

Senate Dems, critical of Greenspan, spark debate on economic policy

by Carl Osgood

The Senate voted 91-7 on June 20 to confirm Alan Greenspan to a third term as chairman of the Federal Reserve Board. The significance of the vote is not the overwhelming support in the Senate for keeping Greenspan at the helm of the Federal Reserve, but rather the debate that was taken up by the few senators who opposed the nomination. The opposition, led by Sen. Tom Harkin (D-Ia.), and joined by other Democrats, notably Byron Dorgan (D-N.D.) and Paul Wellstone (D-Minn.), challenged the conventional wisdom promoted by both the White House and Congressional Republicans that the U.S. economy is the strongest it's been in 30 years.

Harkin forced the debate by objecting to the Senate's plan to confirm Greenspan unanimous consent. He was quoted in May saying, "We want to debate the policies of the Fed, how it affects jobs and wages and business growth in our country . . . and to also take a look at Mr. Greenspan's past and his stewardship at the Fed."

A useful debate

While the Democratic critics of Greenspan and the Federal Reserve are not willing to go as far as Presidential pre-candidate Lyndon LaRouche in calling for the nationalization of the Fed, they have nonetheless initiated a useful debate on economic policy.

Harkin began the debate with a long speech on June 13 highly critical of Greenspan and his high interest rate policy (see also *Documentation*). He said, "we want to talk about a policy of growth versus a policy of no growth that has been prevalent at the Fed for the last several years." He said it is legitimate for Congress to ask: "Has his running of the Federal Reserve been such that we, the Congress and the Senate, should reward him with another four-year term?" Harkin raised what "the impact [is] on our budget over the next several years and the impact on our economy of decisions made by the Federal Reserve Board, especially the Open Market Committee."

Harkin continued that even though he believed the Federal Reserve should be independent, "it is not a separate branch of government enshrined in the Constitution," but is rather a "creature of Congress" and as such "it must be responsive to

the Congress, responsive to the American people through the Congress." Harkin said it is the duty of the Congress "to examine closely the policies of the Federal Reserve and to suggest through the legislative process changes that we may wish to make in the Federal Reserve System."

Fed has sacrificed wages, living standards

"Raising the living standards and real wages of ordinary Americans stands as our primary economic challenge," he continued. "The policy of the Federal Reserve under Chairman Greenspan has stood in the way. Under current law, the Federal Reserve is obligated to conduct a balanced monetary policy, so as to reconcile reasonable price stability with full employment and strong, stable, economic growth, and balance. But under the Greenspan Fed, job growth and the living standards of average Americans have been sacrificed in the blind pursuit of inflation control."

He pointed to Greenspan's raising of interest rates from 3% to 6% between February 1994 and February 1995, a 100% increase, as indicative of the problem. This policy "is leading this country to an economy where we see more and more millionaires every month, but average working families are stuck in a rut." Average families are "not only not getting ahead, they are falling behind in this great economy." Because of Greenspan's interest rate policies, the American people "are carrying another burden and that is the burden of high interest rates" on consumer debt, added Harkin.

Harkin was joined in his remarks by Senators Byron Dorgan (D-S.D.) and Harry Reid (D-Nev.), for whom the Government Accounting Office has just completed a two-year audit of the Fed's day-to-day operations. Dorgan and Reid also didn't challenge the autonomy of the Fed, but they did challenge its lack of accountability. Dorgan attacked the fact that Fed interest rate policy is largely made by the presidents of the regional Federal Reserve Banks which are answerable only to their boards of directors, other bankers. "Now," he asked, "what interests are they going to represent when they are in this closed room with the Board of Governors voting on interest rate issues? The interest of the money center banks, I think."

Reid reported that the GAO study found mismanagement throughout the Fed's operations. Among the problems uncovered are a \$3.7 billion slush fund maintained by the Federal Reserve Board, an accounting error of almost \$200 million at the San Francisco Federal Reserve Bank, and an increase in Fed operating costs of 50% between 1988 and 1994. Reid said that these problems show that the Fed needs to be audited regularly, but it has never been audited once throughout its 79-year history. "Can you imagine the central banking system of the United States not having an annual independent audit?" Reid asked.

