Lowey
Luján
Lynch
Maloney
Markey
Matsui
McCarthy (NY)
McCollum
McGovern
McNerney
Meeks
Michaud
Miller (NC)
Miller, George
Moore
Moran
Murphy (CT)
Nadler
Napolitano
Neal
Olver
Pallone
Pascrell
Pastor (AZ)
Pelosi
Perlmutter
Peters
Peterson
Pingree (ME)
Polis
Price (NC)
Quigley
Rahall
Rangel
Richardson
Rothman (NJ)
Roybal-Allard
Ruppersberger
Rush
Ryan (OH)
Sánchez, Linda T.
Sanchez, Loretta
Sarbanes
Schiff
Schrader
Schwartz
Scott (VA)
Scott, David
Serrano
Sewell
Sherman
Sires
Slaughter
Speier
Stark
Sutton
Thompson (CA)
Thompson (MS)
Tierney
Tonko
Towns
Tsongas
Van Hollen
Velázquez
Visclosky
Walz (MN)
Wasserman Schultz
Waters
Watt
Waxman
Welch
Wilson (FL)
Woolsey
Yarmuth

NOT VOTING—17

Akin
Bass (CA)
Bishop (UT)
Chabot
Edwards
Hastings (FL)
Hirono
Jackson (IL)
Jackson Lee (TX)
Lee (CA)
Marchant
McDermott
Reyes
Richmond
Schakowsky
Smith (WA)
Stivers

ANNOUNCEMENT BY THE SPEAKER PRO TEMPORE

The SPEAKER pro tempore (during the vote). There is 1 minute remaining.

□ 1506

So the resolution was agreed to.

The result of the vote was announced as above recorded.

A motion to reconsider was laid on the table.

PERSONAL EXPLANATION

Mr. AKIN. Mr. Speaker, on rollcall Nos. 502 and 503 I was delayed and unable to vote. Had I been present I would have voted "aye" on rollcall No. 502 and "aye" on rollcall No. 503.

## ANNOUNCEMENT BY THE SPEAKER PRO TEMPORE

The SPEAKER pro tempore. Pursuant to clause 8 of rule XX, the Chair will postpone further proceedings today on motions to suspend the rules on which a recorded vote or the yeas and nays are ordered, or on which the vote incurs objection under clause 6 of rule XX.

Record votes on postponed questions will be taken later.

□ 1510

## FEDERAL RESERVE TRANSPARENCY ACT OF 2012

Mr. ISSA. Mr. Speaker, I move to suspend the rules and pass the bill (H.R. 459) to require a full audit of the Board of Governors of the Federal Reserve System and the Federal reserve banks by the Comptroller General of the United States before the end of 2012, and for other purposes, as amended.

The Clerk read the title of the bill.

The text of the bill is as follows:

H.R. 459

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

***SECTION 1. SHORT TITLE.***

*This Act may be cited as the ''Federal Reserve Transparency Act of 2012''.*

***SEC. 2. AUDIT REFORM AND TRANSPARENCY FOR THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM.***

*(a) IN GENERAL.—Notwithstanding section 714 of title 31, United States Code, or any other provision of law, an audit of the Board of Governors of the Federal Reserve System and the Federal reserve banks under subsection (b) of such section 714 shall be completed within 12 months of the date of enactment of this Act.*

*(b) REPORT.—*

*(1) IN GENERAL.—A report on the audit required under subsection (a) shall be submitted by the Comptroller General to the Congress before the end of the 90-day period beginning on the date on which such audit is completed and made available to the Speaker of the House, the majority and minority leaders of the House of Representatives, the majority and minority leaders of the Senate, the Chairman and Ranking Member of the committee and each subcommittee of jurisdiction in the House of Representatives and the Senate, and any other Member of Congress who requests it.*

*(2) CONTENTS.—The report under paragraph (1) shall include a detailed description of the findings and conclusion of the Comptroller General with respect to the audit that is the subject of the report, together with such recommendations for legislative or administrative action as the Comptroller General may determine to be appropriate.*

