *well* as large businesses. One-stop shopping, unified export promotion, outreach to small business, coordinated and consistent training programs, and a truly user-friendly system are all part of the United States' new dynamic export promotion strategy.

As the Committee is aware, Chairman Brody is committed to implementing that blueprint. If confirmed, I will eagerly lend him a helping hand.

Exim Bank is not a new bank. It has a proud 60-year history. Under the able leadership of Ken Brody and Tino Kamarck, the Bank is charting new territory. I relish the opportunity to be a part of that high energy level team. I am committed to make all of *their* goals and *your* goals a reality.

I look forward to working closely with the Committee. Mr. Chairman, I would be pleased and proud to answer any questions you or the Committee may have.

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STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: Belaga (LAST) Julie (FIRST) D. (OTHER)

Position to which nominated: Board of Directors - Ex-Im Bank Date of nomination:

Date of birth: 12 (DAY) July (MONTH) 1930 (YEAR) Place of birth: Boston, MA

Marital status: Married Full name of spouse: Myron W. Belaga

Name and ages of children: Debra Sue Belaga - 40
David Doren Belaga - 39
Heather Gail Belaga -30

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Syracuse University		B.S. Education	1951

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.

Women In Management Award - 1990

Gov. John Davis Lodge Award for Outstanding Public Service 1990

Fellow - Institute of Politics Kennedy School of Government
Harvard University - 1987

Liberty Bell Award - Outstanding Public Service
Westport Bar Assoc. - 1985

Top Ten Legislators of the Year Hartford Courant 1985

YWCA Salute to Women Award - 1983

Outstanding Freshman Legislator Connecticut Magazine 1977

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

Organization	Office held (if any)	Dates
Women's Campaign School of Yale University	Brd of Directors	1994
Trust for Public Land	Advisory Board	1993-1994 Resigned
Multiple Sclerosis Society	Brd of Directors	1984-1987
Five Town Foundation	Brd of Trustees	1982-1986
Newington Children's Hospital	Corporator	1986-1989
League of Women Voters of Westport	President	1971-1972
League of Women Voters of CT	Brd of Directors	1973-1975
Fairfield County Coop Foundation	Grant Resource Panel	1982-1989
Sacred Heart University	President's Council	1984-1986
CLASP Group Home for the Retarded	Director	1984-1986
Young Playwrights of Fairfield	County Advisory Brd	1983-1989

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.

Senior Vice President	Makovsky & Co Environmental Public Relations 245 Fifth Avenue, New York, NY	6/93 - 4/94
Regional Administrator	EPA Region I JFK Bldg., Boston, MA	11/89 - 1/93
Television Commentator	WTNH-TV Elm Street New Haven, CT	02/88 - 11/89
Adjunct Lecturer	Kennedy School of Government Harvard University Cambridge, MA	02/89 - 4/89 02/88 - 4/88
Fellow	Institute of Politics Harvard University Cambridge, MA	01/87 - 5/87
State Representative	CT House of Representatives The Capitol Hartford, CT	1976 - 1986
Secretary	Wright-Patterson Air Force Base Dayton, Ohio	9/53 - 7/54
Teacher	Quincy Public School Quincy, MA	9/52 - 7/53

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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.

United States: EPA - 10/89 - 1/93

Natl. Advisory Council on Adult Education - 1987 - 1988

Connecticut: Board of Directors - Connecticut Development Authority 2/93 - 4/94

House of Representatives - 1976 - 1986

Coastal Area Management Advisory Board 1974 - 1976

Westport: Representative Town Meeting - 1975 - 1976

Planning & Zoning Commission - 1972 - 1975

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

NONE

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.

Republican Candidate for Governor - 1986

State Representative 136th District - 1976 - 1986

Finance Committee Rep. Jo Fuchs - 1988, 1990 & 1992

Delegate Cong. Christopher Shays Convention - 1988

Delegate to Republican State Conventions - 1980, 82, 84 & 86

Delegate to Republican National Conventions - 1980 and 1984

Republican Women of Westport 1972 - 1994

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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.

The only campaign to which I have given more than $500 is my own campaign for Governor of the State of Connecticut in 1986. I contributed $26,000. to that campaign.

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.

I have severed all connections with my most recent employer.

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 employment with my previous 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, I expect to serve the full term.

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4 Attached Qualifications

I believe that I would bring important qualifications to the job of Director of Ex-Im Bank. The Bank has taken on new initiatives in the past two years. Included in its aggressive plan is the development of relevant environmental programs. The Bank has begun to craft regulations to be used to assure that environmental aspects of Ex-Im Bank transactions are given proper consideration. They have also committed to a major initiative to nurture and expand their program for the export of American environmental technology.

My environmental credentials are right on target to meet those two challenges. For three years I headed up the EPA's office in Region One (New England). I have comprehensive knowledge and appreciation of federal environmental laws and understand the challenges and pressures that these rules and regulations bring to the business community. The major task for the Bank will be to balance the vital environmental needs of the nation with the stated goal of Ex-Im Bank for job creation and export development.