Republicans fear inflation bogeyman

The arguments in support of Greenspan were typified by the remarks of Charles Grassley (R-Ia.) on June 13. He said he looks at "what these chairmen do, not in the way of specific policy but in the way of bringing stability to the system." He praised Greenspan for having a "steady hand" that makes up for the "erratic" and "unpredictable" fiscal decisions made by the federal government.

This argument was repeated with mind-numbing monotony on June 20 by both Republicans, such as Banking Committee Chairman Al D'Amato (N.Y.) and Budget Committee chairman Pete Domenici (N.M.), and Democrats, such as Patrick Moynihan (N.Y.).

Grassley continued with the old saw that the problem is the failure of Congress and the President to balance the federal budget. "If the people who raise questions about the impact of the Federal Reserve . . . would put their muscle and shoulder behind having a sound fiscal policy passed by the Congress of the United States, then they would not have to be so concerned about the Federal Reserve." He called on the Senate to put more energy into being "more fiscally responsible" rather than in questioning Greenspan's policies. In what was clearly a direct response to the economic initiatives of Democrats around Minority Leader Tom Daschle (D-S.D.), Grassley said, "For those people on the other side of the aisle who are always talking about" increasing taxes on the wealthy and on corporations, "I wish they were as concerned in the war against inflation as Chairman Greenspan is, of how regressive the tax of inflation is upon the poor people of America."

Grassley's defense of Greenspan brings to mind the defense of that other anti-inflation zealot, Hjalmar Schacht, Adolf Hitler's economics minister and Reichsbank president. On June 4, 1993, the *Washington Post* quoted Schacht in an editorial as to why Nazi economics was necessary: "The head of the Reichsbank expressed the earnest desire to do everything possible to maintain good relations with creditors abroad, but he was even more emphatic in stating that the Reichsbank was unalterably determined to maintain the stability of the German currency, as the German working man and woman must never again be exposed to the loss of their savings through inflation.' "

Documentation

'A front-burner issue'

From an exchange between Senators Harkin and Wellstone during the floor debate on June 20.

Harkin: Any time you have high interest rates, think about it as a transfer of wealth from the middle class to the richest class, because after all, who borrows money? It's our working families. They borrow money to buy a house. They borrow money to buy a car. They borrow money to send their kids to school, and when they're paying these exorbitantly high interest rates that is a hidden tax on our working families, so I would say that people ought to . . . start asking questions about our monetary policy. . . .

Wellstone: My colleague essentially made what was my second point. One had to do with the employment act of '46 and what is the mandate of the Federal Reserve Board and how this monetary policy has, in fact, made it impossible to achieve what should be the number-one domestic priority, which is an economy that produces jobs that people can count on, jobs that pay decent wages, living wage jobs under civilized working conditions when men and women can support their families, and this trade-off, it sort of gets to the point where some people are very generous with other peoples' suffering. It's great for bondholders, it's great for Wall Street, it's not great for Main Street. It's not great for wage earners. It's not great for farmers. It's not great for small businesses. It's not great for homeowners. It's not great for families which are trying to afford a higher education for their children. As a matter of fact, the second point is this: There's a rather significant correlation between this tight monetary policy and the lopsided economy that we have.

This is a debate about monetary policy that should be a front-burner issue in the United States of America. This is policy that could make or break peoples' lives. . . . The key to decent jobs and decent wages, the key to investment in our cities, the key to economic opportunities, the key to improving the standard of living in the vast majority of the people in this country is a combination of a number of different things and I would suggest one critical piece is monetary policy. I believe Chairman Greenspan's profoundly mistaken I think with very serious and negative consequences for the vast majority of people in this country. I would rather stand for Main Street interests, I'd rather be on the side of small business people. I'd rather be on the side of families. I'd rather be on the side of middle income Americans. I'd rather be on the side of growing this economy. I'd rather be on the side of jobs with decent wages. I'd rather be on the side of economic opportunity and, for that reason, I will vote no.