*(c) REPEAL OF CERTAIN LIMITATIONS.—Subsection (b) of section 714 of title 31, United States Code, is amended by striking all after ''in writing.''.*

*(d) TECHNICAL AND CONFORMING AMENDMENT.—Section 714 of title 31, United States Code, is amended by striking subsection (f).*

***SEC. 3. AUDIT OF LOAN FILE REVIEWS REQUIRED BY ENFORCEMENT ACTIONS.***

*(a) IN GENERAL.—The Comptroller General of the United States shall conduct an audit of the review of loan files of homeowners in foreclosure in 2009 or 2010, required as part of the enforcement actions taken by the Board of Governors of the Federal Reserve System against supervised financial institutions.*

*(b) CONTENT OF AUDIT.—The audit carried out pursuant to subsection (a) shall consider, at a minimum—*

*(1) the guidance given by the Board of Governors of the Federal Reserve System to independent consultants retained by the supervised financial institutions regarding the procedures to be followed in conducting the file reviews;*

*(2) the factors considered by independent consultants when evaluating loan files;*

*(3) the results obtained by the independent consultants pursuant to those reviews;*

*(4) the determinations made by the independent consultants regarding the nature and extent of financial injury sustained by each homeowner as well as the level and type of remediation offered to each homeowner; and*

*(5) the specific measures taken by the independent consultants to verify, confirm, or rebut the assertions and representations made by supervised financial institutions regarding the contents of loan files and the extent of financial injury to homeowners.*

*(c) REPORT.—Not later than the end of the 6-month period beginning on the date of the enactment of this Act, the Comptroller General shall issue a report to the Congress containing all findings and determinations made in carrying out the audit required under subsection (a).*

The SPEAKER pro tempore. Pursuant to the rule, the gentleman from California (Mr. ISSA) and the gentleman from Maryland (Mr. CUMMINGS) each will control 20 minutes.

The Chair recognizes the gentleman from California.

GENERAL LEAVE

Mr. ISSA. Mr. Speaker, I ask unanimous consent that all Members may have 5 legislative days within which to revise and extend their remarks and include extraneous materials on the bill under consideration.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from California?

There was no objection.

Mr. ISSA. I yield myself such time as I may consume.

H.R. 459, the Federal Reserve Transparency Act, directs the GAO to conduct a full audit of the Federal Reserve. The Dodd-Frank legislation mandated a GAO audit of the Fed, but that audit, issued by the Government Accountability Office in July of 2011, focused solely on the issues concerning emergency credit facilities.

GAO remains restricted, under the current law, from conducting a broader audit of the Fed that includes, for instance, a review of the Fed's monetary policy operations and its agreements with foreign governments and central banks. The bill remedies this situation by permitting GAO, the investigative arm of Congress, to conduct a nonpartisan audit that will review all of these transactions. The findings of the audit are to be reported to Congress.

It is particularly appropriate that we consider this legislation at this time. While Congress should not manage or micromanage details of monetary policy, it needs to be able to conduct oversight of the Fed. The Fed was created by Congress to be a central bank, independent of the influence of the U.S. Treasury. It was never intended to, in fact, be independent of Congress or independent of the American people.

In recent years, the Fed's extraordinary interventions into the economy and financial markets have led some to call into question its independence. We do not ask for an audit for that reason. We ask for an audit because the American people ultimately must be able to hold the Fed accountable; and to do so, they must know, at least in retrospect, what the Fed has done over these many years that it has been without an audit. That is why I support H.R. 459, a bipartisan bill with 273 other cosponsors.

I urge my colleagues' support, and I reserve the balance of my time.

ANNOUNCEMENT BY THE SPEAKER PRO TEMPORE

The SPEAKER pro tempore. Members are reminded not to traffic the well while another Member is under recognition.

Mr. CUMMINGS. Mr. Speaker, I yield 2 minutes to the gentleman from Maryland (Mr. HOYER).

Mr. HOYER. I thank the gentleman for yielding.