Furthermore, Ex-Im Bank has made a very strong commitment to broadening the country's export of environmental technologies. This is a market that has been untapped for too long. As a nation we led the way in environmental laws and regulations. That reaped an exceptional array of important technologies. We need to market those technologies abroad. It is the perfect marriage of job creation and environmental protection.

Not only do I understand and endorse the environmental agenda that Ex-Im Bank has staked out for itself, but I also have experience with development agencies. As a member of the Board of Directors of the Connecticut Development Authority, I worked directly on the approval of loans, grants and guarantees. This is precisely the type of program being handled by Ex-Im Bank.

Because I have both environmental expertise and development authority experience, I think that I am in a unique position to bring a wide range of targeted qualifications to this job.

Finally, I believe that I bring an added asset because of my 10 years of elected experience in state government and 6 years in local government. I am able to take a look at what federal agencies are proposing and understand the connection to and impacts on local and state government, and I can anticipate the likely private sector response.

Altogether these qualifications will serve me well as I seek to serve the public through my participation on the Board of Ex-Im Bank.

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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.

I have no financial arrangements or deferred compensations agreements with business associates, clients or customers which would influence me in the position to which I have been nominated.

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.

Neither my husband or I have investments that we believe would involve a potential 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

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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.

I have already taken steps to sell the stocks which I own that might have presented a conflict. (Molten Metal Technology & Boeing Company)

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.

In 1992 a disgruntled retired employee alleged to GAO that a reorganization that I implemented at Region I/EPA was done for political reasons. The reorganization was the result of almost three years of analysis and reflected my concern for the need for accountability in federal government. It is my understanding that the ensuing reorganization has been achieved and is working. No political appointments were involved and the reorganization now aligns Region I with the other regions in the nation. (A copy of the GAO report is attached.)

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

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GAO United States
General Accounting Office
Washington, D.C. 20548

General Government Division

RECEIVED
MAY 09 1994
OFFICE OF THE REGIONAL ADMINISTRATOR

May 5, 1994

Ms. Nancy Grantham
Assistant to the Regional Administrator
Environmental Protection Agency
JFK Federal Building
Boston, Massachusetts 02203

Dear Ms. Grantham:

In response to your inquiry regarding our report on conversions and appointments during the 1992 presidential transition, this is a summary of what we found regarding an allegation in the Environmental Protection Agency's Region I. The allegation was as follows:

> The Regional Administrator, Region I is going ahead with a reorganization. The reorganization will demote the role of the Office of Environmental Review by making it part of the Public Relations Office.

Our objective in reviewing allegations was to determine if the events underlying the allegations had occurred. If the events had occurred and the allegations involved a reorganization, we tried to determine if the reorganization had been planned or took place before the presidential transition period and whether new positions were being created for political appointees.

The Director, Management and Organization Division, told us that the reorganization was being considered, but did not agree that the reorganization would demote the role of the Office of Environmental Review. The Chief, Agency Management Analysis Branch, added that the idea for the reorganization resulted from a 1991 review and was more formally formulated in the fall of 1992. While the plan was officially submitted for approval, the Environmental Protection Agency had not approved it as of June 1993. The Chief told us that the reorganization involved 25 positions, of which 22 would involve moving people

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internally; 3 would be filled by new hires. The Chief said that, to his knowledge, no political appointees were involved in this reorganization.

I hope this information is helpful.

Sincerely yours,

James J. Grace

James J. Grace
Senior Evaluator, Federal Human
Resource Management Issues

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RESPONSE TO WRITTEN QUESTIONS OF SENATOR RIEGLE FROM JANET LOUISE YELLEN

Dear Mr. Chairman:

I am pleased to provide my responses to the additional questions which you forwarded to me following my nomination hearing before the Committee.

I would like to express my appreciation to you and the other Members of the Committee and to Committee staff for the courtesies extended to me, and I look forward to working with the Committee.

Sincerely,
Janet L. Yellen

Q.1. European employment rates are currently averaging about twice the U.S. rate and only part of that difference is cyclical. Their rates used to be much lower than ours. What, in your view, explains that shift, and are there any lessons there for us on how to reduce our average unemployment rates?

A.1. Over the last decade, unemployment rates generally have been higher in the European Community than the United States, even after accounting for differences in macroeconomic conditions. This enormous increase in unemployment in the European Community is a puzzle, especially in light of the fact that other OECD countries (Austria, Switzerland, the Nordic countries, and Japan), have not experienced rises in unemployment of comparable magnitude. Several factors, rather than any single cause, appear to have combined to produce this result.

One factor at work may be the failure of European workers' real wage targets adequately to adjust downward in the face of negative supply shocks, adverse movements in Europe's terms of trade, lower trend productivity growth, and high unemployment. In contrast, the more corporatist economies with centralized wage bargaining, such as Austria and the Nordic countries, fared better with respect to unemployment because their labor market structures exhibit less real wage rigidity. The United States labor market is also characterized by relatively little real wage rigidity, albeit for different reasons. In the European Community, the failure of real wages to fall meant that profit margins were squeezed and investment declined substantially, resulting in a long term "capital cum jobs shortage." For example, by 1989, with European Community unemployment close to 10 percent, capacity utilization had reached levels associated with previous cyclical peaks.

