Greenspan Says Recovery Vindicates Fed's Actions

By DAVID LEONHARDT

SAN DIEGO, Jan. 3 — Alan Greenspan, the chairman of the Federal Reserve, claimed victory on Saturday in the Fed's three-year battle to limit the damage from the 1990's stock market bubble.

Speaking to an annual conference of economists here, Mr. Greenspan suggested that the current economic recovery had vindicated the Fed's decision not to try to prevent the bubble but rather to react to its aftermath.

"There appears to be enough evidence, at least tentatively, to conclude that our strategy of addressing the bubble's consequences, rather than the bubble itself, has been successful," Mr. Greenspan told the American Economic Association's annual meeting.

"Despite the stock market plunge," he said, "terrorist attacks, corporate scandals and wars in Afghanistan and Iraq, we experienced an exceptionally mild recession, even milder than that of a decade earlier."

The remarks served as further evidence that many Fed officials believe that the economy is stronger than it has been at any point since it fell into recession in early 2001.

Although the economy has grown rapidly in recent months, the Fed's benchmark short-term interest rate remains at an almost 50-year low of 1 percent, but analysts expect it to rise this year.

Though economists widely praise the Fed's aggressive cutting of the rate since January 2001, Mr. Greenspan's sunny views are not universally held.

Some economists note that while the recent recession caused only a slight decline in economic output, the loss of jobs was the worst in 20 years. These economists say that even without raising the benchmark rate more than the Fed did in the late 1990's, Mr. Greenspan might have been able to restrain the bubble and its painful aftermath by speaking about it more forcefully or by tightening borrowing requirements for investors.

The Fed's rate directly affects the rates on many credit cards as well as small business and other loans and indirectly changes mortgage rates. By reducing its rate, the Fed makes borrowing less expensive and encourages spending by households and businesses. It raises the rate when officials worry that the economy is growing rapidly enough to cause inflation to accelerate.

In his remarks, which reviewed the Fed's monetary policy since the 1980's, Mr. Greenspan acknowledged that the Fed had not been infallible in recent years.

Some Fed officials had argued for even quicker rate cuts than Mr. Greenspan had wanted in 2002 and early last year. Those officials said that the economic excesses of the 1990's were still weighing on the economy.
The setting of interest rates is "an especially humbling activity," Mr. Greenspan said. "Uncertainty characterized virtually every meeting of the Fed's policy committee."

He added that from time to time, the committee "made decisions, some to move, some not to move, that we came to regret."