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NOMINATION OF ALAN GREENSPAN

HEARING

BEFORE THE

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

ONE HUNDRED SIXTH CONGRESS

SECOND SESSION

ON

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

JANUARY 26, 2000

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C O N T E N T S

WEDNESDAY, JANUARY 26, 2000

NOMINEE

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

WEDNESDAY, JANUARY 26, 2000

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

The Committee met at 2 p.m., in room 216 of the Hart Senate Office Building, Senator Phil Gramm (Chairman of the Committee) presiding.

OPENING STATEMENT OF CHAIRMAN PHIL GRAMM

Chairman GRAMM. Let me call the Committee to order.

Since you have been through this several times now, Chairman Greenspan, let me ask you to rise and raise your right hand. If you will, just say "I do" at the end of the statement.

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?

Chairman GREENSPAN. I do.

Chairman GRAMM. Do you agree to appear and testify before any duly constituted committee of the Senate?

Chairman GREENSPAN. I do.

Chairman GRAMM. Chairman Greenspan, I want to welcome you here today. I'm sorry that we are in the midst of a snow day. I heard on the radio this morning that the Federal Government was closed, but the reality is that only the Executive Branch of the Federal Government is closed. The Legislative Branch is open. We are in session today. Our hearings are taking place and, as a result, knowing that the subject of our hearing today is something that there should be no controversy about, I thought it was important that we proceed. I want to thank you for coming.

I will try to keep my opening comments short, but let me just say that as I read down the list of those who have held the office of the Chairman of the Board of Governors of the Federal Reserve System, that list is made up of some of the most distinguished people in financial and economic circles in our Nation's history: William McChesney Martin, Arthur Burns, Paul Volcker, and Alan Greenspan. I think that I speak for a consensus in saying that of all the great men who have held this position, and of all those who have performed the function of central banker—whether it was at the Second Bank of the United States under Nicholas Biddle, or at the Federal Reserve under Alan Greenspan—I believe by virtual consensus, the opinion is that no one has ever had a more distinguished record as Chairman of the Board of Governors of the Federal Reserve System than our Chairman who is before us today.

I think it is literally true that millions of people who don't know that there is a Federal Reserve, much less that you're Chairman of it, owe you a deep debt of gratitude for your leadership and for doing more than probably anyone else on the planet to help to produce the strong economy we have today.

If you were forced to try to narrow down the credit for the golden age that we find ourselves living in, I think there are many people who would be due credit, there are more who would claim credit, but of those who currently are in a position of authority, I think your name would have to be at the top of the list.

I have believed, and still believe, that the genius of our system is that the founders set up a system of checks and balances to limit our dependence on great leaders. The strength of the American economic system is in ordinary people doing extraordinary things because of freedom. That, by and large, does not require that we have great senators, great congressmen, great presidents, or great chairmen of the Board of Governors of the Federal Reserve. But I think your experience proves that a good man with a very keen mind and a clear definition of what he's trying to achieve can have a positive effect on the American people, our system, and our country.

I am very proud of the record you have established, Chairman Greenspan, and proud to have you before our Committee. I'm going to vigorously support your confirmation to a new term as chairman. I want to thank you for all you have done for this country and for our economy, and for the benefits that effort has produced in more and better jobs and an economy where equity values have soared, literally giving financial security to millions of people, creating a situation where Americans who never dreamed that they would be substantial owners of the American economy have, through their retirement programs and savings programs, actually accumulated significant amounts of wealth.

I thank you for all you have done. Obviously, we are looking forward to 4 more years of that kind of leadership.

Chairman GREENSPAN. Thank you very much, Mr. Chairman.

Chairman GRAMM. With that, let me call on Senator Sarbanes.

OPENING STATEMENT OF SENATOR PAUL S. SARBANES

Senator SARBANES. Mr. Chairman, thank you very much. Happy New Year. I'm pleased to join you in welcoming Alan Greenspan before the Committee this afternoon to review his nomination for a fourth term as Chairman of the Federal Reserve Board.

One of the most distinctive aspects of the Federal Reserve Board as an institution, I think, has been the remarkable stability of its leadership. Since 1934, when President Roosevelt appointed Mariner Eccles to be Federal Reserve Board Chairman, until today, a period of over 65 years, there have been only seven Federal Reserve Board chairmen. Among them are some of the most outstanding economic leaders our country has produced. Mariner Eccles himself served 14 years as Chairman of the Federal Reserve Board. William McChesney Martin served 19 years. Arthur Burns and Paul Volcker each served 8 years. Chairman Greenspan, assuming he serves the full length of his fourth term, and I expect he will, will be the second-longest serving Chairman of the Federal Reserve Board in its history. I think it's fair to say that he will take his place among those other outstanding public servants who have provided exceptional economic leadership to our country.

Chairman Greenspan, I am pleased to congratulate you on your renomination. We look forward to your continued leadership at the Fed. I was struck by a heading in *U.S. News & World Report*. It says, "New Millennium—The Same Old Alan."

[Laughter.]

So we are carrying some stability on through.

As I listen to all of these plaudits you have been receiving, as well as the editorial comment, I want to leave you with this story about Robert Rubin. I went to an event, and the person introducing Robert Rubin said, "The debate in Washington is whether Robert Rubin is the best Secretary of the Treasury since Alexander Hamilton, or the best Secretary of the Treasury including Alexander Hamilton." That was the introduction for Secretary Rubin to speak. Secretary Rubin stood up and said, "You know, they were having that same debate about Andrew Mellon in 1928."

[Laughter.]

Now, I want to turn to this stable leadership because I'm concerned about the uncertain situation at the Federal Reserve Board today with two open seats currently on the Board. There has been a nominee for one of the two, not for the other. Also, a term currently held by your Vice Chairman, Roger Ferguson, expires at the end of the month, actually in less than a week. He has been renominated for a full term on the Board. Carol Perry, a respected banker, formerly of Chase Manhattan, has been nominated for one of the other two open seats. Those nominations have been before us for some time. I hope, Mr. Chairman, at some point we can expeditiously move to consider them.

I believe having open seats upsets the balance because the Open Market Committee, which consists of the seven members of the Federal Reserve Board and five Federal Reserve Bank presidents, is structured to, in effect, give the Board the majority position on the Open Market Committee. I think that's important because I believe the members of the Board carry with them a public legitimacy since they must be nominated, they must come before the Senate, and they must be confirmed by the Senate. In effect, they have received, as it were, a mandate to exercise what I regard as significant public powers. The same is not true about the Federal Reserve Bank presidents, who are not nominated or confirmed, and I think we have something of a misbalance there.

Furthermore, we don't have to go much further before, I guess, the Board would have some difficulty in achieving a quorum if one of its members should be for some reason unable to participate. I think that's something we need to address ourselves to.

Mr. Chairman, I hope in addition to considering the Federal Reserve positions, we might look at the other nominees that are pending before our Committee, the four nominees for the Federal Housing Finance Board, the Director of the Mint, and a nominee for the Council of Economic Advisers. I am very much with the Chairman in quickly holding this hearing for Chairman Greenspan, and presumably we will try to do the business meeting with respect to him next week, as I understand it, for purposes of reporting out this nomination. I hope that we could then turn our attention to the other nominations as well.

Mr. Chairman, I close by again congratulating Chairman Greenspan on his renomination and wishing him the very best.

I think a lot of people take comfort in this, the new millennium, the same old Alan.

Thank you very much.

Chairman GRAMM. Thank you, Senator Sarbanes.

Senator Bunning.

OPENING COMMENTS OF SENATOR JIM BUNNING

Senator BUNNING. Thank you, Mr. Chairman.

I would like to thank Chairman Greenspan for braving the bad weather to come here today to testify on his renomination as Chairman of the Board of Governors of the Federal Reserve System.

There is a lot of credit to go around for our continued economic expansion. President Reagan's landmark tax cut and the Balanced Budget Act have a lot to do with this expansion. But obviously, Chairman Greenspan, you and your stewardship of the economic policies of the Federal Reserve deserve a great deal of the credit for our robust economy, which is probably why the President renominated you.

As I said the last time we met, I hope you are feeling good today because your words always have an effect on the markets. I think I can speak for my colleagues when I say that I hope the effect of your comments on the markets will be positive. I would be remiss if I did not take advantage of your presence here today to ask you a few questions. I look forward, as always, to your testimony, and to the opportunity to pick your brain on a few topics on which I believe the American people would like to know your thoughts.

Once again, thank you, Chairman Greenspan, for braving the roads and coming before us today.

Thank you, Mr. Chairman.

Chairman GRAMM. Senator Bryan.

OPENING COMMENTS OF SENATOR RICHARD H. BRYAN

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

Chairman Greenspan, it's always a pleasure to have you before our Committee. Let me preface my comments by saying that I enjoyed our visit yesterday in my office. I want to personally thank you for your prompt and personal response to a couple of the questions that I raised at the time of our meeting.

The United States finds itself in the midst of an unprecedented peacetime economic expansion. Virtually every leading economic indicator is pointing in the right direction. The markets are up, inflation is down, interest rates are down, and unemployment is down.

For the Federal Government, this growth has meant an end to three decades of budget deficits and a soaring multi-trillion-dollar Federal debt. Instead, we face the prospect of a promising era of budget surpluses and hopefully, if we remain focused and disciplined, a meaningful debt reduction.

For most Americans, the job base has expanded, wages and earnings have increased, and their standard of living is significantly better than it was just 7 years ago. At the same time, some Americans have clearly been left behind, and we need to do more to make sure that all Americans can participate in this economic prosperity and growth.

It would be difficult to credit any single person for the astounding economic growth we have achieved during the last 7 years. President Kennedy once said that victory has a thousand fathers, defeat is an orphan. But I certainly believe it would be fair to say that the economic policies pursued by this Administration, some of the actions taken by us in the Congress, have been contributors.

I think everyone would acknowledge that one of the pillars for that economic support and expansion has been your tenure and your leadership at the Federal Reserve. The monetary policies pursued by the Federal Reserve have been instrumental in channeling and cultivating this tremendous growth and economic prosperity, and we are greatly indebted to you for your leadership and for your agreement to serve yet another term.

There is much work that lies ahead for us, however. That includes the $5.7 trillion Federal debt, and I am hopeful that Congress will not allow this golden opportunity to slip away. As you know, the demographics are daunting, and few Congresses have an opportunity such as this to make what I believe will be some meaningful contributions in debt reduction. That, in my view, is the best gateway to long-term fiscal growth and stability.

I am pleased to support your renomination. I am confident that the vote in the Senate will be overwhelmingly in your favor, as it should be. I look forward, when you appear before us next month, to asking you some questions about some of the Federal Reserve's monetary policies that you will be outlining at that time.

Again, my personal congratulations and best wishes to you for your next term.

Thank you, Mr. Chairman.

Chairman GRAMM. Thank you, Senator Bryan.

Senator Grams.

OPENING COMMENTS OF SENATOR ROD GRAMS

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

I, too, want to thank Chairman Greenspan for coming today. I also want to congratulate him on his renomination in what I would expect may be a close vote here in the Committee.

[Laughter.]

Maybe not.

[Laughter.]

I would like to welcome Chairman Greenspan to the hearing. I will try to keep my comments very short. Again, Chairman Greenspan, welcome.

We have heard a lot of good news about the economy recently; again, projected surpluses might be even larger than we expected. But I think the bad news on the economy is that the President and some in Congress are already talking about abandoning the fiscal discipline we have had by breaking the spending caps. It seems that the temptation to spend here in Washington is too strong to resist. I hope some of the words you will have for us today will be to maintain some of this fiscal discipline to make sure that we keep our fiscal house in order.

Thank you, Mr. Chairman.

Chairman GRAMM. Thank you, Senator Grams.

Chairman Greenspan, we are ready to hear from you.

SWORN TESTIMONY OF ALAN GREENSPAN, OF NEW YORK CHAIRMAN-DESIGNATE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Chairman GREENSPAN. Mr. Chairman, I would first like to thank you and your colleagues for your very kind remarks, and I trust I shall be able to live up to the expectations which are implicit in those remarks.

I would like to begin today by expressing my gratitude to President Clinton for his confidence in me, and to you, Mr. Chairman and Members of the Committee, for holding hearings on my renomination for a fourth term as Chairman of the Board of Governors of the Federal Reserve System. The Federal Reserve has had a close and productive relationship with this Committee over the years. If you and your Senate colleagues afford me the opportunity, I look forward to working with you in the years ahead to build a framework to enable the American people to enjoy the fruits of a sound and efficient financial system, in an economy that is delivering the greatest possible sustained increases in standards of living.

We at the Federal Reserve face considerable challenges in carrying out our responsibilities for both the financial system and the overall economy. In many respects, these challenges relate to discerning, and keeping up with the implications of, the accelerating pace of technological change in our society. The Congress took a major step last year in passing legislation that will help the citizens of the United States realize the benefits of the rapid evolution of technology in the delivery of financial services.

The Federal Reserve's challenge now, working with our fellow regulators, is not only to implement the new law, but more broadly to design supervisory and regulatory policies that can deal effectively with the changing financial structure. Effective oversight must balance a number of possibly conflicting criteria. It must enable our financial sector to evolve in a way that allows competition and technological change so that financial services are delivered in the least costly, most efficient way possible to the highest possible number of our citizens. It must at the same time foster the fundamental soundness of our financial system and put in place safeguards to protect against the remote possibility that any unsound behavior in the financial sector is transmitted beyond the firms involved to the economy more generally. And it must accomplish the latter with only minimal use of the Government safety net and of implicit or explicit guarantees that tend to reduce the accountability and market discipline and foster excessive and destabilizing risk-taking.