A second factor is that, in Europe, workers are less mobile and generally are influenced by stronger work disincentives than in the United States; these include more generous unemployment benefit programs, so that similar economic shocks lead to longer spells of unemployment in Europe. Some have hypothesized that the superior unemployment performance of Austria and the Nordic countries derives from the fact that unemployment benefits are of relatively short duration and retraining and relocation programs attempt actively to match workers with jobs.

A third factor is that European firms often face restrictions that, while intending to protect workers, produce costly disincentives to

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hiring and limit the number of hours that individuals can work. These restrictions limit the growth of employment and slow the recovery of labor markets to adverse shocks.

Finally, there is evidence that the "natural rate of unemployment" tends to rise over time following a prolonged period of unemployment. This occurs for two reasons: Once individuals remain unemployed for some time, their skills begin to atrophy, making them less employable in the future, diminishing their incentives to search, and eventually causing them to withdraw from the effective labor force. In the European Community, such long-term unemployment has increased dramatically. Once individuals are out of work, their concerns may be ignored in union bargaining by those who retain their jobs. In this way, tight monetary and fiscal policies designed to lower inflation may have contributed to a persistent problem of high structural unemployment.

There is a good deal that the United States can learn from the experience of the European countries. The United States might benefit from improved school-to-work transition programs, worker retraining programs, and other incentives to facilitate job transitions. Further, the United States should be aware of the potentially costly side effects of programs which reduce labor market flexibility—such as longer or more generous unemployment benefits, higher minimum wages, or limitations on hiring and firing. A third moral is that policies—such as deficit reduction—which promote capital accumulation, also result in job creation and reduced structural unemployment over the longer term. Low rates of investment in Europe exacerbated the unemployment problem. A final moral of the European experience is that unemployment, once it is allowed to rise, may be highly persistent and difficult to reduce, especially if workers experiencing long spells of joblessness effectively withdraw from the labor market. This suggests the need to avoid periods of prolonged unemployment.

Q.2. Current law prohibits or greatly inhibits some financial service activities at bank holding companies including securities underwriting and insurance brokerage. What is your view about relaxing existing constraints?

A.2. It seems to me that the question of expanded powers for banking organizations requires the balancing of risks and benefits, i.e., increased risk of insolvency, misuse of deposit insurance, and the potential for conflicts of interest, on the one hand, and the public benefits of increased competition, resulting in lower prices and expanded options, as well as a stronger banking system, on the other.

For securities underwriting, my impression is that the risks are manageable, especially if capital positions are strong, and the potential benefits—in better terms for corporations, greater access to capital markets for regional firms, and greater diversification and efficiency for banking organizations—are apt to exceed the costs. My concern is that banks do not misuse the safety net, either to be unfair competitors or to take excessive risk, and that safeguards are established to limit the potential for conflicts of interest. On balance, I believe that there is a reasonably strong case for allowing bank holding companies to engage in underwriting through separate subsidiaries, with high capital requirements, diligent su-

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pervision, and reasonable firewalls. I do, however, want to have the opportunity to study this issue in greater depth before finalizing a position.

With respect to insurance brokerage, I am inclined to support this activity for banking organizations. However, recent experience suggests that sales practices in all agency transactions need to be carefully managed at banks and nonbanks in order to avoid conflicts of interest and potential customer confusion. But, insurance sales by banks, with proper safeguards, seem clearly likely to benefit the public in terms of rates and convenience with virtually no additional risk to banks and the safety net.

Q.3. Current law places a fairly sharp divide between commerce and banking. Some have proposed removing that divide to permit holding companies that contain both banking and nonfinancial business affiliates. What is your view on that?

A.3. The divide between banking and commerce is motivated by a number of concerns. Permitting the affiliation of banks and nonfinancial companies may create incentives that affect the impartiality of the bank's credit judgment to the potential detriment of the bank, unwisely create more firms considered "too big to fail" with potential risks to the Government safety net, provide the nonfinancial company with an unfair competitive advantage over its rivals by affecting the willingness of the bank to make credit available to those rivals, and lead to significant concentrations of resources and economic power. On the other hand, several benefits might accrue from permitting the integration of banking and commerce. For example, enabling banks or bank holding companies to take significant equity stakes in nonfinancial corporations could, in theory, promote the formation of mutually advantageous long-term relationships between banks and nonfinancial borrowers, with the benefits from reduced information costs accruing both to banks and to corporations—in the form of a lower effective cost of capital. Banks with equity stakes in companies might also have greater incentives to make good financing decisions. Unfortunately, the empirical evidence which is needed to assess either the costs or alleged benefits is limited, although the experience of other countries may be relevant.

