

Greenspan keeps eye on surge in energy prices

THE ASSOCIATED PRESS

WASHINGTON — Federal Reserve Chairman Alan Greenspan said policymakers will keep watch on surging energy prices to make sure they don't spoil the nation's economic good times.

On Wall Street Thursday, stocks were recovering some of Wednesday's losses. By late morning the Dow Jones industrial average had gained 88 points and the Nasdaq index added 172.

While the recent surge in oil prices, which hit a 10-year high of \$37.80 in September, has not produced higher overall inflation, Greenspan cautioned that risks remain, especially given the "political difficulties" in the Middle East.

"Even though the intensity of oil consumption is markedly below where it was 30 years ago, it still has the potential to alter the forces governing economic growth in the United States," Greenspan said Thursday in remarks to a monetary policy conference.

"Policy-makers will need to be on the alert for oil-driven, indeed energy-driven, risks to our expansion," Greenspan said.

When crude-oil prices spiked last month, President Clinton announced that he would tap the government's emergency petroleum reserve to help offset soaring prices.

November crude futures, which had pulled back nearly 10 percent this week following a surge sparked by Mideast vio-

(Oil consumption) still has the potential to alter the forces governing economic growth ..."

Alan Greenspan
Federal Reserve chairman

lence, gained 49 cents to \$33.48 a barrel in trading on the New York Mercantile Exchange Wednesday.

Greenspan said that in the short run, oil prices are heavily influenced by inventory levels. Those levels have dropped significantly since decisions by the Organization of the Petroleum Exporting Countries in 1998 and 1999 to cut production by more than 3 million barrels a day.

Since that time, OPEC has boosted production to what are now record levels, but Greenspan said hoarding by worried distributors and consumers may be limiting the impact of the increased production.

"In the short run, the price of oil, as that of all commodities, inevitably is influenced importantly by inventory levels, especially when stocks become critically short," Greenspan said.

Energy prices shot up 3.8 percent in September, the biggest advance since June. In the first nine months of the year, gasoline prices rose at an annual rate of 22.4 percent and heating-oil costs at an annual rate of 49.4 percent.

Even with these increases, Greenspan noted, "To date, the spillover from the surge in oil prices has been modest."

The Federal Reserve has

raised interest rates six times since June 1999 to slow the economy and stave off inflation. Greenspan did not directly discuss the future course of interest-rate policy in Thursday's speech.

The Fed on Oct. 3 passed up the chance to raise rates for a seventh time, but cautioned that the increase in energy prices "poses a risk of raising inflation expectations."

In a separate speech, Fed board member Laurence Meyer said Thursday that soaring oil prices, while contributing to short-term inflationary pressures, are likely to decline by spring.

"If the expectations in futures prices for oil prove correct, we may soon be treated to an extended period of decline in oil prices," Meyer said.

Despite higher energy prices, consumer spending has remained firm, Greenspan said in his remarks. Generally, when consumers have to shell out more for more expensive gasoline, heating oil and other energy products, they have less to spend on other items.

The U.S. economy is in its longest-ever streak of uninterrupted growth, with unemployment at a 30-year low and inflation largely in check.

Even before last week's esca-



Alex Wong/Newsweek

Federal Reserve Board Chairman Alan Greenspan addresses the 18th Annual Monetary Policy Conference on Thursday in Washington. Greenspan said policymakers will keep watch on surging energy prices to make sure they don't spoil the nation's economic good times.

lating violence in the Middle East, oil price pressures had been strong, Greenspan said.

"This largely owed to the possibility of a politically driven removal of a significant part of Iraq's 2.5 million to 3 million barrels a day from global markets at a time when there exists so little available world excess capacity to replace it," Greenspan explained.

Greenspan also said that growing federal budget surpluses have been important sources of national savings, reducing upward pressure on long-term interest rates.

He wondered whether that would continue.

"I believe most of us harbor doubts about whether the dynamics of the political process, some of which have

been on display in the current budgetary deliberations, will allow the surpluses to continue to grow."

Greenspan also noted the strong surge in productivity growth, which has helped to keep inflation in check. But as in the past, he cautioned that the strong productivity growth rates experienced in recent years inevitably will slow.