For the economy overall, the marked pickup in technological innovation has accelerated productivity and raised the standards of living for many—though regrettably, not all—Americans. Our challenge in monetary policy is to foster, as best we can, the financial conditions that will allow this economic expansion and technological revolution to continue as long, and as vigorously, as possible. Experience has demonstrated that an essential ingredient in this prosperity, and an ingredient for which the central bank has ultimate responsibility over the long run, is low and stable inflation. Effective price stability removes a major source of uncertainty and distortion that would otherwise interfere with the spending and saving decisions of households and businesses. Maintaining price stability also reduces the likelihood that imbalances could develop that would ultimately undermine economic expansion.

We have also learned that the Federal Reserve's potential contributions to financial and economic stability should not end with making policy decisions. We also need to explain to the public what we are doing and why. Importantly, in our democratic system our explanations provide the Members of this Committee, your congressional colleagues, and the people you serve with the information necessary to evaluate our actions and to hold us accountable for them. As you know, we have made considerable efforts in recent years to improve the communication of our decisions, our expectations, and their rationales to the public consistent with our mandate to deliver effective monetary policy. This has not always been a straightforward process, in which the consequences of each step could be readily predicted, but it is one that must continue.

Thus the challenges and the opportunities are substantial in a number of the areas in which Congress has given the Federal Reserve important responsibilities. But in the Federal Reserve, the Congress also has created an institutional structure extraordinarily well-suited to address these issues. The combination of a Board of Governors, very firmly tied to the national democratic process and providing overall leadership to the System, and regional Reserve Banks, deeply rooted in their local communities, enables us to bring a unique perspective to the consideration of policy issues.

Our Reserve Banks supply real-time information about developments in their regions, and ongoing observation of, and familiarity with, the financial institutions headquartered there. This information enhances our ability not only to conduct monetary policy, but also to supervise financial institutions and deal with emerging problems in the financial sector, and to play a constructive role in regional economic developments. The Board members and Reserve Bank presidents can employ these observations, along with their knowledge of the national and international economic and financial situations, to carry out our legislated mandates.

This structure and these responsibilities have attracted to the Federal Reserve System men and women of high intellectual capabilities and deep knowledge of the relevant subjects. Naturally, and fortunately, these people often disagree. Disagreements, however, are largely over evidence and analysis, not goals and objectives. To be sure, Federal Reserve decisions often emerge as a broad consensus of policymakers. But forming that consensus involves considerable give and take, with many people influencing the outcome.

Policymakers are in turn supported by outstanding staff at the Board and the Reserve Banks. Many, perhaps most, of the policymakers and staff could be making substantially more income in the private sector, but, attracted by the character of their colleagues, the nature and importance of issues they deal with, and the atmosphere in which those issues are addressed, they chose to exercise their considerable talents within the Federal Reserve.

The strength of the institutions and structures of the Federal Reserve is perhaps most visible in the work of the Federal Open Market Committee. There, the ability of Reserve Bank presidents to draw on local contacts can reveal significant developments in the economy before they are visible in the national data, and can help in understanding the forces behind important economic trends. The Committee is an extraordinary collection of individuals. Among the 17 people gathered around that table, 13 have Ph.D.'s. The others have the experience, skills, and the common sense to prevent the Committee from becoming paralyzed with a surfeit of two-handed economists.

But monetary policy is not the only area in which this unique blend of skills and perspectives is brought to bear. We utilize committees of Board members and Reserve Bank presidents to deal with such responsibilities as our oversight of the payments system and the implications for supervision and regulation of the growing size and complexity of financial institutions.

What success the Federal Reserve has had in carrying out its legislated responsibilities in recent decades derives from many different sources. Certainly, we have enjoyed good fortune—dealing with the challenges of a pickup in innovation and productivity is decidedly more enjoyable than the task faced by our predecessors in the 1970's when productivity slowed and stagflation held sway. I believe we have also learned from our past mistakes, and I hope that we will recognize the new misjudgments we will inevitably make quickly enough to prevent them from becoming too serious and disruptive. And we have had help and support from various Congresses and Administrations seeking, like us, to promote sound public policies. But our ability to meet the legislative mandates of the Congress rests ultimately on the strength of the institutions of the Federal Reserve and the people who inhabit them.

It has been an extraordinary privilege to be able to serve my country at the Federal Reserve. I would be honored if the Senate saw fit to enable me to continue this association for another 4 years.

Thank you very much, Mr. Chairman.

Chairman GRAMM. Thank you, Chairman Greenspan.

We have had three Members come in since we gave our opening statements. Let me see if they want to give a short opening statement, then we will proceed to the questioning round.

Senator Allard.

OPENING COMMENTS OF SENATOR WAYNE ALLARD

Senator ALLARD. Thank you, Mr. Chairman. I do have a statement, but I will ask to make it a part of the record and just state that I am delighted that Chairman Greenspan has decided to move forward with his activities at the Federal Reserve. He has been offered plenty of opportunities, I'm sure, in the private sector, where the financial rewards would be much greater than in his current position. I believe the American people owe him a great deal of gratitude for his willingness to share his expertise in that position.

I ask unanimous consent that my full statement be made a part of the record.

Chairman GRAMM. Your statement will be made a part of the record as if read in its entirety.

Senator ALLARD. Thank you, Mr. Chairman.

Chairman GRAMM. Thank you, Senator Allard.

Senator Johnson.

OPENING COMMENTS OF SENATOR TIM JOHNSON

Senator JOHNSON. Thank you, Mr. Chairman. I have no opening statement. I would just like to welcome Chairman Greenspan to the hearing today. I wish him well.

Thank you, Mr. Chairman.

Chairman GRAMM. Senator Santorum.

OPENING COMMENTS OF SENATOR RICK SANTORUM

Senator SANTORUM. Thank you, Mr. Chairman. I also have a statement which I would ask unanimous consent to be made a part of the record. I look forward to supporting Chairman Greenspan in his renomination.

Thank you, Mr. Chairman.

Chairman GRAMM. Thank you, Senator Santorum. Your statement will be made a part of the record as if read in its entirety.

Chairman Greenspan, I have a couple of questions. First of all, as you know, this morning the Congressional Budget Office issued a new estimate on the budget surplus. That estimate suggests that we could have a surplus roughly in the range of $30 billion, in the coming fiscal year, above the Social Security surplus. I know you are asked this question all the time and that everybody's trying to use you and your credibility to promote their goals, so let me state it as generically as I can.

With this $30 billion surplus, obviously we have three options. One, we can not spend it and not give it back to the taxpayer, combine it with the Social Security surplus, and buy down the Federal debt.

Two, we can spend it. In the last 2 years, we have increased discretionary spending by roughly $25 or $30 billion, so that we are now spending on the discretionary, nondefense accounts at twice the rate we did in the 1980's, which I'm not especially proud of.

Finally, we could give it back in a myriad of tax cuts that would obviously benefit the taxpayer and potentially benefit the economy.

What I would like to ask you is, in your opinion, for the good of the economy, to rate those three options in descending order.

Chairman GREENSPAN. Mr. Chairman, as I have said previously to this Committee, because of the nature of the type of acceleration in productivity and dynamic change that is occurring in the American economy, my first priority would be to allow as much of the surplus as possible to flow through in a reduction in debt to the public. In my judgment, that would be, from an economic point of view—and I recognize there are other priorities, obviously—but from an economic point of view, that would be by far the best means of employing it.

Second, if that proves politically infeasible, I would then opt for cutting taxes. And under no conditions do I see any room in the longer-term outlook for major changes in expenditures. I think the Congress has been extraordinarily circumspect and responsible in recent years in developing programs which have moved us from what appeared to be something which was going to give us, for this fiscal year, a $300-billion deficit, to a set of proposals and actions, combined with the Administration, to essentially achieve the surpluses which we have.

I do not deny that a very significant part of the surplus generation has been the economy's extraordinary and, frankly, unexpected surge, but there's no question that a considerable part of what we are now experiencing is the result of a very profoundly important endeavor on the part of the Congress to create fiscal responsibility.

I would fear very much that these huge surpluses will undermine that very hard-won achievement. I trust that we will keep as much of the surplus as we can, not only in this fiscal year, but in subsequent fiscal years, and that we will allow it to run the debt down as quickly as we can.

Chairman GRAMM. Chairman Greenspan, I have two other questions. One is a hard, very unpleasant question, the other I think you will probably want to answer. Let me ask the hard, unpleasant one first.

Of all the issues that I hate dealing with, the one I hate most is congressional pay. If I could choose one issue to never have to vote on again, it would be a pay raise for Members of Congress. If I vote against it, I feel like a hypocrite because I know there are people who need and deserve it. If I vote for it, I have to explain it to somebody who, if it's $5,000, $10,000, or whatever, obviously views that as the nucleus of a fortune.

One of the things I have been concerned about is the salary structure at the Fed, especially for the Chairman and for Board members.

Now, I know you would do this job for nothing. I would do the job I'm doing for nothing. I'm not suggesting that they take away my pay, but I would do this job for nothing. And I know you would. But I'm concerned that we are getting ourselves in a position where we could potentially lose good people who aren't in the financial position to do the job for nothing or for relatively little.

Since obviously you are going to be reconfirmed, you are in a position to take a longer view than most nominees. Do you believe that we should raise, perhaps on a prospective basis for the next Chairman, the salaries of the Chairman and Board members?

Chairman GREENSPAN. Well, you are quite correct in forecasting that's the toughest question to put to me.

Chairman GRAMM. I knew it would be.

[Laughter.]

Chairman GREENSPAN. As you point out, it is not an issue for me personally. I have independent resources, and it's not relevant in my case. But I look around me, and I observe people who are extraordinarily capable. Indeed, the Federal Reserve, its Board and its staff, now is without question, in my judgment, as competent and effective as any I have been associated with or, indeed, any I have been aware of in the past. I know a number of us have independent means and money is not a consideration. But for others, that clearly is not the case.

I think it would be a great tragedy for this country to lose a number of very skilled people, who are coming up in their professions and, hence, have not had the time to accumulate significant wealth; and to find, as we have in the past, that members have to leave, not because they chose to because they were dissatisfied or anything of that nature, but because they had young families to raise. I think that consideration of the levels which are being paid probably is appropriate.

I would trust in the process that I would be excluded from that, and that, if there is in fact any action that is taken, it would be taken with respect to my successor. But I do think that for other members of the Board, and surely my successor, it would be good public policy, without question, to readdress this question.

Chairman GRAMM. I have run into the situation where someone with a graduate degree who went to work for the Fed, who became president of a regional Reserve Bank, in order to take a position on the Board of Governors would take a substantial cut in pay. If someone has been a career civil servant, they can't be oblivious to that fact. This seems to be an anomaly that should be fixed; it's one of my pet peeves, and I hope to fix it.

The final thing I wanted to ask—and excuse me, colleagues, for running over—there have been some in the political fray in places like Iowa, who have suggested that our monetary policy has been harmful to the American farmer: that it is, in fact, a major factor in the fact that basic commodity prices are depressed.

Now, I have exercised any analytical powers I have to try to figure out how anybody could possibly believe that. And if I were an old teacher again, I might grade down a freshman in economics who would make that argument.

But I would like to give you a short opportunity here to respond because I think to the extent that there is any opposition to your nomination, it will be centered around concerns about agriculture and basic commodity prices. If you would like to answer that, we would be glad to hear from you.

Chairman GREENSPAN. Well, Mr. Chairman, I think that all of the analytical work we do suggests that the significant downward pressure on agricultural prices, which has been really quite profound, is the result essentially of two things. One, an extraordinary rate of increase in productivity. We talk about this dramatic expansion in information technology and in all of the varieties of other technologies which we associate with the nonagricultural part of our economy. What very few people understand is that agriculture output per hour, so to speak, is rising at a faster pace than the nonfarm area. It is an extraordinary tribute to American farmers that they have been able to so increase their capacity and their output that they have huge amounts of goods coming onto the market, and they must, of necessity, be sold.

Two, as you are acutely aware, as I am, the vast proportion of what we produce, certainly in grains and crops, is exported: that is, the amount of wheat, corn, soybeans, and cotton that are domestically consumed is a fraction of the total. It's export markets which are crucial. Clearly, the major recession in East Asia had a very dramatic impact on agricultural exports and on demand, and prices sagged accordingly.

There is an argument, I would suspect, that could be made, that any rise in interest rates could reduce overall domestic demand for all goods and services in the United States, impact the demand for bread and wheat, for hogs and corn. One could indirectly infer a weakness in demand and, therefore, a weakness in price, as a consequence of monetary tightening. The evidence of that is wholly missing, and the reason is basically that the amount of, for example, bread that is consumed in this country is significantly unrelated to other economic forces.

Food consumption is not sensitive, to any great extent, to either the overall output of the economy, its income, or especially interest rates. I must admit, as you, I am somewhat puzzled by this concern with respect to prices.

Now, obviously, if we are talking about loans on crops or loans on land, that's another issue, and that relates to the nonfarm area just as readily as it relates to the farm area. But strictly focusing on agricultural prices, I must say that I really am hard-pressed to find any relationship of significance between American interest rates and the prices of these products, which are essentially made in world markets.

Chairman GRAMM. Thank you, Chairman Greenspan.

If anyone needs to run 3 or 4 minutes over, as I did, please feel free to do so.

Senator Sarbanes.

Senator SARBANES. Thank you, Mr. Chairman.

Chairman Greenspan, since we have you here, I have a number of questions I would like to put to you.

First of all, you have made reference to the Financial Services Modernization bill, which was enacted in the last session, in your opening statement. I think I should express our appreciation to the Fed and to its staff for the contribution they made in helping to move this legislation through the Congress.

I see Virgil Mattingly and Don Winn sitting there behind you, who were present at a number of the meetings we held. I know you were very much involved yourself, Chairman Greenspan, in a whole series of meetings. I think the Fed, along with the Treasury and others, were very positive actors in helping to bring about what I think was a successful outcome. I want to express that on the public record.