As I noted in response to question 2, the concerns that led to the divide between banking and commerce are more easily addressed in areas that are financial in nature, and the benefits of statutory change in the financial area are clearer, both for the health of the banking system and for the consumer. Because the tradition of separation of banking and nonfinancial companies is so strong in this country and each diminishment of this divide seems difficult to reverse, I believe, however, that permitting banks to affiliate with nonfinancial businesses is a step that we must carefully explore before we take it. I am not opposed, in principle, to exploring this matter, but I do not believe that we are, as of now, prepared for this step.

Q.4.A. Recent studies indicate that minority borrowers are 60 percent more likely to be rejected for home mortgage loans than white borrowers. Evidence suggests that Federal efforts to enforce the Fair Housing Act and Equal Credit Opportunity Act have been

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minimal. Do you believe the Fed has done an adequate job in enforcing fair lending laws?

A.4.A. I am aware that some people consider the Fed insensitive in the area of enforcement of the fair lending laws. Because I am new to the Fed, I am not yet certain whether or not this perception is accurate. Certainly, the most important piece of research documenting discrimination is an internal study undertaken by the Federal Reserve Bank of Boston. I also know that the Fed has upgraded its examination procedures to improve its detection of discrimination. In particular, the System has developed a computerized statistical model, patterned on the Boston Fed study, which is used by examiners to detect discrimination in the course of bank examinations. I also understand that the Federal Reserve has made major efforts to educate the banking industry concerning their responsibilities in the fair lending area.

Q.4.B. What steps would you take to improve the Fed's record in this area?

A.4.B. If I am confirmed, I pledge to work to ensure that the Fed vigorously enforces the fair lending laws. I am strongly committed to equal credit opportunity for all Americans regardless of race or gender. Racial or gender discrimination is morally abhorrent, as well as a violation of the law. Without equal access to credit, Americans are not able fully to participate in the American economy and to realize the American dream. Sometimes discrimination is overt and intended; sometimes it is covert and even unintended, but, whatever the motive, and whether intended or not, it cannot be tolerated. One concrete step that can be taken is to give careful consideration to the use of testing—applied selectively to institutions with suspected problems—to detect discrimination in the pre-application stage of lending. I am also inclined to encourage banks to engage in self-testing as a way to detect discrimination which leaves no paper trail. In this regard, however, there is a potential Catch-22 situation which may need to be addressed, because banks now risk having the evidence that they collect through such voluntary self-tests used by the regulatory agencies or the Justice Department in an enforcement action. Though the agencies have recently taken steps to mitigate this problem, it remains to be seen if these actions will be enough.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR RIEGLE FROM JULIE D. BELAGA

Q.1.A. What do you see as the most promising markets for U.S. environmental goods and services?

A.1.A. Demand for environmental goods and services is essentially driven by governments, either directly through building or upgrading infrastructure services or indirectly through creating, implementing, and enforcing environmental laws and regulations. OECD countries will probably continue to account for the bulk of worldwide demand for environmental goods and services in the near term. Looking longer term, developing countries and particularly emerging markets will begin to account for a greater share of the demand for these products and services.

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The TPCC Environmental Trade Working Group has identified five markets/regions as the best prospects for U.S. companies selling environmental technologies: Mexico; Argentina and Chile; Central Europe, including Poland and the Czech Republic; South Korea; and the China Economic Area, including China, Hong Kong, and Taiwan.

Q.1.B. How would you specifically help U.S. exporters of environmental goods and services compete effectively in these markets?

A.1.B. The U.S. Government, as a whole, has tremendous resources to help these companies and the TPCC Environmental Trade Working Group has developed a strategy to do just that. Exim Bank's role, of course, is limited to providing financing. In April, Exim Bank announced a new Environmental Exports Program designed to make it even easier for environmental exporters to access Exim Bank financing. My job will be to ensure that the details of that initiative are widely communicated to the environmental industry here in the U.S. and to potential foreign buyers overseas. In addition, I hope to work with Exim Bank's lending staff to design creative, new financing schemes for environmental exporters if situations arise where our current programs don't adequately meet their needs.

Q.2. One of the goals of the TPCC is to achieve short-term growth of U.S. environmental exports through targeted advocacy programs. Could you describe what you believe should be Exim Bank's role in these advocacy programs?

A.2. When Government-supported export financing is a critical factor in an exporter winning a contract, Exim Bank should be there to support them. I know that Chairman Brody is committed to responding quickly to requests from environmental exporters and, when necessary, to developing creative ways within the limits of the OECD arrangements for Exim Bank to support U.S. bidders.

The Bank is planning a major outreach program to the environmental industry. These companies need to know that Exim Bank is serious about helping them export their technologies and services and that Exim Bank can assist them in getting loans and insurance commitments quickly.

Q.3.A. Another goal of the TPCC is for longer-term growth of U.S. environmental exports through market development that targets exports to developing countries and middle-income markets. What do you see are the specific needs of these markets?

A.3.A. Different countries have different environmental needs. The TPCC Environmental Trade Working Group is drafting specific action plans for the top five environmental technology markets which will specifically identify each market's needs, the best opportunities in those markets, and how best to focus U.S. Government resources. In general, however, it is clear that emerging market countries are focusing on: (1) improving their water and wastewater infrastructure; (2) treating solid and hazardous waste; and (3) reducing toxic air emissions. The fast-growing power needs in emerging markets also could present opportunities for sales of alternative energy systems and cleaner power projects.