Keeping secrets top-secret is aim of State Department effort

THE ASSOCIATED PRESS

WASHINGTON — Paper shredders, State Department employees are told, must trim classified documents down to slices no larger than 1/32 inch by 1/2 inch.

Disposal also can be achieved, they are advised, with machines that can "pulverize" secrets into powder. Safes storing sensitive materials must weigh at least 500 pounds — too heavy to be carted off.

James D. Tromatter makes these points tirelessly in briefing after briefing as part of the State Department's intensified efforts to keep employees security-conscious — and secret materials away from unauthorized eyes.

Since May, about 9,000 employees have heard the message from the amiable yet no-nonsense Tromatter, who gave up his Army career four years ago to become a security expert at the State Department. Attendance is mandatory.

The goal of Secretary of State Madeleine Albright is to end a string of security lapses plaguing the department, the result, many in Congress believe, of a culture that is inattentive to security requirements.

There was the case of the Russian spy operation a year ago that involved use of a

sophisticated eavesdropping device planted in a seventh-floor conference room. The Russian who got caught listening to the device outside the State Department was sent packing last December. Who planted the device remains a mystery.

More significant is the case of the laptop computer with highly classified information that disappeared around Feb. 1 from a conference room in the department's Bureau of Intelligence and Research. It was alleged to have contained highly classified information about arms proliferation issues and about sources and methods of U.S. intelligence collection.

The lapses left Albright feeling "humiliated." At a meeting of State Department employees, she dispensed with the ambiguities so common to her trade.

"I don't care how skilled you are as a diplomat, how brilliant you may be at meetings, or how creative you are as an administrator, if you are not a professional about security, you are a failure," she said.

Less than three weeks later, Tromatter began his briefings, which consist largely of reminders: Top secret material is always covered by a special sheet that identifies it as such. Use red "secret" labels on com-

puter disks that have been used on classified computers. To hand-carry top secret information requires a top-secret clearance.

Copying of top secret materials must be carried out by a "top-secret control officer." Secret and confidential materials can only be copied on designated machines. Since the briefings began, Tromatter says, reports of infractions are down by about 20 percent.

Tromatter, a native of Williamsburg, Va., says the most common security infraction involves leaving a classified document uncovered on a desk.

He says that of the various threats the State Department faces, none is greater than what he calls "sigint," or signals intelligence. It involves the intercept by unauthorized persons of classified materials sent by facsimile or telephone.

The security lapses did not go unnoticed on Capitol Hill.

"It is obvious that the department lacks a professional environment that is sensitive to security concerns," said House International Relations Committee Chairman Benjamin Gilman, R-N.Y. Said Porter Goss, R-Fla., chairman of the House Intelligence Committee, "There is not sufficient awareness, or sufficient attention,

"I don't care how skilled you are as a diplomat, how brilliant you may be at meetings, or how creative you are as an administrator, if you are not a professional about security, you are a failure."

Madeleine Albright
U.S. Secretary of State

to security" at the department.

It hasn't been easy for Albright to overcome these perceptions. Not long after her speech to department employees, Sen. Rod Grams, R-Minn., a member of the Senate Foreign Relations Committee, complained that six foreign service officers nominated for ambassadorships had committed a total of 62 security infractions, including one with 22 on his record.

To Grams, it seemed hard to reconcile Albright's warnings about the need for vigilance with coveted promotions for people not always attentive to security issues.

Grams held up the nominations for months but then allowed them to clear the Senate after extracting further concessions from the State Department on employee accountability for infractions.

In September, the quest for increased security consciousness suffered another

setback. The U.S. ambassador to Israel, Martin Indyk, was stripped of his security clearance after he was alleged to have removed classified briefing books from his office, among other infractions.

Three weeks later, the security clearance was reinstated because Albright felt Indyk was needed to deal with the ongoing violence between Israelis and Palestinians. But there was no halt to an investigation into his supposed wrongdoing.

Congress kept up the heat on the administration this week by approving a bill that subjects government employees to up to three years in prison for willfully disclosing nearly any classified information.

The bill was passed despite warnings that it gives the government a blank check to criminalize any leaking it does not like.

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