One of the issues we really weren't able to deal with head-on in that bill, which concerns me, is the "too-big-to-fail" question. I guess my question to you is: Should we have some concern about it? It's an issue that we need to try to get at. In fact, the bill, I think, has commissioned the Fed and the Treasury to examine that question.

Second, a number of people—Brookings, actually the AEI, the American Enterprise Institute, I think even a Federal Reserve System study group—have all suggested, or at least explored, the idea of using subordinated debt as an instrument of market discipline, a market-oriented approach to policing risky behavior by financial organizations.

First of all, what do you think about the importance of the "too-big-to-fail" question? Second, what is the relevance of the subordinated debt possibility in trying to address it?

Chairman GREENSPAN. Senator, I think you raise an issue which clearly bedevils monetary policy, not only in the United States, but throughout the world.

To the extent that there are financial institutions which are perceived by the marketplace as too big to fail, you create a misallocation of capital specifically in their direction, and the normal market forces which punish mistakes and constrain inappropriate extensions of credit are subverted.

The broader question is what economists and insurance people call "moral hazard," where you get actions which relate to the specific notion that you will not be allowed to fail no matter how many mistakes you make. We at the central bank and, indeed, all of our colleagues in the regulatory area are working assiduously to make certain that this issue is kept at as minimum a level as we can.

We don't deny that there are certain large financial institutions which, if liquidated very quickly, would create some distortions in the system. We try to avoid that. But in no cases should we be involved in creating more than an organized liquidation of an institution which is in trouble. In no cases would the shareholders get anything. And in many instances, many of the creditors would also find that they were getting haircuts, so to speak.

The great advantages of having vehicles on the balance sheet of institutions such as subordinated debentures is that it is something of the nature, in one respect, of a canary in a mine, that if some of the credit capacity of these institutions seems to be eroding at the edges, it is very much more likely to show up in the prices of liabilities which are not insured and have no collateral behind them. We and the Treasury will be developing for the Congress a broad evaluation of the alternatives that are involved here, as you requested, and we will have firm conclusions as to the pros and cons—and there are cons, obviously, in subordinated debentures—hopefully, in an expedited fashion.

Senator SARBANES. Thank you very much.

I want to next discuss the Federal Reserve's monetary policy reports to the Congress, which are now required by an amendment that was made to the Federal Reserve Act to transmit to Congress twice a year a written report on the conduct of monetary policy, and to consult with the House and Senate committees. Of course, that has now taken the form of public hearings, where the Chairman reports with respect to the monetary policy report. That gives you a relatively fixed schedule for making such reports, for appearing before the Congress.

My understanding is that the financial press and the public generally welcome these occasions as an opportunity for the Fed to lay out its thinking. It has been extended, but if we don't extend it yet again, the requirement to transmit the monetary policy reports will expire.

I wondered what your view is of the experience you have had with the monetary policies and of continuing to require the Fed to engage in this public discourse.

Chairman GREENSPAN. Senator Sarbanes, I have found over the years that being required to come up to the Congress, to the Banking Committees of both Houses, twice a year on a fixed schedule creates a certain discipline for us which I think, frankly, looking at it objectively, is very useful as oversight to a central bank.

The advantage is that we are forced to focus on exactly what we are doing and why in a manner which requires everybody within the policymaking operation of the Federal Reserve to focus on a broad set of issues. That discipline, in my judgment, is very helpful to us. I also think it is quite useful as a mechanism to convey what it is we do.

As you know, Senator, by law, the GAO or any organization cannot audit monetary policy. That should be appropriately done by the Congress.

The vehicle which now exists strikes me as an ideal mechanism for doing this. I do have personal questions about whether all of the materials that are involved in the physical report we send up, in addition to the Chairman's presentations, are still as useful as they always have been because, over the years, there have been provisions to what should appear in that which were quite relevant for the period in which they were implemented, but ceased to be as relevant in subsequent years, and we have never gone back and reviewed and excised those parts of the report which no longer had the importance that they once had.

In my judgment, we probably could improve the system to a certain extent. But having said that, if it turns out that it creates major problems, the burden is not all that onerous, and I would scarcely argue that it is an issue which has high priority, in our judgment.

Senator SARBANES. I hope we will be able to address that question here in the Congress. I believe these monetary policy reports have been very helpful. I think, actually, they tend to make the whole oversight process less political because, otherwise, without them, I think you would always be calling the Fed in at a time of supposed crisis. As it is now, you may come up and there may be a crisis at the time; there may not be, but the reporting is unrelated to that. Whereas, if we don't have this regular reporting, I believe there would be a tendency to bring the Fed in whenever there was a breaking event, so to speak, and I think I would prefer to do the oversight essentially the way we are doing it.

Chairman GREENSPAN. I believe that is a very important point, Senator.

Senator SARBANES. Mr. Chairman, I have some other questions, but I will wait until my next round. After everyone has finished, I would like to ask a few more questions.

Chairman GRAMM. All right. Let me say, since we now have a fairly good representation of our membership, that it would be my objective to do our markup on the morning of February 1, which is when we have a hearing on the satellite loan guarantee program. If we get a quorum at that hearing, it would be my objective to do the vote on the Greenspan nomination and try to bring it to the floor of the Senate that afternoon.

Now, obviously, if anyone on the Committee has a strong objection, I would be happy to sit down and talk to them. But as of today, while we have so many people here, I wanted to let it be known so, hopefully, they can be at that hearing on February 1.

Senator Bunning.

Senator BUNNING. Thank you, Mr. Chairman.

Chairman Greenspan, in your speech to the Economic Club of New York, you stated, "I trust the recent flurry of increased Federal Government outlays, seemingly made easier by the emerging surplus, is a temporary situation." If the President, in tomorrow night's State of the Union Address, were to propose a number of new spending initiatives, do you believe it could have a detrimental effect on the markets and/or the economy?

Chairman GREENSPAN. Senator, I'm not familiar with the details of what the President will present.

Senator BUNNING. None of us are right now.

Chairman GREENSPAN. I know. I would presume that. I would just repeat what I said at the very beginning. I think the Congress has done an extraordinary job and, indeed, the combination of the Administration and the Congress over the past decade has really altered the way fiscal policy is made in this country.

I should trust that that will continue, and I have every reason to believe that this is the view held by this Administration as well. I certainly trust that at the end of the appropriations process, we will find that what comes out is a relatively sound set of elements within the budget and continuation of the general philosophy which has essentially governed budgetary and tax policy in this country over the past decade.

Senator BUNNING. In the same report that Senator Gramm spoke about on the CBO's estimate of approximately $30 billion in surplus for the next year, there was also a projection that there could possibly be a surplus over the next 10 years of approximately $4 trillion. If we don't do something as you suggest, pay down the debt or reduce taxes, there is a very strong temptation by a lot of people sitting at this table and sitting in the Senate and the House to spend that money.

I just want to reiterate my strong feelings that your three choices are something that we could follow very closely. Since we did not spend one penny of the Social Security trust fund surplus in this last budgetary process, the amount of money that we can pay down on the debt is that much greater, or the amount of money over a 10-year period to reduce taxes could be that much greater. I hope that we listen to your good counsel on that.

You also stated in the same speech that you are concerned about the savings in this Nation. Do you believe that a cut in the capital gains tax or an increase in the amount of tax-exempt dollars that can be put into a 401(k) or other savings plan would help increase savings?

Chairman GREENSPAN. There is a dispute amongst academicians on the 401(k) impact. A number of people have argued that they do increase savings. Some people are more skeptical. We are probably going to need a few more years of evaluation to get a firm view on it. But, clearly, it's a positive force within this country to build up the net worth of large numbers of families in the society. And that, as the Chairman said at the beginning, I think is clearly positive.

The capital gains tax is more an issue, in my judgment, of the incentive to invest, as distinct from the creation of savings. I have always argued over the years that taxation of capital is the poorest means of achieving revenue that we have if the long-term growth and stability of the economy is the criterion which we are employing to make the judgment.

I would not argue that the capital gains tax has a material effect on the savings rate. It may, but I have seen no strong evidence to suggest that it does. But I surely would not use that as the reason for trying to significantly reduce it.

Senator BUNNING. How would you propose that we increase the savings, then?

Chairman GREENSPAN. Well, Senator, at the moment, we have gone through innumerable measures to create increased private savings and, at best, we have to argue that the results were mixed because we don't see any profound increase in private savings in this country.

One of the reasons why I have argued for allowing the surpluses to run is that it creates a savings for private investment. If we can't do it in the private accounts, a fall-back, and clearly a second-best, condition is to allow the surpluses to emerge and finance the necessary investment to create the continued acceleration in productivity as a result of these investments that we have seen over the last 5 to 8 years.

Nonetheless, Senator, I do think that it is important for us to continuously focus on means of achieving higher levels of private savings, and I believe the debates which have circled around the question of partial privatization of Social Security, for example, are the types of analysis from which we are likely to get better insights into the forces which may well contribute to private savings.

Senator BUNNING. One last question, if I could. In Kentucky, as in many of the other States, there is a farm labor crunch. We are depending more and more on migrant farm labor. Other areas of the country have asked for an increase in foreign labor in the high-tech industries.

Do you believe we should do something with our laws—with immigration, or whatever it is—that would allow both high-tech and farm labor to come into the country to ease the burden as far as the problem with the labor force?

Chairman GREENSPAN. I would agree with that, Senator. It is clear that under existing circumstances, not only in the high-tech and the farm area, but, indeed, throughout the country, aggregate demand is putting very significant pressures on an ever-decreasing available supply of unemployed labor. The one obvious means that one can use to offset that is expanding the number of people we allow in, either generally or in specifically focused areas. I do think an appraisal of our immigration policies in this regard is clearly on the table.

I recognize that there are huge problems associated with that. There is the question of the social safety net that we have in this country, which is very substantial, and it would be obviously inappropriate for a very large opening up of our immigration capabilities to people who did not come to work. But all of the experience that I have seen suggests that people seeking to come to the United States are coming for jobs and for the opportunities that we have here, and I do not, therefore, perceive that as more than a theoretical problem.

I think reviewing our immigration laws in the context of the type of economy which we will be enjoying in the decade ahead is clearly on the table, in my judgment.

Senator BUNNING. Thank you.

Chairman GRAMM. Senator Johnson.

Senator JOHNSON. Thank you, Mr. Chairman.

Chairman Greenspan, this morning, the CBO shared with us, as has been noted here, new budget projections indicating that over the coming decade, we could run a surplus of almost $4 trillion, almost $2 trillion over and above those dollars attributable to Social Security. I think we all recognize, or should, the tentativeness of any 10-year projection about budget surpluses. But, nonetheless, those are the numbers that are being shared with us.

I appreciate your observations earlier today that your first choice for the utilization of those dollars would give a great priority, at least, to reduction of existing accumulated Federal debt. It would strike me that to do otherwise would be tantamount to economically putting a foot on the gas pedal and the brake simultaneously in terms of a huge tax cut or, for that matter, huge expenditures, undermining monetary policy that you and the Federal Reserve have been pursuing.

But even having said that, the three options, with due respect, that the Chairman shared with you, it would seem to me that those options are more complex than that. Certainly using all the dollars to buy down debt is one option. Spending it all is another option. But I don't think anyone is really talking seriously about that.

As responsible as Congress has been in recent years, and I appreciate your reference to the extraordinary job that the Congress has done, a $4 trillion surplus accumulates only if we assume that we follow current budget caps. Last year, we were $26 billion above the caps. This year, it will be $49 billion above the caps.

Your reference to being concerned about spending the surplus was in reference to a substantial spending increase. I would assume, then, that your concern would not apply to some adjustment of spending cap level that would take into consideration the possibility of inflationary increases over the coming decade?

Chairman GREENSPAN. Senator, I think the Congress has a quite difficult problem with the caps.

Obviously, from the point of view of the central bank, there is an interest in as much fiscal restraint as can conceivably occur because, from the way our job requirements are listed, the greater the fiscal restraint, usually, not always, but usually, the easier it makes it for us.

But the question really comes down to, if you are going to have a cap, it should be adhered to. If it's not going to be adhered to, then it should be changed. But then the new one should be adhered to. If you give me my own personal priorities, I would much prefer that if it were at all feasible, to stay with the legislative caps as they now stand. But second best would be to change the caps and adhere to that. Third best, if that's a best at all, is to have caps which are, for all practical purposes, meaningless. I would suggest that they have been very effective instruments over the years, surprising in many respects.

When they first came into place, I didn't believe they would work because it would require a majority of each House just to overthrow them. It didn't work that way, and I would be most concerned if the integrity of the system became undermined because they were unable to be enforced because they no longer had the support of a majority of the Congress.

In my judgment, while I would much prefer that we stay where we are, I recognize there are real pressures to avoid that, and it is very difficult to find majorities in either House for that. If that, indeed, turns out to be the case, I think it's probably wiser to alter them, but then find a means by which we don't get involved in spurious mechanisms to evade them.

Senator JOHNSON. Would a 10-year, $800 billion or more tax cut put pressure on the Federal Reserve to raise interest rates?

Chairman GREENSPAN. First of all, let me just say that fiscal policy per se, whether it's expenditure increases or tax reductions or deficits or surpluses, does not directly affect Federal Reserve monetary policy.

We respond to what the economy is doing. If various different packages of fiscal policies impact on the economy, we will respond to that, but if they do not, then there is no action called for on our part. We are not, in that sense, focused on the specifics of any set of packages, but only to the extent that we view how it is likely to impact on the overall economy, which only then brings monetary policy into the loop.

Senator JOHNSON. I yield back, Mr. Chairman.

Thank you.

Chairman GRAMM. Senator Allard.

Senator ALLARD. Thank you, Mr. Chairman.

Chairman Greenspan, you are well aware of the fact that I have been a strong supporter of legislation to pay down the national debt. How do you believe such legislation should be structured? Would it be best to set a target date for debt repayment, such as suggested by the Speaker of the House recently, or should we devote a certain amount of surpluses to debt repayment without a time certain?