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Q.3.B. What new Exim Bank initiatives are needed to help U.S. businesses penetrate these emerging markets?

A.3.B. Exim Bank has recently announced a new Environmental Export Program which applies to loans, guarantees, and insurance. It is now important for Exim Bank to aggressively market and implement that new program. As the Bank goes through that process, it will also be important to closely monitor whether other new initiatives are needed to more effectively meet the needs of environmental exporters.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR MURRAY FROM JULIE D. BELAGA

Q.1. The State of Washington is brimming with exporters eager to trade with Vietnam. What issues must be addressed and what steps must be taken before the Exim Bank will be able to provide financing for U.S. exports to Vietnam?

A.1. Before Exim Bank can provide any financing support for U.S. export sales to the Republic of Vietnam, all statutory prohibitions have to be removed. Restrictive measures are contained in the following statutory legislation. Under 2(b)(2)(a) of Exim Bank's charter, Exim Bank is prohibited from doing business in any Marxist-Leninist country, or with any agency or national thereof. Vietnam is one of the countries included. Exim Bank may do business in a Marxist-Leninist country if the President determines it is in the national interest. In addition, under the Foreign Operations and Related Programs Appropriations Act, Exim Bank is prohibited from supporting exports to certain countries, including Vietnam. Finally, Exim Bank is precluded from providing any support for U.S. exports under Title IV of the Trade Act, which prohibits Exim Bank from doing business in nonmarket economy countries. This provision is subject to certain Presidential waivers and determinations regarding assurance on freedom of emigration.

If all legal restrictions are removed, Exim Bank will then turn to the Inter-agency Country Risk Assessment System ("ICRAS"), which is chaired by the Office of Management and Budget ("OMB"), for public and private sector risk ratings. These risk ratings determine the subsidy level which Exim Bank—and all U.S. agencies—must charge for loans, guarantees, and insurance in a country. In the past, Exim Bank's Board of Directors has used the same ICRAS rating to determine the level, if any, of Exim Bank support and the appropriate fees. This same procedure and practice will likely be followed in the case of Vietnam.

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No Great Crisis in the Dollar's Drop

By PAUL KRUGMAN

THERE'S something about international trade and finance that makes people lose all sense of proportion. Only a few weeks ago, the American press proclaimed that globalization had slain the dragon of inflation. Pundits castigated the Federal Reserve for raising interest rates to slow the American recovery. Now that our nation is open to world trade, they said, economic expansion cannot drive up prices.

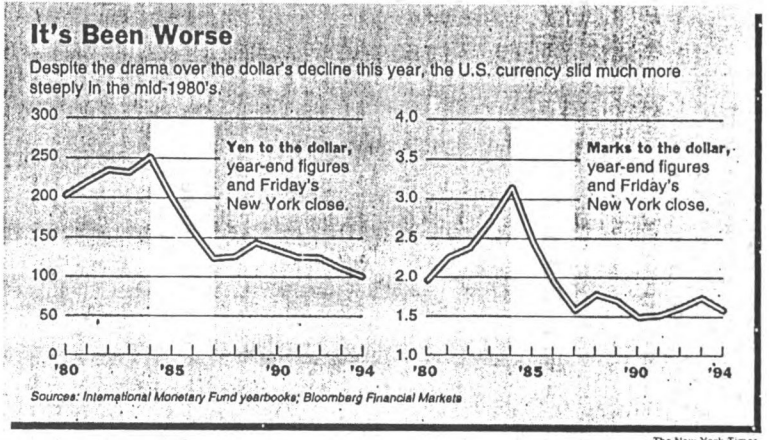
Then the dollar began sliding on world markets — and suddenly the press was filled with extreme statements of the opposite kind: Bill Clinton is another Jimmy Carter, 1994 is 1978, and a plunging dollar will bring soaring inflation and/or abort the recovery.

Let's calm down and look at this dollar drama with a little more perspective. Reports of the death of inflation were greatly exaggerated. Similarly, the dollar's recent slide is unlikely to trigger serious inflation or provoke a recession, or to last long enough to do so.

That is, unless the Federal Reserve loses its nerve. The main — though not the only — thing we have to fear is fear itself.

Why isn't the dollar's slide to date cause for concern? For one thing, the dollar has not fallen all that far. Over the past year, it has declined only about 10 percent against the yen, and less than 7 percent against the mark. For another, the dollar has not been weak on all fronts; while it slumped against Japan and Germany, other important trading partners like Canada and Mexico have actually devalued against the dollar.

All told, in the last year the dollar has fallen no more than 3 percent on average against the currencies of America's trading partners.



The New York Times

Compare these currency movements with those between 1985 and 1987. Then, the dollar fell from 258 yen to 129 yen and from 3.3 marks to 1.6 marks, and its average exchange rate fell more than 30 percent. The great dollar slump of those years was a good 10 times as big as this one — yet even that spectacular slide was not enough to derail the economic recovery then in progress.