Mr. Speaker, when the sponsors of this bill talk about ''auditing'' the Federal Reserve, they don't mean a traditional audit. An outside, independent accounting firm already audits the Federal Reserve's annual financial statements, and GAO is already empowered to review the Fed's financial

statements and a broad range of its functions.

In fact, the Wall Street reform legislation Democrats passed last Congress expanded the types of audits GAO can conduct, as has been mentioned by Mr. ISSA. So there is transparency and accountability when it comes to the Federal Reserve's finances and operations. However, this bill would, instead, jeopardize the Fed's independence by subjecting its decisions on interest rates and monetary policy to a GAO audit.

The Fed, like every other major central bank in the world, is independent, and Congress has rightly insulated the Fed from short-term political pressures.

I agree with Chairman Bernanke that congressional review of the Fed's monetary policy decisions would be a ''nightmare scenario,'' especially judging by the track record of this Congress when it comes to governing effectively and intervening in the courts and other areas. We don't have to look any further than the Congress unnecessarily taking the country to the brink of default last summer in a display of politics.

All of us, Mr. Speaker, want transparency. All of us here want to make sure that the Federal Reserve is working to carry out the economic goals of the American people, which are maximum employment and price stability. But that's not what this bill is about. This bill increases the likelihood that the Fed will make decisions based on political rather than economic considerations, and that is not a recipe for sound monetary policy.

I urge my colleagues to defeat this bill and preserve the independence of the Fed so it can keep our currency stable and cultivate the best conditions for our economy to grow and create jobs.

Unfortunately, Mr. Speaker, we, in Congress, have shown too frequently our inability in a political environment to make tough choices. That failure has led us, in part, to where we are today. I urge my colleagues to defeat this unwarranted, unjustified, and dangerous legislation.

Mr. ISSA. Mr. Speaker, it's now my honor to yield 2 minutes to the gentleman from Texas (Mr. PAUL), the author of this bill and the man who understands that not knowing should never be an answer.

Mr. PAUL. I thank the gentleman for yielding.

I rise, obviously, in strong support of this legislation. I don't know how anybody could be against transparency.

They want secrecy, especially when the secrecy is to protect individuals who deal in trillions of dollars, much bigger than what the Congress does. And these trillions of dollars bail out all the wealthy, rich people; the banks and the big corporations; international, overseas banks; bailing out Europe; dealing with central banks around Europe and different places.

And to say that we should have secrecy and to say that it's political to have transparency, well, it's very political when you have a Federal Reserve that can bail out one company and not another company. That's pretty political.

I think when people talk about independence and having this privacy of the central bank means they want secrecy, and secrecy is not good. We should have privacy for the individual, but we should have openness of government all the time, and we've drifted a long way from that.

The bill essentially removes the prohibitions against a full audit. To audit, we should know what kind of transactions there are. We should know about the deals that they made when they were fixing the price of LIBOR. These are the kinds of things that have gone on for years that we have no access to.

Congress has this responsibility. We are reneging on our responsibility. We have had the responsibility and we have not done it, so it is up to us to reassert ourselves.

The Constitution is very clear who has the responsibility, but the law conflicts with the Constitution. The law comes along and says the Congress can't do it. Well, you can't change the Constitution and prohibit the Congress from finding out what's going on by writing a law, and this is what has happened.

So it is time that we repeal this prohibition against a full audit of the Federal Reserve. We deserve it. The American people deserve it. The American people know about it and understand it, and that's what they're asking for. They're sick and tired of what happened in the bailout, where the wealthy got bailed out and the poor lost their jobs and they lost their homes.

Mr. CUMMINGS. I yield 4 minutes to the distinguished gentleman from Massachusetts (Mr. FRANK), the ranking member of the Financial Services Committee.

Mr. FRANK of Massachusetts. Mr. Speaker, I think this is a bad idea, and I am somewhat confused.

By the way, we will be debating tomorrow a bill which restricts rulemaking, and it exempts the Federal Reserve, as I read it. So we're kind of on again/off again about the Federal Reserve. It seems to me what we're talking about is taking some fake punches at the Federal Reserve but not doing anything serious.

My Republican colleagues brought up a reconciliation bill that was going to subject the Consumer Bureau to appropriations.