Chairman GREENSPAN. Senator, if you have a surplus, obviously, unless you accumulate huge amounts of cash on deposit with the Federal Reserve by the U.S. Treasury, the only alternative is to use it to pay down debt. As a consequence, you could focus on the issue of the debt repayment either by assuring the surpluses exist or, as you suggest, putting a fixed date and, presumably, some sequence of dates as to how the debt would be paid down. If that was what the legislation was, that would then enforce the size of the surplus, and whatever the difference was between the surplus which would have arisen otherwise and that implicitly mandated by statute to reduce the debt would then be available for either spending increases or tax cuts.

I'm not sure it matters terribly much how you go at it. This is a problem which I must say to you is really a very desirable one to have considering the types of problems we had to confront during the 1970's and 1980's with respect to financing.

I have no particular recommendations. Either would work. But I do think a specified goal is probably a valuable thing to have.

Senator ALLARD. I appreciate your answer on that. I would like to move to a different topic.

Do you have any concerns about the current trade balance?

Chairman GREENSPAN. Well, the current trade balance is being engendered at this point by, one, the incredible rise in demand domestically in the United States, and indirectly, and in a related sense, the very high rates of return that are available on new technologies that are emerging in this country which have attracted a very substantial amount of investment in the United States.

Since the current account deficit is a broader concept than the trade deficit, the current account deficit must also be equal to the amount of capital flows into the United States. Indeed, if there is an imbalance between the demand for capital and the supply of capital, it's that which causes the dollar's exchange value, foreign exchange value, to change.

In view of the fact that the exchange value of the dollar has been relatively flat for quite a while, it is suggested that both forces are at play here; that is, the significant increase in imports is being driven by the demand that has been in part created by the so-called wealth effect. But the capital inflow is also indirectly created by the same forces that create the wealth effect; namely, the very high rates of return on new capital.

Over the very long run, it is probably not credible to presume that we can continue a current account deficit or trade imbalance at the levels we currently have because it obviously means that our net debt, or net claims on the United States by foreigners, is accumulating because, indeed, the current account deficit is basically the net change in the debt, and, ultimately, the interest service on that very large external debt will create serious problems.

Everyone who looks at this process knows that at some time, it could be an extraordinary number of years, possibly—I don't really know and I don't think anybody does know—but it is true that it cannot persist indefinitely. The question is what will be the forces which will eventually bring it down?

One of the areas that in the short run clearly would be very effective is an acceleration of growth abroad and an increase in our export markets. This gets to the issue which the Chairman raised with respect to agriculture earlier because should that occur, our exports would increase and, obviously, the trade imbalance would narrow as a consequence.

Senator ALLARD. Thank you.

It's tempting, Mr. Chairman, to utilize your offer to go beyond my time, but I don't think that's necessary. Thank you very much.

Chairman GRAMM. Thank you.

Senator Bayh.

OPENING COMMENTS OF SENATOR EVAN BAYH

Senator BAYH. Thank you, Mr. Chairman.

Chairman Greenspan, thank you very much for joining us today. I am pleased that we can conduct this hearing about your nomination to continue your service without resorting to taxidermy, as was suggested by at least one of the individuals running for the Presidency. However, his comment, and others, suggest the esteem with which you are held, and I certainly share those sentiments.

I was actually going to ask a question about the current account deficit, but your answer, I think, was very comprehensive with regard to Senator Allard's question along those lines. Let me ask you a couple of other questions.

I have heard you mention on several occasions the confluence of factors that have led to the remarkable increases in productivity growth rates that we're now experiencing which are, in large part, behind the increased economic growth with low inflation that we have enjoyed. How long do you think that will continue? I have heard you mention that we have seen accelerations of productivity growth rate in the past. It's hard to predict how long they are going to last. I would like to hear your thoughts on that. As public policymakers, are there things that you would recommend we look at that can continue the productivity gains that we have seen for a longer period than would otherwise be the case?

Chairman GREENSPAN. Senator, there's no question that the rate of growth in productivity is rising; meaning productivity itself is accelerating. And if you use the trends of productivity as a proxy for the extent to which technology is being applied to an economy, it's fairly evident that we are going through now an unprecedented period, certainly for the post-World War II period, even though we had very strong productivity growth in the early part of the postwar period as we came out of the war and, indeed, the Depression, where a lot of conceptual issues that led to major new products didn't get developed until the end of World War II, and so there was a backup there which had a major effect.

This is different. This is an acceleration which starts off with a number of types of products, the transistor being the most early evidence of this new trend, but fiberoptics, the laser, and satellite technologies have all been major elements which have brought us computer information technology types of advances.

We may be experiencing—and I say may because, as I said, we have very little historic experience to go by—what economists over the years have viewed as the normal technological cycle of individual products which represent the so-called S-curve, where you go up and then you flatten out as you mature. Just looking at the charts at this particular stage, we are obviously in some form of S-curve. But as I have mentioned before, Senator, it is very difficult to know or to project what then happens.

There is no question that we are in the early stages of the development of a number of technologies. What we do not know is the time frame in which that development will take place. But it's the time frame which is crucial for the whole question of the rate of growth of technology and, therefore, the rate of growth in productivity which is the crucial issue in economic growth and the impact on inflation.

Unless and until we have a better insight into the speed in which this process is moving, we cannot make really effective forecasts of the longer term. All I will say at the moment is something which I have reiterated in recent speeches—there is really no evidence at this stage that the acceleration process has as yet shown any early signs of cresting.

Now, unfortunately, as I outlined in recent speeches as well, this is not all benevolent. It creates imbalances and distortions which are, in a sense, the inevitable consequences of extraordinary expansion. But I must say to you that, as I said before in another context, it's far better to have this type of problem than others that we have seen in the past.

Senator BAYH. It is better to deal with the problems of success than the problems of failure.

Chairman GREENSPAN. You bet.

Senator BAYH. Taken as a given that the duration of the productivity surge is unknown, are there things you would recommend we look at that can foster additional innovation, additional growth of new technologies, that would extend this time period, even if the duration is unknown?

Chairman GREENSPAN. Strangely enough, a number of things, perhaps in many respects almost inadvertent, have occurred which have fostered these technologies.

One has been an increasing culture which, while it has its very obvious downsides, has been quite remarkable with respect to the flexibility of our labor force. And that is the increased willingness and acceptance of a willingness to discharge people. The irony of this is it's turning out that the greater the ability to discharge people, the greater is the willingness to hire people. The net effect of that—and I don't think it was readily forecastable—has been to reduce the unemployment rate and create far greater job opportunities for everybody.

Now, it has a secondary effect. The secondary effect, which is clearly unfortunate, is it creates and has created a great deal of uncertainty in a significant part of the American workforce. You cannot easily accept the dramatic rates of change that are going on with great equanimity. In other words, for very many people there is a general fear of job skill obsolescence. That's very difficult for many people with high skills. I'm sure we will address these issues as best we can.

But there is no question that the increased flexibility that this process has offered has increased the rates of return on information technologies because most of them, or a substantial part of them, gain their rate of return from the displacement cost, which ultimately, at the end of the day, consolidated, means displacement of labor cost. It is these types of equipments which have brought forward the very substantial level of economic activity, productivity, and the like. I do think it is very valuable that this happens, and I think in conjunction with the fairly dramatic deregulation of our financial markets associated with this has been the key elements which have driven the public policy part of this high-technology advance. I trust we will continue to do so.

I do think that we have to be careful about the reactions that numbers of people have had to the world moving too fast—moving too fast toward globalization, moving too fast, period.

I suspect a goodly part of the demonstrations in Seattle, for example, were largely people feeling out of control of what is a dramatic change in the nature of the economy which, especially in the United States, we enjoy. I hope that we do not, in the process of trying to address these very clear and important problems, undercut the remarkable success that we are seeing. It's going to be a tough public policy job. It's a different job than the Congress has had for a very long period of time. The trade-offs are not easy. But as I said before, it is better to confront this type of problem than the alternatives.

Senator BAYH. We need to deal with the anxieties and the uncertainties created by change, as opposed to undoing those efficiency gains that are leading to the anxieties.

Chairman GREENSPAN. Exactly.

Senator BAYH. Thank you, Mr. Chairman.

OPENING COMMENTS OF SENATOR ROBERT F. BENNETT

Senator BENNETT [presiding]. Chairman Greenspan, let me start out by surprising everyone and announce that I intend to vote for your confirmation.

Chairman GREENSPAN. I thank you, Senator.

Senator BENNETT. I don't believe the fact that I have disclosed that will be the highlight of this evening's news. But I think you have done an excellent job and I'm delighted that the President nominated you and that we will have an opportunity to vote for you once again.

Chairman GREENSPAN. Thank you very much.

Senator BENNETT. Let me go back into the areas that you have discussed with a number of these questions, only with one additional item that I would like you to talk on. Globalization—that's part of the problem with the agricultural prices, that we are not just selling in a domestic market any more, we are selling in a global market. And when something goes wrong with that global market, our productivity becomes a problem when you are dealing with a commodity. When you are dealing not with a commodity, you can change it, but when you are dealing with a commodity, high productivity means that nobody makes any money.

I see signs of protectionism and attempts to stop globalization coming from our friends and allies in Europe. They are not the protectionists directly—their assaults on globalization and movements toward protectionism are not directly manifested as you would see in tariffs, but we see indirect signs of protectionism. I see it in the agricultural field, in those who are using what I consider to be highly spurious environmental grounds to keep American crops out, saying, "Well, it's not safe for us to eat this food," when the scientific examination that I have made indicates that American food is safer than the food they are eating from their own farmers because we have higher standards in many cases than some European countries.

But the European Community is now forming itself, if indeed it has not formed itself, into the world's largest economy. And they now have a common currency for that economy. I saw it when I was there with Chairman Gramm in January.

We did some shopping and were interested to notice on the cash registers there were two numbers. Every sale was rung up in the local currency and in euros. Every receipt you received showed local currency and euros. It will not be long in the way things go that local currencies will disappear altogether, as the euro begins to be issued as a note and coins.

There will be another central banker in the world. There will be another central bank representing an economy as large or larger than the United States', a central bank that will control the monetary policy and the monetary supply of the euro, in an economy that, again, from my parochial view, my personal view, is showing increased signs of protectionism and a resistance to globalization, and particularly a desire to keep American goods out.

From your perspective as the central banker in the U.S. economy, the largest national economy in the world, what do you see on the horizon with respect to the European economy as the euro and the central bank in Europe, controlling the supply of euros, enters into the equation? What advice do you have for the Congress as we view that particular situation?

Chairman GREENSPAN. Senator, I think the problems which you outline are real problems and I think ones that are going to confront us for the years immediately ahead. I'm not sure that the European central bank is going to have a very major impact on those types of decisions, since its basic purpose is to sustain the liquidity in the overall euro area and to maintain a proper balance in all aspects of central bank policy.

But the crucial question I think you raise is the one which I think is going to be ultimately resolved by the fact that the technologies which now exist in the United States, and are available in Europe and indeed elsewhere, are not being applied to the extent that they are in the United States, and, therefore, the growth and the underlying improvement in the European Community is less than it is in the United States.

There are a number of reasons for this. One is their rigid labor laws which, to take the obverse of what I was discussing with Senator Bayh, is that they have endeavored to make it very difficult to discharge people. Therefore, you cannot have a rate of return on a facility in which most of the cost savings and, hence, the profit, comes from discharging people or effectively reducing labor costs. They end up with double-digit unemployment, which clearly is not their intention. They also end up with a level of capital stock in certain acute advanced technology areas which is much lower than ours.

That is beginning to change. The reason it is beginning to change is because of the evidence showing that the applicability of many of the technologies which are moving so rapidly in the United States are not moving in Europe at anywhere near the pace. They are beginning to sense that that's wrong, and you are now beginning to see countervailing forces emerging in Europe which I suspect will gradually break down a lot of the dirigiste attitudes on the part of a number of governmental officials within Europe.

It may not instantaneously hit the common agricultural policy, which is a deep-seated, noneconomic, cultural value issue in Europe. It may not do it right away, but I think over the long run it eventually will because we are going to find that the competitive requirements in the global economy, which they cannot avoid, are going to crucially enhance the types of investment that will open up their markets, especially for our goods. My judgment is that the European Community is going to increasingly seek a type of technology that we have in the United States, and that process almost invariably will open up their markets in the process.

I am actually quite confident that we are going to see further endeavors for opening up trade and the reversal of protectionism.

Indeed, I think just today or yesterday, the European commissioner was advocating an acceleration of the WTO talks and, hopefully, we may find that having run into the roadblocks in Seattle that we did and the implications of that going forward, that the Europeans will be in the forefront, hopefully with us, in trying to move forward in maintaining a free, open trading system for the world.

Senator BENNETT. Thank you.

Senator Reed.

OPENING COMMENTS OF SENATOR JACK REED

Senator REED. Thank you very much, Senator Bennett.

Thank you, Chairman Greenspan, for your leadership, which I assume will be just as distinguished going forward as it has been in the past.

You are facing, you and your colleagues, tremendous challenges with respect to the implementation of new financial modernization legislation, and you are also faced at the moment with two vacancies on the Board.

Would you comment first on the sufficiency of resources that you have, both in terms of personnel and programs and dollars to handle these new challenges? Also, any comments on the vacancies that are facing the Board would be welcome.

Chairman GREENSPAN. I believe our resources are adequate. We have not observed particular problems or difficulties. We too, like the rest of the world, are engaged in a major investment in information technology, and it's beginning to pay off. You can see it, basically, in the cost structure of the Federal Reserve System overall, and you can see it in our personnel requirements and capabilities. I don't, at this stage, envisage any particular problems.

Working with five governors instead of seven, obviously, puts more burden on the rest of us, but we have managed. There is an element in the statute in which a crucial initiation by the Federal Reserve Board requires the unanimous consent of five members—not a majority or anything related to who happens to be sitting at the particular time, but five. If we were to lose another member, that would effectively create a problem for us, should a major financial crisis emerge. We are all right with five, but tight.