And, after all, why should a declining dollar create economic problems? There is only one reason: A falling dollar can feed inflation, and lead the Federal Reserve to raise interest rates. But this solitary reason is also a slim one; even large changes in the dollar's value will affect inflation only modestly. Despite the rhetoric of globalization, trade just isn't that important to the Ameri-

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can economy. We spend only 11 percent of our income on imports, which means a 10 percent decline in the dollar will raise domestic prices by about 1 percent.

To justify grave worries about the dollar, foreign exchange markets must go into a free fall that drives the dollar much, much lower than its current level — say, to 75 yen or to 1.3 marks. Is this likely?

THE answer is no. One can never rule out manias and panics in financial markets, of course, but the international markets contain many level-headed investors who are prepared to ride out a short-run storm for a long-run sure thing.

And a dollar that weak would be a sure thing. After all, in the long run exchange rates strongly affect nations' ability to sell goods and services to other countries. If the financial markets make the dollar so inexpensive that the United States has a huge cost advantage in just about everything, then sooner or later market realities will force the dollar back up again.

Indeed, most people who do cost and price comparisons think the United States is in a very strong position even at current rates. A much weaker dollar would almost surely bring in investors willing to bet on eventual capital gains when the currency recovers. In turn, the inflow of capital from these investors would prevent the dollar from falling further.

So, is there anything to be worried about? Yes. For while the markets will not abort the recovery, the policy makers might.

The clear and present danger is that the Federal Reserve will overreact to the declining dollar, raising interest rates to stabilize our currency at the expense of the domestic economy. Most indications are that the Fed knows better — that America's central bankers, unlike their counterparts in many other countries, understand that the exchange rate is only a statistic, not a symbol of national honor and virility.

But that view, sensible though it is, may be hard to maintain if the dollar should take another sharp plunge. ■

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C10 Sunday, July 3, 1994

The Washington Post

AN INDEPENDENT NEWSPAPER

It's the Yen That's Out of Control

AS AN EXAMPLE of political cynicism, the new Japanese government is breathtaking. It's cobbled together from the opposites of right and left—the most obdurate elements of the collapsing Liberal Democratic (that is, conservative) Party and their longtime adversaries the Socialists. The incoming prime minister, Tomiichi Murayama, has spent his entire career in the opposition supporting pacifism, neutralism and other ideas that his current partners had always derided as neither realistic nor safe. Some Japanese say that the people in the new government have nothing in common beyond a yearning for power, but that's not quite true. There's one other thing—hostility to the electoral reforms enacted earlier this year.

Both of these long-established parties, Liberal Democrats and Socialists, know that Japanese society is changing in ways that do not favor them. The reforms, and particularly the sweeping redistricting that they impose, would shift influence to voters who are younger, better educated, less tolerant of political corruption and perhaps less content with Japan's constrained standard of living.

To call this government instable is to put it mildly. It arrives at a time when the country's economy is already under great strain, and the absence of firm leadership may prove expensive. The rapid rise of the yen's exchange rate is not a sign of health, but precisely the opposite.

Americans have been wondering why their own currency seems to be falling at a time when the economy here is performing well. Now it's beginning to be clear that the dollar isn't falling. It's down a little against some currencies, up a little against others, and trading in normal ranges against all but one—Japan's. It's the yen that's out of control.

Japan is running a big trade surplus that can continue only as long as it can balance that surplus with an outflow of capital—in effect, lending its customers the money to keep buying. For many reasons, most of them related to a long recession and the fragile condition of the Japanese banking system, the outflow has dropped. The result is a yen shortage, and the yen's exchange rate is rising. That threatens to throw Japan back into a further and deeper recession, because the high exchange rate is making Japan's exports expensive and uncompetitive.

It's a bad time to have a government entirely preoccupied with parliamentary infighting. Japan's friends, of whom there are many in this country, must hope that the Murayama government proves to be only a brief transition to something sturdier and better able to make the sharp changes in policy that Japan will need in the gathering economic emergency.

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Treasury Official Plays Down Pull Of Inflation Fear

Undersecretary Contends Other Factors Burden The Dollar Even More

ECONOMY

By LUCINDA HARPER
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The Treasury's top international official tried to quell the idea that fears of future price increases are behind the dollar's unwelcome weakness, and he reiterated the administration's hopes that the currency will strengthen.

"The cause of recovery in the United States and global recovery would be better served . . . by a stronger dollar," Treasury Undersecretary Lawrence Summers said. "A decline in the dollar has potentially adverse consequences for confidence. It has potentially adverse consequences for long-term investment. It has potentially adverse consequences for the dollar's central role in the monetary system."

Mr. Summers's words, coupled with jawboning by German officials, caused the dollar to rise sharply against the mark and by a lesser amount against the yen. The dollar's gains calmed the bond market. Stocks rose. (See article on page C1).