□ 1520

So I offered an amendment to subject the Federal Reserve to appropriations. That was voted down. So we're not going to restrict their rulemaking. We're not going to subject them to appropriations, even though that's being done elsewhere. We're going to audit them, which is a way to look tough without really being tough.

Mr. ISSA. Will the gentleman yield?

Mr. FRANK of Massachusetts. I yield to the gentleman from California.

Mr. ISSA. I thank the gentleman. Would you suggest that we should do both of those?

Mr. FRANK of Massachusetts. No. I reclaim my time and say we should do none of them. I was saying I have a consistent position. I don't think we should do any of them. What I'm saying is, people who get up there and beat their chest about how tough they are and they're not afraid of the Federal Reserve but exempt it from the great rulemaking bill, and subject the Consumer Bureau—that terrible threat to the well-being of Americans—to the appropriations process, but let the Federal Reserve, which spends about 150 times as much, go free—I am inclined to doubt their seriousness. Not their purity, that would be a violation of the rules, but their seriousness. This is a way to shake your fist at that big, bad Fed. And it's not a good way.

We hear a lot about uncertainty. Remember, the Federal Reserve is now subject to a complete openness about all of its transactions with private companies. We did that last year. The gentleman from Texas had a major role in that. When the Federal Reserve deals with any other institution, we know what it does. We don't know it necessarily the same day. There were these predictions about what terrible things were going to happen when the Federal Reserve did this and that. They haven't come true. Maybe they will some day, but we will know it.

This makes this exception: it says that we will audit the decisions about monetary policy. It says that members who vote on what the interest rate should be will now be audited. They will be subject to being quizzed about why they did that. Now, I will tell my Democratic friends, understand that one part of this problem is the objection on the part of the Republican Party to the fact that our Federal Reserve, unusual among central banks, has a dual mandate. They are charged under our statute to be concerned about inflation and about unemployment.

Now, the Republicans have an agenda they're keeping on low key until next year. They have a bill, but they won't act on it yet. But they would like to strip that part of the mandate. They would like the Federal Reserve to be only involved in inflation. They don't like the notion that the Federal Reserve deals with unemployment, and this is a way that, if it were ever to become law, and no one thinks it will—this is a, Look how tough we are. We are going to wave our fists at the Fed. But it would be a way to kind of put pressure on members of the Open Market Committee and see, were you worried about unemployment when you did this? That's the audit. This has nothing to do with how they spend their money. It has nothing to do with whom they contract. That is what people usually think about an audit. It doesn't

have anything to do with whether they are efficient or not. It is an ideological agenda by a group of people who didn't like what the Federal Reserve was doing—under, by the way, George Bush, there was reference to the bailouts, which were, of course, under the Bush administration. One of the things that we did, by the way, in our bill 2 years ago—and all my Republican colleagues voted against the bill—was to take away from the Federal Reserve the power they used—under President Bush—to give/lend $85 billion to AIG. We rescinded that. I don't think Mr. Bernanke, a Bush appointee, was doing the wrong thing necessarily, but we took back that power.

So this is partly a show because on the two serious efforts to curtail the Fed's powers, my Republican colleagues aren't there. But secondly—and as I said, I'm consistent—I don't think that we should do any of these things. I think what we did with regard to openness makes sense. I'm not pretending to be tough when I'm not.

The SPEAKER pro tempore. The time of the gentleman has expired.

Mr. CUMMINGS. I yield the gentleman 1 additional minute.

Mr. FRANK of Massachusetts. But what it will do is destabilize. We have worries about expectations. There is a fear that we will be too inflationary or that we won't grow enough. People on Wall Street are not as sophisticated as some people think. I don't mean they're not sophisticated about their own business, as we know, but they will read this and take it more seriously than the Members here do who think it might eventually become law, and it will destabilize some of the financial system. They will see it as political interference not with the contracting procedures, not with the budget, not with how many cars they have, but with how they decide on interest rates. And the perception that the Congress is going to politicize the way in which interest rates are set will in itself have a destabilizing effect.