The Vice Chair of the Federal Reserve, Vice Chair Roger Ferguson, is a third potential opening because his term, as Senator Sarbanes indicated, ends as a governor at the end of this month. Now, he will stay in place because the statute says that until replaced, a governor continues in office. But I would hope that the Senate would expeditiously move toward his nomination to a new term so that he can continue on as Vice Chairman because he has been an exemplary member of the Federal Reserve Board. While filling the other two slots is obviously important, the highest priority, in my judgment, would be for the Senate to address the termination of Roger Ferguson's term at the end of the month.

Senator REED. Thank you, Chairman Greenspan.

In regard to the new implementation responsibilities you have, and also with the acknowledgement that even with our best efforts we sometimes create unintended consequences in our legislation, at what point do you think you would be able to give us an interim report on the status of the implementation of the new legislation identifying some problems perhaps that were unanticipated when we drafted it and sent it up to the President?

Chairman GREENSPAN. My guess is sometime toward the end of the year, perhaps. We are going to need some time to develop the actual detailed structure that implements the legislation and to actually see it functioning. I'm not certain by any means that we will learn a great deal at the end of the first year. It may be several years before we have any useful insight and recommendations for change, if any, to the Congress.

But it's probably not a bad idea to have oversight hearings periodically. My guess is sometime a year after the initiation of the legislation is not a bad time to bring to this table the Federal Reserve, the Office of the Comptroller, the FDIC, and OTS, to essentially get a report on how we are implementing the particular mandates that you have given us.

Senator REED. One of the aspects that's increasingly important each day, which was touched on by Senator Bennett, is the globalization of every market, but particularly financial markets.

I wonder, do you feel at all constrained at times by the capacity, the capabilities of foreign regulatory authorities who have responsibilities for looking at institutions that may own American institutions now, or may be part of American institutions?

Chairman GREENSPAN. We at the Federal Reserve, which is the major U.S. agency for overseeing foreign financial operations, are acutely aware of the fact that numbers of institutions operate in the United States, to a large extent under the aegis of foreign regulatory authorities. We spend a good amount of time endeavoring to interact with them to be certain that the institutions that are here are soundly managed and soundly supervised. We have had problems here and there, which is inevitable, but I can't say to you that the overall process is somehow deficient or subject to really serious difficulties.

I might say, though, that the whole process of globalization is forcing us to continuously alter the way we supervise and regulate financial institutions. That's true not only of the United States, but it's true of all of our counterparties and counterparts in foreign countries.

As you know, we have in Basle, Switzerland, under the auspices of the Bank for International Settlements, a supervisory committee which essentially promulgates various different types of principles which are to be followed by all international banks. We have not had terribly much difficulty in the whole process, although the financial system is changing so rapidly that it is putting pressure on all of us to try to keep up with it. To that extent, numbers of problems invariably are emerging. But I believe we are ahead of the curve at this stage, and hopefully we will be able to continue so.

Senator REED. Thank you, Chairman Greenspan.

Thank you, Mr. Chairman.

Senator BENNETT. Thank you.

Senator Dodd.

OPENING COMMENTS OF SENATOR CHRISTOPHER J. DODD

Senator DODD. Thank you, Mr. Chairman.

Chairman Greenspan, welcome. As always, it is good to have you before us. Let me join in the chorus of thanking you for your willingness to take on another tour of duty at the Federal Reserve. Let me simultaneously thank the President for asking you to do so. I believe he made a very wise choice, and we are grateful that you were willing to assume the responsibilities of chairing the Fed and, additionally, the joy of appearing before us and other committees from time to time.

I am particularly pleased you are here today. Let me just raise two or three quick questions. You can respond to them to the extent you feel appropriate.

I would like to discuss one subject that you and I have talked about in the past. I wouldn't expect you to go into great detail today, but I would like to get for the record at least some sense of your feelings about it.

There has been wonderful economic news—budget surpluses and consumer confidence are at record levels. That is wonderful, wonderful news.

But, obviously, part of our responsibility is to not only celebrate the good news of today, but to look on the horizon, if we can, and try to determine what potential problems may be lurking out there that we should be conscious of. To the extent we can, we must propose ideas or suggestions that may minimize the impact of these problems.

One issue you have touched on that in my view cries out for an answer is the skyrocketing consumer debt, which is a very serious problem.

We will soon vote here in the Senate on a bankruptcy bill. Certainly, some small businesses are suffering as a result of people too willingly utilizing the Bankruptcy Code to avoid their financial responsibilities. I certainly support the idea of trying to put some restraints on the public's excessive use of declaring bankruptcy for resolving their economic difficulties.

I don't know if you have had a chance to look at this proposed legislation, but the other side of it is, of course, we have made some efforts to restrain, or at least to offer some restraints on the excessive issuing of credit cards. I don't need to tell you that this is reaching the point of being ludicrous. In this country, we have infants who are receiving credit card applications and actually receiving the credit cards when their parents fill them out, providing all the necessary details, not in any way falsifying the application, but by literally filling in the ages of the 2-year-olds, 3-year-olds, and the like. Banks are finding it far more profitable to engage in the credit card business than in lending to businesses because of the potential success of earning dollars on the credit cards with high interest rate returns.

I'm curious as to whether or not you have had a chance to look at this bankruptcy bill; and, if you have, whether or not in any way you feel inclined to want to comment on it before we are asked to vote. Also, if not, is there anything that the Fed can do to, in some way, urge more restraint on the credit card industry, if you feel it's appropriate?

As a second issue, again, in my State of Connecticut, like many others, there has been some success in reducing poverty generally, but one alarming statistic, Chairman Greenspan, is the dramatic increase in child poverty in the country. I represent the most affluent State on a per capita income basis of all 50 States, and yet my State has seen the single largest increase in child poverty of any State in the last 3 or 4 years; one in five children now in America are growing up in poverty, one in four in my State.

This income disparity issue, which you and I have had a brief conversation about, is of fundamental importance to the future of our Nation. The technology-based economy is providing incredible opportunities for a large segment of our society, but also seems to be out of reach for a growing segment of our society. This problem, while it isn't huge yet, will grow dramatically if these child poverty numbers that we are experiencing continue to persist. It won't take long for these infants to become young adults and then parents, who will lack the skills and the ability to function in a 21st century economy. I suspect that a Congress not too distant in the future will have to grapple with this issue, and how these Americans will be disadvantaged in a 21st century economy.

In the past, we have had job training programs which take someone who is unskilled and in 6, 8, or 10 weeks provides them with enough skills to make a decent living. My concern is that that won't be possible in the very near future in a technology-based economy.

Again, this is a bigger subject than one should be raising here in a confirmation hearing, but I wonder if you might share some general observations, and maybe at some point we can arrange for an informal discussion on various ideas. You have talked to me about this already, but I want to pursue that suggestion with you about how we might talk this out. I would like to get some sense from you of how you see this.

Chairman GREENSPAN. First of all, let me say, with respect to the bill, I haven't read it in detail, but I'm familiar with it and I'm delighted that I'm on this side of the table and not over there having to deal with it.

[Laughter.]

Fortunately, as you well know, the number of bankruptcies has started to come down a bit—not terribly much, nor does it in any way obviate the concerns that you have expressed.

The credit card business has become quite a major business in finance, in large part because a significant proportion of the population has moved up from the lower- and lower-middle-income levels into areas where they reached the level at which they actually had access to debt. What we are seeing in the development of the credit card business is a major expansion in debt to people who previously did not have access to debt. It's one of the reasons why interest rates are so high in these types of credits, because as you move from no capacity to a good credit risk, in between you are paying an abnormally high rate relative to other types of instruments' interest rates.

The expansion of this has turned out to be a very profitable business for banks. They have found that, one, people are willing to pay these higher interest rates because that's better than nothing. But having been able to charge those rates, they are also able to have fairly substantial losses and still run a profitable business.

The abnormalities that we see, where children, dogs, cats, and moose are getting credit cards, usually with the computer reversing their names or doing all sorts of things, is merely a measure of the proliferation of a major new type of product which clearly is going to mature—and it is maturing—over the years, even though it's been around for a very long period of time.

It's something which is a major good, if I may put it that way, in the United States in that it brings a significant portion of the population into the financial mainstream.

The concerns that you have with respect to the level of consumer debt I think are quite valid, although it must be viewed in this context of just changing the structure of the debt. Debt service burdens, however, meaning the actual amount of cash people pay out per month as a percent of their income, has not gone up all that much. In part, of course, it's the lower interest rates that have occurred and, in many instances, the extended maturities on various different types of instruments, which has kept the level of payments down. Obviously, home equity loans displacing credit card debt has had the effect of lowering the annual debt service charge so that we have very high debt, but it is not yet something which creates concerns as far as the economy overall is concerned.

On the issue of child poverty, clearly, there's nothing that can change that right now. The child cannot move out into the workforce and create a dot-com company and elevate itself out of poverty. It's a process in which the parents and the skill creation of various generations has to be moved up. My own view is that, while broad training is useful, it is nowhere close to on-the-job training as far as the capacity to bring up skills is concerned.

One of the key important aspects of this extraordinary economy we now experience is the large number of people who have moved out of welfare, off of the unemployment rolls, into jobs, and for the first time have had a sense of self-confidence in working which they had not previously had. It probably has created new lives for vast, vast numbers of people.

As far as I can judge on a situation such as this, the degree to which we can substitute on-the-job training, getting people at the lower ends of the ladder, the quicker we can do that, the more broadly we can do that, the better off we will be. We are already seeing a significant climb in the employment rate of those with less than a high school education. This means that what we are doing is taking people who, by definition, are substantially unskilled and giving them a chance to create those skills.

I cannot say that I necessarily feel as though it's going to be easy to confront the types of problems that you raise, because the major issue that I see the United States has in this affluent period is the question of distribution of income.

No society succeeds unless virtually all of its participants believe that it is fair and it's one which gives people opportunities. I think it's very important for us to focus on this as we view this extraordinary technology, this huge increase in productivity and standards of living, and recognize that it is important for the functioning of the system that we make sure that all participate in that.

Senator DODD. I thank you very much for that answer.
Thank you, Mr. Chairman.
Senator BENNETT. Senator Schumer.

OPENING COMMENTS OF SENATOR CHARLES E. SCHUMER

Senator SCHUMER. Thank you, Mr. Chairman.

I find this an auspicious day for America. Chairman Greenspan, I am in wholehearted, enthusiastic support of your renomination. I have not remembered a chairman of the Federal Reserve who has been more revered, more respected, or more right. I think many Americans join me in feeling that you are a national treasure, and we look forward to 4 more years of the Greenspan economy—with the help of a few others making it happen.

I would like to ask a couple of questions. First, one that hasn't been asked before: Where do you think Elian Gonzales should be living?

[Laughter.]

You don't have to answer that question. I have another one.

Chairman GREENSPAN. I have instant laryngitis.

[Laughter.]

Senator SCHUMER. Right. My question relates to margin requirements and the markets, which hasn't been discussed yet. What we have seen, I think, as the stock market goes up, is that there is some real fear, not in all, and maybe not even in most, but in many of the new dot-com stocks that have no profits—some of them even have no revenues. There has almost been a frenzy in terms of their stock market prices when issued, and they just dramatically go up. One of the things that has allowed this to happen, that has encouraged this to happen, is that margin debt is increasing.

In the past year, my statistics have it that margin debt has increased 62 percent, the fastest pace in 16 years. It has increased much faster than the stock market. My numbers show—and I think they are the same as yours—that in November, it went up 13.2 percent. In December, it went up 10.8 percent. These are extremely troubling numbers. I know that you have expressed some concern about this in a speech you made 2 weeks ago.

The question, then, jumps out: Why not raise margin requirements as a way of making sure that the stock market increase—which we all want to see continue—not get so far ahead of itself that the bubble might burst? Furthermore, since I know you have expressed some concerns that large investors can get around the margin requirements but small investors need them, to me, that doesn't argue against raising the margin requirements because I think if you look at the statistics, probably the people who are most overextended should the market begin to fall are the smaller investors. They invest in one stock, it goes up from one to 25, and then they are borrowing on the basis of that paper value of 25, and they are just way beyond their means should the market begin to come down.

I have talked to a good number of people in New York, in the markets and elsewhere. They are truly troubled by this, by the rate of increase of some of these stocks that seem to have no relationship to reality. That's not the blue chips, that's not the existing dot-coms, and that's not even some of the new ones that have a great idea. It seems that people come up with the idea of a company, put dot-com after the name, and just ride the roller coaster. But the small investor is often left holding the bag. The big investors ride them on the way up, then they get out. But left there, heavily borrowed on the margin, is the small investor.

I don't see any other solution. As I mentioned, I have talked to a lot of people in the markets. They are very troubled by this. They say that one solution is to raise the margin requirement to help tamp things down without taking anything away, without creating a major problem.

My question is—because I know you have considered it—why haven't you done it? What is your objection to it? What would be an alternative strategy rather than standing by saying, "Isn't this a shame?" or "Aren't we worried about this?"

Chairman GREENSPAN. Senator, as you comment quite correctly, the reason over the years that we have been reluctant to use the margin authorities which we currently have, is that all of the studies have suggested that the level of stock prices have nothing to do with margin requirements.

That is, there is no evidence to suggest that changes in margin requirements up or down in the years prior to 1974, when we did move them back and down, had any effect on prices.

Second, as you point out also, we have been reluctant to move margin requirements which clearly would have no effect on large investors, whose means of financing go far beyond the usual means in which brokers extend credit. We have been quite reluctant to see restraints on specific individuals and not on others, that is, to have a nonuniform procedure.