In contrast to comments earlier this week by Federal Reserve Chairman Alan Greenspan, Mr. Summers told the Senate Banking Committee: "Of the various factors that have been relevant to currency fluctuations, I would not assign a high weight to inflation expectations." Appearing before the same committee on Wednesday, Mr. Greenspan described the weak dollar as a sign that inflationary expectations in financial markets are rising.

Mr. Summers blamed the drop in the dollar on improved prospects of recovery in Europe, which have strengthened the German mark, and the concern that the new government in Japan may not be able to deal with its current-account surplus. "The dollar has in fact been stable when you look at its relationship with the currencies of all major trading partners," Mr. Summers added; the U.S. dollar has been particularly strong against the Canadian currency.

The Treasury official blamed rising credit demands, rather than inflation expectations, for the increase in long-term bond yields around the world.

Both Mr. Summers and his boss, Treasury Secretary Lloyd Bentsen, yesterday voiced skepticism about a plan floated by an independent commission headed by former Fed Chairman Paul Volcker that would re-establish a system of tighter exchange-rate bands, with the International Monetary Fund guarding the stability of the system.

"In theory it's a good idea. In practice, it's much more difficult than it first might appear," Mr. Bentsen said at a State Department conference. Senior officials from Germany and Japan similarly criticized the proposal.

Mr. Summers yesterday pointed out that while currency fluctuations can be an irritation in the global economy, they aren't as extreme as they used to be. Charts of dollar moves in the mid-1980s "look like the Himalayas," he said, while movements in recent years "resemble the rolling hills of Yorkshire." The Treasury disclosed in a report to Congress yesterday that the U.S. government used about $2.7 billion of its reserves of marks and yen in an attempt to boost the dollar in April and June.

Mr. Summers also said yesterday that the Treasury has concluded that China is "significantly" understating its exports and is still manipulating its foreign-exchange systems. Mr. Summers said the administration will continue to negotiate to get China to stop the manipulation, and use leverage from negotiations at the General Agreement of Tariffs and Trade.

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Robert J. Samuelson

The Yen: Japan's Reality Check

Someone will someday write the definitive history of the swindle of the century. For now, we must content ourselves with the bare facts. During the 1980s, Japanese insurance companies, banks and corporations bought hundreds of billions of dollars of foreign stocks, bonds and real estate (office buildings, hotels, resorts). On these investments, the Japanese have suffered catastrophic losses, often 50 percent or more. What's astonishing, though, is that the swindle was mostly self-inflicted. It was mainly eager Japanese buyers—and not fast-talking foreign salesmen—who fed the buying frenzy.

All this is now relevant because it explains the yen's dramatic rise to a postwar high of 97 to the dollar. That is, it took only 97 yen to buy a dollar, compared with 145 in 1990. For most countries, a rising currency signifies growing confidence. For Japan, it's just the opposite. It represents a harsh judgment by global money managers that the Japanese cannot correct their big trade imbalance themselves and that only large exchange rate changes—raising the price of Japanese exports and lowering the price of imports—will do the job.

Japan's massive overseas investments merely postponed the inevitable day of reckoning. When Japan runs big trade surpluses, it collects huge amounts of foreign currency (mostly dollars) that it doesn't need to buy imports. Normally, this would lead to a rapid rise of the yen, as surplus dollars were sold on foreign exchange markets to buy yen. With more sellers of dollars than buyers, the dollar drops and the yen rises. In Japan's case, the effect was delayed because so many dollars were "recycled" to buy foreign bonds and office buildings. Having now suffered immense losses on these investments, the Japanese have lost their appetite for more. So the dollar drops and the yen rises.

There is nothing mysterious about this. Yet many Japanese deny it. "[They] think that the strong yen has been intentionally created by Washington," writes economist Richard Koo of Nomura Securities, "but in fact the reason lies in Japan's massive $130 billion trade surplus." The delusion pervades Japanese society. Only last week Prime Minister Tomichi Murayama blamed the United States for the high yen, reports the Daily Japan Digest.

The Japanese are right to fear the rising yen: they are wrong to blame others. Since 1992 Japan's economy has stagnated. There are now faint signs of a revival that a higher yen could snuff out. A higher yen means that Japan's export earnings (in dollars) buy fewer yen. To cover their costs, exporters have to raise their overseas prices. Last week, for example, Komatsu—a maker of construction equipment—increased export prices by nearly 5 percent. Higher prices reduce Japanese exports; and this then dampens business investment. Economic growth suffers.

In theory, this process should correct itself. A higher yen makes imports cheaper and pushes down prices in Japan. This should spur consumer spending and increase imports. As the trade surplus drops, the yen's exchange rate stabilizes. The trouble is that Japan's markets frustrate imports, and lower prices aren't always passed through to consumers. The needed adjustment may not occur. A stagnant economy could discourage imports. If the trade surplus persists—even with lower export volumes—it could lead to a vicious circle of a rising yen and worsening economy.

Whatever happens, Japan's present predicament punctures another myth: Japanese farsightedness. Throughout the 1980s, Americans told themselves that the Japanese took "the long view." They planned for the future. Exactly the opposite has been true: Many policies, by both business and government, have been amazingly shortsighted. The Japanese have ignored obvious dangers and not dealt with predictable problems. Start with those huge overseas investments themselves.

Even in the 1980s, the prices that Japanese companies were paying for U.S. office buildings, hotels and resorts were considered inflated. Since then, the collapse of commercial real estate markets has made matters much worse. A survey by the consulting firm Kenneth Leventhal & Co. reckons that Japanese companies have suffered losses on at least 40 percent of their U.S. real estate. One Los Angeles hotel is valued at about half its $110 million purchase price, reports the Los Angeles Times. A major L.A. office building may have dropped two-thirds in value.

Foreign stocks and bonds were also hazardous. True, U.S. bonds paid higher interest rates than Japanese bonds. But any excess profits could easily be wiped out by exchange rate changes. This is what happened. Consider a $10,000 U.S. bond that cost 2 million yen in the mid 1980s when the yen was 200 to the dollar. (A Japanese investor needing $10,000 had to buy the dollars on foreign exchange markets for 2 million yen.) Now the same bond—if sold and converted back to yen—would fetch only about 1 million yen ($1 = 100 yen). Somehow, the Japanese had convinced themselves that such exchange rate shifts could not happen.

Government policies have been equally shortsighted. For years it has been obvious that Japan should encourage imports by liberalizing its markets. The reason is not to satisfy U.S. trade complaints; it is to prevent a constantly rising yen from devastating Japan's export industries. Only by reducing the trade surplus can Japan halt the yen's rise. At times, Japanese officials have parroted this logic. But they haven't practiced it. Countless "market opening" and "liberalization" programs have only tinkered at the edges. The real obstacle is a state of mind. The Japanese haven't yet concluded that their import-resistant and overregulated economy is not in their own best interest.

Until the Japanese grasp this, economic and political paralyses could feed each other. Japan has had four prime ministers in the past year. The postwar system of political parties is breaking down while the economy faces unprecedented pressures. Political turmoil makes it hard for Japan to undertake needed economic reforms. But economic uncertainty frustrates political stability. Foreign exchange markets reflect these tensions. When people say, "the dollar is falling," they've got it backward. The problem is not the dollar. It's the yen.

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New Jobless Claims Rise

WASHINGTON, July 21 (Reuters) — The number of Americans filing new claims for state jobless benefits shot up last week, the Government said today, but analysts shrugged off the sharp gain as attributable to temporary layoffs in the auto industry.

The Labor Department said new claims for state unemployment benefits in the week ended July 16 climbed to 392,000 from a revised 365,000 the prior week, putting them at the highest level since 408,000 in late January.

The number far exceeded Wall Street economists' forecasts of 358,000 new claims in the week.

The average climbed to 363,500 in the week ended July 16 from a revised 353,500 the prior week.

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Clinton Helps Raytheon Win Brazilian Contract

$1.4 Billion Satellite Project Goes to U.S.

By Peter Behr
Washington Post Staff Writer

A personal appeal by President Clinton to the government of Brazil helped Raytheon Co. yesterday win a contract to develop a $1.4 billion environmental satellite project, beating out competition from a French firm.

The Amazon Surveillance System, or SIVAS, will be the largest of its kind in the world, permitting advanced environmental monitoring of the Amazon region, an area half the size of the contiguous United States, according to Raytheon's vice president, Elizabeth Allen.

Commerce Secretary Ronald H. Brown said yesterday he had personally lobbied for the Raytheon bid during a recent trip to Brazil, "with every Brazilian leader I met, from the president down." He said Clinton followed up with a letter to Brazilian leaders urging that Raytheon be chosen.

It was the second major foreign contract won by U.S companies following intervention by Clinton and Brown. Earlier this year, U.S. aircraft manufacturers were chosen by Saudi Arabia for a $6 billion jetliner order.

In pushing hard for big contracts for American firms, the Clinton administration argues that it is simply matching the mercantilist tactics that have been used for decades by

See BRAZIL, D5, Col. 3

Presidential Appeal Helps Raytheon Win Brazilian Bid

BRAZIL, From D1

Europe and Japan. But in the process, the administration may undercut its arguments against subsidies to exporters.

A key to Raytheon's selection was a financing commitment from the U.S. Export-Import Bank, which provides loan guarantees and credit insurance on foreign projects that create exports for U.S. firms, administration officials said. The French bid was supported by France's export credit agency, COFACE, according to an Export-Import Bank official.

Details of the Export-Import Bank package were not available. The subsidy cost to the bank would be in the tens of millions of dollars, an official said.

The contract "signals the return of the United States to the Brazilian scene in big economic projects," said a Brazilian official. "It has been absent for many years."

From a U.S. perspective, Brazil has lagged behind Mexico and other Latin American countries in its efforts to control inflation, privatize state-owned firms and admit foreign investment, but there has been progress on several areas of trade friction recently.

The Raytheon contract will provide satellite and aircraft sensing, air traffic control, weather radar and monitoring systems and software.

Officials said the system would permit surveillance of suspected drug shipments by air in the region.

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