Having said that, it is certainly the case that the numbers you cite, especially for November and December, have caught our attention. They have moved up at a pace which has created a good deal of evaluation on our part and, obviously, other supervisory regulators. There has been considerable conversation going on with respect to addressing this issue because it goes beyond the mere issue of stocks. It is getting involved with margins, both initial margins and maintenance margins, relevant to futures markets, options, and a whole variety of other instruments which are related to this particular area.

I can't say where this particular endeavor on our part is going to come out, but it is fairly evident that we have observed very much the same sort of phenomenon. Indeed, I have clearly been speaking to the same people you have been speaking to.

Senator SCHUMER. You are worried about it, it's fair to say?

Chairman GREENSPAN. Obviously, because if we weren't worried, we would not be engaged in trying to understand the process and what it means.

Senator SCHUMER. Is there an alternative to doing either nothing or raising the margin requirements? Is there a better way to deal with this issue?

Chairman GREENSPAN. The answer is we obviously have also been discussing what alternatives there are. You have to be careful. It's very easy to invent all sorts of new schemes that allegedly are going to do something and, when put into practice, turn out to be less than perfect, if I may use such a term.

I don't want to suggest that we are about to do anything at this stage, but I would confirm that we obviously are doing a good deal of thinking about the whole process.

Senator SCHUMER. Thank you, Chairman Greenspan.

Thank you, Mr. Chairman.

Senator BENNETT. Thank you.

Senator Edwards.

OPENING COMMENTS OF SENATOR JOHN EDWARDS

Senator EDWARDS. Thank you, Senator.

Good afternoon, Chairman Greenspan. Let me join all the others who have enthusiastically endorsed your reappointment. I agree with Senator Schumer: You are a national treasure. You have done an extraordinary job. I do want to ask you about a couple of things, if I have enough time for it.

My State of North Carolina is one of the States that has been hit by the enormous natural disaster—Hurricane Floyd—and we are seeing first-hand that it is having an enormous economic impact on our State. While the country as a whole, as you well know, is enjoying tremendous economic prosperity, there is the possibility of regional areas of the country not staying with the rest of the country in the level of economic prosperity that they are enjoying.

My question is, is there anything that you, as Chairman of the Federal Reserve, can do to address regional disparities?

Chairman GREENSPAN. Is it true that 20 inches of snow fell in Raleigh?

Senator EDWARDS. Yes. According to my wife this morning, that's absolutely true.

Chairman GREENSPAN. Is she buried?

[Laughter.]

Senator EDWARDS. No, she's doing OK, actually.

[Laughter.]

Chairman GREENSPAN. In the early years of the Federal Reserve, when there were significant regional economies whose interaction amongst each other was not as extensive as it is today, we actually did have differential discount rates, for example, at different Federal Reserve banks reflecting different economic conditions. It was not that many years ago that mortgage interest rates in the East were quite different from what they were in the West. We had the remnants of different regional economies, and to the extent that the Federal Reserve acted, there was an element of regionalism in much of what we did. That's no longer the case.

We have truly a national market as far as finance is concerned. As a consequence of that, we can only have one monetary policy. That monetary policy obviously impacts equally everywhere in the country. As our European friends are finding out, it's not always the appropriate policy that one would have if we were merely looking at a specific locality. But the advantages of having a national policy, the advantages, much more importantly, of having a national market, are so great that the short-term advantages that certain individual areas of our country might have if they had somewhat lower or somewhat higher interest rates I think is far exceeded by the advantages of the benefits that we all have as a single national economy.

There's no question, for example, that California a number of recent years ago would have been much better off if it were a single economy, had it devalued, for example. At least that's what they thought at the time.

In retrospect, that probably would have been a mistake. The reason it would have been a mistake is that it is very clear that with the fixed exchange rate you have between California dollars and Carolina dollars, if you want to put it that way, the markets would have adjusted and the prosperity in the rest of the country would have moved very rapidly into California.

As a consequence of that, it's in some sense fortunate that there are no monetary policy capacities to apply to individual regions. There are fiscal policies. In that sense, it's really up to the State and local governments, in their taxing authority and spending authority, to effectively attempt to adjust to the fact that there are regional differences. Those regional differences do, in fact, require differential policies to some extent.

But what we have evolved here in the United States is a broad, nationwide, single monetary policy which increasingly appears to be very helpful to all areas of the economy, not only because of the actual policy itself, but the development of payment systems and all forms of financial services which are associated with that. In that regard, my view is that we surely would not want to go back to the 1920's or the 1915's of the Federal Reserve when, indeed, we had different types of policies.

Senator EDWARDS. You mentioned State and local government authorities addressing these regional disparities. Do you have a view about the role of Congress, if any, in addressing these, in dealing with the possibility that these particular regions of the country may lag behind with regard to the economic prosperity that we are enjoying as a whole?

Chairman GREENSPAN. That's a value judgment which the Congress has to make. It's one of those key political judgments about how one distributes wealth from one section of the Nation to the other. I have no particular views that are not terribly well known, and I don't think I could add very much to the dialogue.

Senator EDWARDS. Let me ask you about one other thing very quickly. I'm running out of time.

I know you have talked about this some in your testimony already. Can you give me an assessment of the level of confidence you have in these various surplus projections that we have been looking at?

Chairman GREENSPAN. I thought I would get that as question one, Senator. We have actually begun to look at this in some detail. There is a crucial statistic which we do not know the answer to, and that is, why is it that revenues, individual income tax revenues, are as high as they are relative to income?

We know, obviously, capital gains taxes are involved. We know that there are significant amounts of stock options that are creating taxable revenues. We know that there are innumerable numbers of jobs which are directly related to the stock market and, hence, reflect the stock prices that are there, and they are usually high-paying jobs.

Until we have a completion of this cycle in one form or another, and look at the detailed statistics of income tabulations, we will not know why our revenues are as high as they are. And if we don't know the answer to that question, then the projections that we make into the future must capture this uncertainty.

We have tried various simulations and have concluded that you could take the current, most recent CBO forecasts of surplus, in which they hold discretionary spending equal to the rate of inflation, and simulate various changes in the so-called technical adjustments that relate the tax receipts to the relevant income, and you can eliminate those deficits fairly rapidly in a few years. Now, I grant you it requires some fairly significant assumptions to do it, but they are not locked in in that respect.

Conversely, if——

Senator BENNETT. Excuse me. Would you yield? You said you could eliminate "those deficits." Did you mean "surpluses?"

Chairman GREENSPAN. Yes, I meant to say surpluses.

Senator BENNETT. OK.

Chairman GREENSPAN. Thank you, Senator. I appreciate that.

Senator BENNETT. You scared me for a minute.

[Laughter.]

Chairman GREENSPAN. That's what happens when you deal with fiscal policy during most of your lifetime when you think in terms of deficits.

[Laughter.]

In any event, conversely, we have also asked the question: What if this S-curve we were talking about before extends, that productivity continues to accelerate for a while and extends out quite a good deal? We will end up with much larger surpluses than is currently projected by the CBO.

What we therefore see is that the range of possibilities is really quite substantial, much larger than measuring what the OMB, the CBO, and the private forecasters are all doing, because—and we have numbers that are not all that far from, say, the CBO—we are all measuring our average expectation. We all have these wide ranges, but when we report them, all you see is the averages. When you compare the averages, they say, "Well, everyone agrees that the range is very narrow."

The truth of the matter is it is not narrow. It is indeed quite large. It is large mainly because of this uncertainty with respect to the relationship between individual income tax receipts and income. Until we know the answer in a more definitive way as to what is causing that, our ability to narrow the range of forecasts I think is significantly delimited.

Senator EDWARDS. If I may be allowed one followup question?

Senator BENNETT. Go ahead.

Senator EDWARDS. That level of uncertainty, Chairman Greenspan, that you describe, does that counsel some level of moderation in terms of fiscal policy and how we go about, particularly over an extended period of time, making determinations about what to do with projected surpluses?

Chairman GREENSPAN. I believe it does, Senator. I believe it's a crucial issue.

Obviously, if we knew that there was a permanent surplus built into the long-term outlook—which we couldn't presume if we had answers to the questions, which we do not at the moment—then you can argue that permanent tax cuts or permanent benefit expenditures fitting into that permanent surplus would not create a deficit. But to the extent that there is a substantial part of this surplus which will evolve and which will continue to evolve, which we will not know the permanence of, in my judgment, that should be allowed to reduce the debt because you can always increase debt later if you wish to. But it's effectively putting away the surplus for use at a later time if you so choose.

In the process, it reduces real interest rates, creates economic growth, and has innumerable number of benefits. It is for that reason, in large part, why I have always argued in this period of emerging surpluses that we should endeavor to, where possible, use it to reduce debt on the grounds that surpluses are not definitely gone if you use them to reduce debt because you can always increase debt. But once you cut taxes and/or increase benefits, the difficulties are greater.

I happen to think that the difficulties in reining in entitlement programs, once you have them, is far more difficult than the problems on the tax side. That's the reason why I opt, clearly, as my second choice, for employing surpluses which cannot be used to reduce the debt, to reduce taxes.

Senator EDWARDS. Chairman Greenspan, thank you. You have been very helpful.

Thank you, Mr. Chairman.

Senator BENNETT. I can't resist one quick comment before I call on Senator Sarbanes, as you talk about the high-level possibility where the surpluses could be substantially bigger than being projected, or the low-level possibility where the surpluses could disappear. Senator Dodd and I have just been through an exercise where we had some unknowables, and we ended up projecting the middle, the average, and it came out the best-case scenario.

Now, some of my friends are saying, "You wasted all our time and money."

[Laughter.]

But I think we would rather have had the best-case scenario in that situation, preparing for the middle.

What you are saying to us here, I think, is analogous to that, that we shouldn't expect the best-case scenario, even though, as in the case of Y2K, it might come to pass.

With that little bit of defensive self-comment, I return to Senator Sarbanes.

Senator SARBANES. Mr. Chairman, I will be very quick. It has been a long afternoon and Chairman Greenspan has been enormously helpful.

I had two questions, but I only have one now. Senator Schumer touched on one of the ones I wanted to ask. That was about the run-up in margin debt, which has been quite precipitous, according to these charts I have been looking at, the past comparisons and so forth.

It has escalated quite significantly. My concern is that the Fed may be reining in the economy generally to get at a momentum in the stock market, and therefore, slowing down the so-called real economy, jobs, and economic growth.

I'm wondering whether there's some way, if that's the problem, to restrain this perhaps overvaluation in the market—and the access to this kind of credit may contribute to that—so we wouldn't have to do a broader exercise in restraining the general economy. I would just leave that thought with you. I am struck by how much the run-up in the margin debt jumps out at you when you look at the charts and the tables.

The other question I want to put, and I will put it very quickly, is we have talked about institutional arrangements. I have to say, I don't think that the point at which you are renamed the Chairman for 4 years is optimal in terms of what I think the relationship between the Fed and the Executive Branch should be because, in effect, we will be giving to the new President, whoever it is to be elected, a Chairman of the Fed who will pretty well serve out almost all of the new President's term.

I have always held the view that the Chairman should have a fixed period of 4 years, to begin not immediately, but, say, 8 to 10 months after a new President takes office. That would give a new President the opportunity to name someone as the Chairman of the Fed that represented his choice.

It was originally that way. The terms of the chairmanship have slipped over the years and we are now at the point where it slipped so far, that we are about to get a new Chairman just before the old President goes out and the new President comes in. That does not strike me as the best of arrangements.

Now, I know you have some concern on how long a person might serve, leading to an unwillingness to assume the position. I think that could be addressed by letting them eat into the term if you had that sort of situation. You used the term "democratic accountability," I think, when you were talking about the Fed, and I welcome that term. But what's your view on that?

Chairman GREENSPAN. That was with a small "d."

Senator SARBANES. I understand that.

[Laughter.]

And that's the way in which I'm using it also, a small "d."

What's your view on this chairmanship situation?

Chairman GREENSPAN. Senator, I have gone back and forth on this question. Basically, it's a simple issue, there are two choices, and it's tough to make the distinction.

One, as you put it, it is undesirable to have the choice of a Chairman of the Federal Reserve occurring very late in a Presidential term for exactly the reasons you point out. What you alluded to is my concern on the other side; namely, that what you don't want to have happen, because you have fixed 4-year terms, is to have somebody resign 3 years into his term, so that you have 1 year left, 6 months, or whatever. What will tend to happen is you will get inferior applications for that particular job. It's inevitable because people will not serve for very short periods of time. If you happen to have a very good Vice Chairman, obviously that obviates that problem, but you can't always count on that.

I can't say to you, Senator, that I have really come to a strong conclusion. I have held both sides of this issue fervently at different times.

Senator SARBANES. Thank you very much, Chairman Greenspan.

Thank you, Mr. Chairman.

Senator BENNETT. Thank you. I can't resist, again, a comment. When I sat as a very junior member of the minority on the far end of the table, I remember the first time you came here.

If I may, Senator Sarbanes, the kind of grilling you gave the Chairman would have left me with the impression that, had you had the opportunity, you would have recommended to the new President that he appoint somebody else besides Alan Greenspan.

Now, after these years of experience, we are all here saying what a great decision it was for President Clinton to have appointed Alan Greenspan. There may have been some value in his being somewhat protected from a Presidential action as he took the steps that I believe were significant in helping us to get this recovery underway.

Senator SARBANES. Well, Mr. Chairman, I don't deny for a moment that we are now at the lowest unemployment in 30 years and the lowest inflation in 30 years. I believe that is a tremendous achievement. I particularly thank Chairman Greenspan because I think he resisted those, some within the Federal Reserve System, who were arguing that if the unemployment rate went below 6.7 percent, the inflation rate would start going up almost automatically and that, therefore, as the economy moved down toward that level—we were then up at about 7.5 percent unemployment—as it moved toward that level, the Fed should move to restrain the economy by raising interest rates.

That advice was firmly resisted and the economy was allowed to continue to grow and bring the unemployment rate now down to 4 percent. It is hard to get much below that without serious problems. Although it has encouraged a lot of training, which I think is very important, very important in drawing people into the workforce, we haven't had an inflation problem.

It's a very good economy. I'm prepared to salute those who have helped to contribute to it, including, I might observe, the Congress. Chairman Greenspan commended the President, when they made the announcement, on the responsible fiscal policy which he and the Congress have been assuming.

Senator BENNETT. I'm glad the Congress is included.

[Laughter.]

The hearing is adjourned.

[Whereupon, at 4:20 p.m., Wednesday, January 26, 2000, the hearing was adjourned.]

[Prepared statements, biographical sketch of the nominee, and response to written questions supplied for the record follow:]

PREPARED STATEMENT OF SENATOR WAYNE ALLARD

I would like to join Chairman Gramm and my colleagues in welcoming Federal Reserve Board Chairman Greenspan to this hearing. I look forward to his speedy confirmation for an additional term as Chairman of the Federal Reserve.

Alan Greenspan's tenure as Chairman of the Federal Reserve Board has been marked by a number of major accomplishments. America is currently experiencing the lowest unemployment rate in 30 years, and our economy is now in the longest economic period of expansion in our history. I would also be remiss if I failed to mention Chairman Greenspan's role in enacting financial modernization. Congress had tried for a number of years to update our financial laws without success. Chairman Greenspan played an important role in the compromise that we were finally able to enact into law.

Low inflation, low unemployment, and rising wages have created significant economic opportunities for all Americans. The robust stock market has also created opportunities for many. Undoubtedly much of the credit for the positive economic scenario is owed to the policies of Alan Greenspan.

Because this is a nomination hearing, I would also like to take this opportunity to commend Chairman Greenspan for his strong sense of public service. No doubt a man of his stature could have his choice of positions in the private sector or opportunities in private life. However, Chairman Greenspan has chosen to dedicate himself to serving the American people. Although his decision may not have brought him the personal financial rewards of the private sector, the American people have reaped the financial rewards of Chairman Greenspan's decision to remain in public service.

I am pleased to welcome Chairman Greenspan to the Banking Committee hearing today. I look forward to his testimony, and I look forward to working with him as Chairman for another 4 years.

PREPARED STATEMENT OF SENATOR RICK SANTORUM

I am delighted to be here today as the Senate Banking Committee considers the renomination of Federal Reserve Board Chairman Alan Greenspan. Without a doubt, Chairman Greenspan is one of the most well-recognized and esteemed economists in the United States and around the world. Under his watchful eye and through his cautious leadership, he laid the foundation for unprecedented growth and economic prosperity across this Nation—in fact, one of the longest records of economic expansion in our Nation's history.

Much of today's success is attributable, in part, to the rapid pace of information technology development. Continued growth in information technology pushes our capacity for efficiency and prosperity, on both an individual and collective level, to new heights every day. We are living through a time of increased household wealth, increased efficiencies in the manufacturing sector, low inflation, and record-breaking investments in the equity markets. While these factors hold inherent benefits in the short- and mid-term, the lingering question is: "How long can it last?"

Many have analyzed this prolonged period of economic stability, marveling over its duration, but speculating about its direction. I am confident in Chairman Greenspan's leadership, and am hopeful that we can realize the continued well-being of our domestic economy while remaining the international financial pacesetter.

With that, Mr. Chairman, I appreciate you holding this important hearing, and I commend Chairman Greenspan for his remarkable track record, and his continued commitment to serve this country.

PREPARED STATEMENT OF SENATOR CONNIE MACK

I want to welcome Alan Greenspan to the hearing today. In his role as Chairman of the Board of Governors of the Federal Reserve System, Alan Greenspan has served this country well. Three key facts show what Chairman Greenspan has accomplished. Under his leadership, mortgage rates are down 2.4 percentage points, inflation is down 1.7 percentage points, and unemployment is down 1.9 percentage points.

Not too long ago, many people thought we had to live with inflation if we wanted low unemployment. Chairman Greenspan proved this theory wrong: Price stability and low unemployment go hand in hand.

I am confident that under Chairman Greenspan, the Federal Reserve will keep prices stable. However, he will not be running the Federal Reserve forever. That is why I have reintroduced legislation to make it explicit that long-term price stability is the Federal Reserve's primary goal. In addition, I have introduced a bill that will remove an obstacle to *other* countries adopting the dollar as their currency. Sound money isn't just good for the United States. It's good for everyone.

As always, Chairman Greenspan, I look forward to hearing your comments. I also look forward to the Senate confirming you as quickly as possible.

Thank you, Mr. Chairman.

PREPARED STATEMENT OF ALAN GREENSPAN

CHAIRMAN-DESIGNATE, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

JANUARY 26, 2000

I want to begin my remarks by expressing my gratitude to President Clinton for his confidence in me, and to you, Mr. Chairman and Members of the Committee, for holding hearings on my renomination for a fourth term as Chairman of the Board of Governors of the Federal Reserve System. The Federal Reserve has had a close and productive relationship with this Committee over the years. If you and your Senate colleagues afford me the opportunity, I look forward to working with you in the years ahead to build a framework to enable the American people to enjoy the fruits of a sound and efficient financial system, in an economy that is delivering the greatest possible sustained increases in standards of living.

We at the Federal Reserve face considerable challenges in carrying out our responsibilities for both the financial system and the overall economy. In many respects, these challenges relate to discerning, and keeping up with the implications of, the accelerating pace of technological change in our society. The Congress took a major step last year in passing legislation that will help the citizens of the United States realize the benefits of the rapid evolution of technology in the delivery of financial services.

The Federal Reserve's challenge now, working with our fellow regulators, is not only to implement the new law, but more broadly to design supervisory and regulatory policies that can deal effectively with the changing financial structure. Effective oversight must balance a number of possibly conflicting criteria. It must enable our financial sector to evolve in a way that allows competition and technological change so that financial services are delivered in the least costly, most efficient way possible to the highest possible number of our citizens. It must at the same time foster the fundamental soundness of our financial system and put in place safeguards to protect against the remote possibility that unsound behavior in the financial sector is transmitted beyond the firms involved to the economy more generally. And it must accomplish the latter with minimal use of the Government safety net and of implicit or explicit guarantees that tend to reduce accountability and market discipline and foster excessive and destabilizing risk-taking.

For the economy overall, the marked pickup in technological innovation has accelerated productivity and raised standards of living for many—though regrettably, not all—Americans. Our challenge in monetary policy is to foster, as best we can, the financial conditions that will allow this economic expansion and technological revolution to continue as long, and as vigorously, as possible. Experience has demonstrated that an essential ingredient in this prosperity, an ingredient for which the central bank has ultimate responsibility over the long run, is low and stable inflation. Effective price stability removes a major source of uncertainty and distortion that would otherwise interfere with the spending and saving decisions of households and businesses. Maintaining price stability also reduces the likelihood that imbalances could develop that would ultimately undermine economic expansion.

We have also learned that the Federal Reserve's potential contributions to financial and economic stability should not end with making policy decisions. We also need to explain to the public what we are doing and why. Importantly, in our democratic system our explanations provide the Members of this Committee, your congressional colleagues, and the people you serve with the information necessary to evaluate our actions and to hold us accountable for them. As you know, we have made considerable efforts in recent years to improve the communication of our decisions, our expectations, and their rationales to the public consistent with our mandate to deliver effective monetary policy. This has not always been a straightforward process, in which the consequences of each step could be readily predicted, but it is one that must continue.

Thus the challenges and the opportunities are substantial in a number of the areas in which Congress has given the Federal Reserve important responsibilities. But in the Federal Reserve, the Congress also has created an institutional structure extraordinarily well-suited to address these issues. The combination of a Board of Governors, firmly tied to the national democratic process and providing overall leadership to the System, and regional Reserve Banks, deeply rooted in their local communities, enables us to bring a unique perspective to the consideration of policy issues.

Our Reserve Banks supply real-time information about the developments in their regions, and ongoing observation of, and familiarity with, the financial institutions headquartered there. This information enhances our ability not only to conduct monetary policy, but also to supervise financial institutions and deal with emerging problems in the financial sector, and to play a constructive role in regional economic developments. Board members and Reserve Bank presidents can employ these observations, along with their knowledge of the national and international economic and financial situations, to carry out our legislated mandates.

This structure and these responsibilities have attracted to the Federal Reserve System men and women of high intellectual capabilities and deep knowledge of the relevant subjects. Naturally, and fortunately, these people often disagree. Disagreements, however, are largely over evidence and analysis, not goals and objectives. To be sure, Federal Reserve decisions often emerge as a broad consensus of policymakers. But forming that consensus involves considerable give and take, with many people influencing the outcome.

Policymakers are in turn supported by outstanding staff at the Board and the Reserve Banks. Many, perhaps most, of the policymakers and staff could be making substantially more income in the private sector, but, attracted by the character of their colleagues, the nature and importance of issues they deal with, and the atmosphere in which those issues are addressed, they chose to exercise their considerable talents within the Federal Reserve.

The strength of the institutions and structures of the Federal Reserve is perhaps most visible in the work of the Federal Open Market Committee. There, the ability of Reserve Bank presidents to draw on local contacts can reveal significant developments in the economy before they are visible in the national data, and can help in understanding the forces behind important economic trends. The Committee is an extraordinary collection of individuals. Among the 17 people gathered around that table, 13 have Ph.D.'s. The others have the experience, skills, and common sense to prevent the Committee from becoming paralyzed with a surfeit of two-handed economists.

But monetary policy is not the only area in which this unique blend of skills and perspectives is brought to bear. We utilize committees of Board members and Reserve Bank presidents to deal with such responsibilities as our oversight of the payments system and the implications for supervision and regulation of the growing size and complexity of financial institutions.

What success the Federal Reserve has had in carrying out its legislated responsibilities in recent decades derives from many sources. Certainly, we have enjoyed good fortune—dealing with the challenges of a pickup in innovation and productivity is decidedly more enjoyable than the task faced by our predecessors in the 1970's when productivity slowed and stagflation held sway. I believe we have also learned from our past mistakes, and I hope that we will recognize the new misjudgments we will inevitably make quickly enough to prevent them from becoming too serious and disruptive. And we have had help and support from various Congresses and Administrations seeking, like us, to promote sound public policies. But our ability to meet the legislative mandates of the Congress rests ultimately on the strength of the institutions of the Federal Reserve and the people who inhabit them.

It has been an extraordinary privilege to be able to serve my country at the Federal Reserve, and I would be honored if the Senate saw fit to enable me to continue this association for another 4 years.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: Greenspan (Last) Alan (First) (nmi) (Other)

Position to which nominated: Chairman of the Board of Governors Federal Reserve System

Date of nomination:

Date of birth: 06 (Day) 03 (Month) 26 (Year) Place of birth: Bronx, NY

Martial Status: married Full name of spouse: Andrea Mitchell

Name and ages of children: none

Education:

Institution	Dates attended	Degrees received	Dates of degrees
George Washington HS New York, NY	1940-43	diploma	
New York University	1945-48	B.S.	1948
New York University	1948-50	M.S.	1950
New York University	1977	Ph.D.	1977

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships, and any other special recognitions for outstanding service or achievement.

see page S-1 attached

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

Organization	Office held (if any)	Dates
see page S-2 attached		

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and dates of inclusive employment.

see page S-3 attached

Government experience:

List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part time service or positions.

see page S-4 attached

Published Writings:

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

For list of representative articles written since 1980, see page S-5 attached.

Political Affiliations and activities:

List memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

none

Political Contributions:

Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify specific amounts, dates, and names of recipients.

none

Qualifications:

State fully your qualifications to serve in the position to which you have been named. (attach sheet)

see page S-6 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.

no

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

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.

none

3. Describe any business relationship, dealing or financial transaction (other than tax paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

none

4. List any lobbying activity during the past ten years in which you have engaged in 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 conflict of interest that may be disclosed by your responses to the items above.

none

Civil, criminal and investigatory actions:

1. Give the full derails 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

HONORS AND AWARDS:

Harvard University, Doctor of Laws (honorary), 1999

Yale University, Doctor of Humane Letters (honorary), 1999

University of Pennsylvania, Doctor *Honoris Causa* (honorary), 1998

Catholic University of Leuven (Belgium), Doctor Honoris *Causa* (honorary), 1997

University of Notre Dame, Doctor of Laws (honorary), 1995

Wake Forest University, Doctor of Laws (honorary, 1989

Colgate University, Doctor of Humane Letters (honorary, 1987

Hofstra University, Doctor of Humane Letters (honorary), 1984

Pace University, Doctor of Commercial Science (honorary), 1981

Fellow of the American Statistical Association, 1989

Thomas Jefferson Award for the Greatest Public Service Performed by an elected or appointed official, presented by the American Institute for Public Service, 1976

MEMBERSHIPS:

Organization	Office held (if any)	Dates
Gerald R. Ford Foundation	Board of Trustees	1981-1987
The Economic Club of NY	Vice Chairman, Board of Trustees	1984-1987
Council of Foreign Relations	Board of Directors Member	1982-1987 1987-present
Committee For a Responsible Federal Budget	Director	1981-1987
Institute For International Economics	Board of Directors	1981-1987
Hoover Institution	Board of Overseers	1973-1974 1977-1987
The Ronald Reagan Presidential Foundation	Board of Governors	1986-1987
The Trilateral Commission	Member, Executive Committee	1982-1987
Century Country Club Purchase, NY	Member	1979-present
Hillcrest Country Club Los Angeles, CA	Member	1975-present
City Midday Club New York, NY	Member	1983-1987
Harmonie Club	Member Nonresident Member	1971-1987 1987-present
The University Club New York, NY	Member	1979-1989
Conference of Business Economists	Member Past Chairman	1963-1987 1974
National Association of Business Economists	Member, Fellow Past President	Early 60s-present 1969-1970
National Economists Club Washington, DC	Member Past Director	1969-present
Brookings Panel on Economic Activity Washington, DC	Senior Adviser	1970-1974 1977-1987
Chevy Chase Club Chevy Chase, MD	Resident guest	1991-present

EMPLOYMENT RECORD:

Research Associate, National Industrial Conference Board, New York, NY, 1948-53

Economic consultant, Townsend-Greenspan & Co., Inc., New York, NY, 1953-54; Chairman and President 1954-74, 1977-87; Chairman only June 1987-July 31, 1987

Chairman, Council of Economic Advisers, Washington, DC, 1974-77

Chairman, Board of Governors of the Federal Reserve System, Washington, DC, 1987-present

Director	Trans World Financial Co., Los Angeles, 1962-1974
Director	Dreyfus Fund, New York, 1970-1974
Director	Dreyfus Special Income Fund, New York, 1971-1974
Director	General Cable Corp., New York, 1973-1974, 1977-1978
Director	Sun Chemical Corp., New York, 1973-1974
Director	Dreyfus Liquid Assets, Inc., New York, 1973-1974
Director	Standard & Poor's InterCapital Income Securities, Inc., 1973-1974
Director	Bowery Savings Bank, New York, 1974
Director	General Foods Corp., White Plains, 1977-1985
Director	J.P. Morgan & Co., Inc., New York, 1977-1987
Director	Morgan Guaranty Trust Company of New York, New York 1977-1987
Director	Mobil Corporation, New York, 1977-1987
Director	Aluminum Company of America, Pittsburgh, 1978-1987
Director	Automatic Data Processing, Inc., Roseland, NJ, 1980-1987
Director	Capital Cities/ABC, Inc., NY -- (ABC) 1984-1986, (CC/ABC) 1986-1987
Director	The Pittston Company, Greenwich, CT, 1985-1987
Director	The Rand Corporation, Los Angeles, 1986-1987
Member	Board of Economists -- Time Magazine, New York, 1971-1974, 1977-1987

GOVERNMENT EXPERIENCE:

1969	Member, Task Force on Economic Growth
1969-70	Member, Commission on an All-Volunteer Armed Force
1970-71	Member, Commission of Financial Structure and Regulation
1977-87	Consultant, Congressional Budget Office
1981-83	Chairman, National Commission on Social Security Reform
1981-87	Member, President Reagan's Economic Policy Advisory Board
1983-85	Member, President's Foreign Intelligence Advisory Board

PUBLISHED WRITINGS:

"The Great Malaise," Challenge (March/April 1980) pp. 37-40.

"Economic Policy," in Peter Duignan and Alvin Rabushka, eds., The United States in the 1980s (Board of Trustees of the Leland Stanford Junior University, 1980).

"Weekly GNP," Roundtable of GNP Users, Studies in Income and Wealth, No. 47 (University of Chicago Press, 1982).

"Competition Means Better Service," At Home With Consumer [The Direct Selling Education Foundation, volume 5, number 3 (September 1984)].

"Risk, Safety and Bank Deregulation," The Sears Sounding Board (Sears Financial Network, 1985).

The Wall Street Journal (New York):

"Can the U.S. Return to a Gold Standard?", September 1, 1981.

"The Collapsing World of OPEC," March 11, 1983.

"Onward The Revolution in Financial Services," September 16, 1983.

"Payment Setup Can't Ensure Medicare's Fit," September 4, 1984.

"Takeovers Rooted in Fear," September 27, 1985.

"Coordination Could Be Washed Out," July 10, 1986.

The Washington Post, "Alan Greenspan:," December 4, 1983.

QUALIFICATIONS:

I have been an economist for almost a half century, first as an analyst, and later as a consultant. My work has covered both industrial and financial sectors of the United States and, to an increasing extent, the rest of the world. I have considerable knowledge of American financial structure (I served on the President's Commission on Financial Structure and Regulation, 1971) and monetary theory. I have served on the boards of directors of a savings and loan holding company (Trans-World Financial, 1962-1974) and a bank holding company (J.P. Morgan, 1977 to 1987). My service as Chairman of the Council of Economic Advisers (1974-1977) offered opportunities to broaden my experience beyond the private sector. Finally, I have served as Chairman of the Board of Governors of the Federal Reserve System since August 1987.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR MACK FROM ALAN GREENSPAN

Q.1. I realize we are nowhere close to this yet, but how far can the public debt fall before the Fed has trouble conducting open market operations to manage the money supply?

A.1. A significant drop in (or even the eventual disappearance of) Treasury debt outstanding would not create problems for the Federal Reserve in conducting open market operations necessary for the implementation of monetary policy that could not be addressed by changes in our operations. For many years now, the Federal Reserve has relied principally on Treasury securities as the primary instruments used in conducting open market operations because the Treasury market is so large and liquid. But the Federal Reserve is explicitly authorized to buy and sell a range of other assets that could also be employed for open market operations. If operating in these alternative markets proved undesirable or impractical, the range of assets that Federal Reserve Banks may buy and sell could be broadened through legislative remedies.

Q.2. Countries around the world use Treasuries as reserves to back up their currency. Would a drastic reduction in the public debt undermine the reserve currency status of the dollar?

A.2. One function of foreign monetary authorities' holdings of reserves is to provide the ability to defend their own currencies. Reserves also provide a cushion of liquid assets to facilitate trade and debt-servicing payments.

Foreign monetary authorities hold a large portion of their reserves in dollars primarily because of the importance of the dollar in financial and commercial transactions worldwide, and partly because of the depth of the U.S. Treasury market. Foreign monetary authorities' confidence in U.S. dollar-denominated assets likely has been enhanced by years of growth, stability, and low inflation in the U.S. economy.

As Federal fiscal surpluses and Treasury buybacks reduce the outstanding supply of Treasury securities, other instruments denominated in dollars that are liquid and safe, such as debt issued by agencies and by Government-sponsored enterprises and asset-backed securities, may fill some of the gap. To the extent that these other securities are perceived as less safe than Treasuries, they may require a slightly higher return. Indeed, in recent years, there has been a tendency for some foreign monetary authorities to become less conservative in their reserve management practices and some have already begun to include alternative U.S. securities in their portfolios in order to reap higher returns.

If the demand for AAA+ dollar-denominated securities remains unfulfilled, I have no doubt that private financial institutions will devise special instruments to fill the gap.

Q.3. If countries carefully implement dollarization and don't use it as an excuse to avoid other reforms, would it benefit the United States?

A.3. Aside from possible gains in seigniorage revenue, benefits from reduced transactions costs for U.S. resident importers, exporters, borrowers, and lenders, and the possibility of increased business for

U.S. banks and other financial institutions, any other benefits to the United States from a foreign country's adoption of the dollar as its official currency depend almost entirely on whether dollarization improves economic conditions in the foreign country.

The United States benefits from economic stability and prosperity abroad. Economic prosperity abroad, however, will be sustainable only if foreign inflation is low and fundamental macroeconomic policies in foreign economies are sound. If dollarization can provide on a lasting basis the discipline needed to implement sound policies in certain countries where the loss of exchange rate flexibility would not exacerbate economic instability, then it would benefit the United States.

There are pros and cons that a foreign country must carefully consider before making the decision to dollarize, but it must be understood that a dollarized country cannot expect any special treatment with respect to U.S. monetary policy actions, access to the U.S. financial safety net, or U.S. role in supervision of its domestic banks.

Q.4. At the end of the last budget process, the Federal Government went on a $37 billion spending spree. You have said you think this is likely to be an "aberration." Why do you think this? Why are you so confident the extra spending wasn't part of the natural political reaction to having more free cash flow?

A.4. My use of the word "aberration" expressed my hope, rather than a confident prediction of behavior. I do believe that it would be the soundest policy at this juncture to conserve the projected surpluses and let the national debt be paid down. However, in my other remarks yesterday, as well as on prior occasions, I have noted the political temptation you suggest—to "spend" the surpluses. And, in that context, I have remarked that it would be my preference that priority be given to cutting taxes rather than to undertaking any new spending commitments, which experience suggests have a tendency to grow beyond expectation and create fiscal disorder.

Q.5. The technological revolution appears to be having a remarkable impact on banking. A number of on-line banks are applying for charters. What has the Fed learned about on-line banking? What is your assessment of the industry as it has evolved thus far and what issues do you see on the horizon?

A.5. The Internet has indeed begun to have a significant impact on the delivery of banking services. Virtually all larger banks now have Internet sites and offer some form of on-line banking services to both retail and corporate customers. Internet banking products and services offered by bank technology vendors have now become widely available and relatively inexpensive to implement, even for small banks. The Internet has also made possible a number of new services and efficiencies for bank customers, such as the ability to search for the best rates or services nationwide, or perform portfolio analysis on-line.

The implementation of innovative technologies, products, and services inevitably involves some risks. The Federal Reserve has been monitoring these developments closely. While we are adapting supervisory and regulatory approaches to reflect the on-line environment, we have endeavored to avoid stifling beneficial innovation. To date, we have not seen any evidence that on-line banking is materially changing the risk profile of banking organizations, which have strong incentives to address problems quickly and effectively to avoid risk to the bank's reputation that could jeopardize customer relations. In the end, this should mean greater security, reliability, choice, and convenience for bank customers.

The Federal Reserve is receiving an increasing number of banking applications targeted at Internet banking. However, our experience with "Internet banks"—banks established primarily to do business over the Internet—indicates that the publicity has thus far exceeded actual business results. It does not appear that this aspect of on-line banking is likely to lead to major shifts within the banking industry in the very near term. However, the capabilities afforded by the Internet highlight the ever-changing competitive landscape facing banks. These issues include banks' increasing reliance on and cooperation with third-party technology providers, the marketing by banks of related services over the Internet, such as brokerage and insurance, and provision of new services, such as electronic bill presentment and payment technologies.

Q.6. One of the arguments raised in support of financial modernization last year was the relative competitiveness of U.S. financial institutions in the global market. What are your thoughts now on the ability of U.S. firms to compete abroad? What trends do you anticipate with respect to cross-border mergers and overseas market shares of U.S. firms as a result of the bill? Are there emerging trends in this sector that raise concerns at the Fed?

A.6. U.S. financial institutions are among the best and most competitive in the world. They have for many years ranked among the leaders in return on equity, earnings growth, product innovation, risk-management techniques, and financial advisory services. In published rankings and customer surveys, U.S. banking organizations very often receive the highest marks. The highly competitive banking environment in the United States, combined with the robust U.S. economy, has enabled U.S. banking organizations to be extremely profitable and fit for competition in the global markets. Openness and opportunity in U.S. financial and banking markets has fostered innovation that U.S. banking organizations are able to apply in most markets around the world.

Due to the dynamic U.S. banking market and the very favorable economic environment, U.S. banking organizations over the past few years have largely concentrated on growth in their U.S. businesses, which includes accommodating foreign investors who seek investment opportunities in the United States. Financial problems or sluggish growth in foreign markets has resulted in relatively slow growth of U.S. banks' overseas business, especially when compared to the robust performance in the United States. However, as foreign economies improve and the trend toward globalization continues, there could well be increased interest by U.S. banks in selected foreign markets. Indeed, recently a few U.S. banking organizations have undertaken foreign acquisitions in order to enhance their strategic position in foreign markets. For example, a major

U.S. banking organization recently announced its acquisition of a prominent UK-based investment banking business.

Global expansion has both risks and rewards. It can sometimes provide useful diversification; on the other hand, past cross-border acquisitions by major international banks have a mixed record. Consequently, any significant cross-border acquisitions need to be very carefully evaluated by management. From a supervisory standpoint, globalization is requiring greater interaction and cooperation among the community of supervisors, as banking organizations become more complex and more extensive in their operations. As supervisors, we at the Federal Reserve understand and accept this challenge. In sum, we believe that the Gramm–Leach–Bliley Act will strengthen the ability of U.S. banking organizations to compete abroad and enhance their ability to offer a full range of financial services to companies around the world.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR JOHNSON FROM ALAN GREENSPAN

Q.1. What steps has the Federal Reserve taken in order to promote economic growth for family farmers and ranchers in the United States?

Q.2. Has the Federal Reserve assessed the effects increased adjustments to the interest rate have had on family farmers and ranchers in the United States? If so, what conclusions have you drawn?

Q.3. Given that domestic commodity prices are projected to remain depressed and the outlook for increased agricultural exports remains very unlikely, how can the Federal Reserve partner with Congress and the Administration to protect the economic viability of rural America?

A.1. through A.3. The Federal Reserve's mission is to conduct monetary policy to foster price stability and maximum sustainable economic growth for the entire Nation. In the process of formulating policy, we carefully monitor developments in all sectors of the economy, including agriculture. Our regional Federal Reserve Banks receive a great deal of information about agriculture and agricultural finance conditions directly from our contacts in the farm economy. The Reserve Banks report this information to the public through the Federal Reserve's beige book, and the Reserve Bank presidents discuss it thoroughly in the course of their remarks at meetings of the Federal Open Market Committee. Thus, the situation in agriculture forms a key part of the picture we develop of the overall economy.

As I noted in my response to a question posed by Senator Edwards at my confirmation hearing, financial markets in the various regions of the United States were not completely integrated in the early years of the Federal Reserve System. As a result, the Federal Reserve had some ability to affect financial conditions in these regions differentially, for example, by posting discount rates that varied across Reserve Banks. That situation no longer prevails. Financial markets in the United States now are highly integrated, with funds flowing rapidly to the place where they are in highest demand. For that reason, it is no longer possible to apply stimulus or restraint selectively to particular regions or particular sectors such as agriculture.

Consequently, the Federal Reserve can best contribute to the financial health of the farm economy by promoting the best possible conditions for the economy as a whole. Over the long run, farm incomes will be highest if the overall national economy is performing well, partly because the demand for agricultural products will be the strongest in that situation and partly because those conditions will be most conducive to investment in rapidly advancing agricultural technology.