And as I said, nobody here thinks this will ever become law. But there is this fear on the part of others who don't know that that will translate into precisely the kind of uncertainty, precisely the kind of unsettling on investments that my Republican colleagues pretend to fear, and it will also send them the message, stop worrying about unemployment.

Mr. ISSA. As I introduced my good friend and leader on this issue, Mr. CHAFFETZ, I might note that when the word ''Democrat'' and ''Republican'' are used in this Hall, hopefully when there are 45 Democratic Members on this bill as cosponsors, we would recognize this is a bipartisan bill.

I now yield 2 minutes to the gentleman from Utah (Mr. CHAFFETZ).

Mr. CHAFFETZ. I thank the chairman.

I also want to appreciate and congratulate Dr. RON PAUL for his tireless pursuit of this openness and transparency. Without his leadership, we wouldn't be at this point today, and I applaud him and thank him for that.

Some would say that the Fed is already audited, but there are some key points where it is not. These include transactions with foreign central banks, discussion and actions on monetary policy, and transactions made under the direction of the Federal Open Market Committee.

If we are truly about openness and transparency in this Nation, which distinguishes us above and beyond so many others, we deserve and need to know this information.

We need also understand the imperative that is before us because the Federal Reserve balance sheet has exploded in recent years. In fact, since 2008, it has literally tripled. It's gone from $908 billion on its balance sheet to over $2.8 trillion, nearly a 33 percent annualized increase since January 2008.

The Federal Reserve ownership of Treasuries has also increased substantially in recent years, having more than doubled from January of 2008 to January of 2012, where it went from $741 billion to $1.66 trillion.

Let's understand also that in fiscal year 2011, the Federal Reserve purchased 76 percent of new Treasuries. Certainly the American people and this Congress deserves more openness, transparency, and at the very least an audit. I encourage my colleagues on both sides of the aisle to support this commonsense piece of legislation, and again congratulate Dr. PAUL, and continue to hope for his pursuit of this issue.

Mr. CUMMINGS. I yield 2 minutes to the gentlewoman from New York (Mrs. MALONEY).

Mrs. MALONEY. This is an absolute terrible idea. Although I am in total agreement with Mr. PAUL that transparency is a virtue, I also believe that the Federal Reserve must be free of any political influence, and I'm afraid this bill opens the door for precisely that to happen. I don't believe there is anyone in this Chamber that thinks that what the process needs is more politics.

Make no mistake, I agree that maximum transparency is necessary and desirable, and that's precisely why we included numerous transparency requirements in the financial reform bill, as well as numerous audit requirements. We authorized the GAO to audit the Fed's emergency lending facility. We authorized the GAO to audit any special facility created within the Fed. And we required the Fed to issue an assessment 2 years after institutions were granted access to the Fed's discount window.

We crafted those measures and more in a way that ensures transparency but still preserves the independence of the Federal Reserve in its decision-making process in the critical area of monetary policy. But this bill, as it now stands, would provide information without a proper context. That could have unintended consequences and have totally unwarranted effects on consumer confidence in our financial institutions.

If the individual members of the Open Markets Committee know that each one of their decisions are subject to potential political pressure, it would significantly alter that decision-making process. An open door to the Federal Open Markets Committee would invite political pressures. And having decisions that are driven by politics and polling data is not the path to sound monetary policy.

Decisions about monetary policy should never be based on the raw political needs of the moment but instead should always be based strictly on objective economic considerations and guided by the twin mandates of low inflation and full employment. The unintended consequences of this bill would be to open the Federal Reserve to political influence, and that would have a negative impact on the Fed's independence and its ability to produce sound economic policy. I urge a strong bipartisan ''no'' vote.

□ 1530

Mr. ISSA. It is now my honor to yield 1 minute to the gentleman from Texas (Mr. FARENTHOLD).

Mr. FARENTHOLD. Mr. Speaker, the Constitution grants us the power to coin money and regulate the value thereof, and we've delegated this to the Fed. Unfortunately, we've tied our hands behind our back with respect to seeing what they're doing, and it's our duty to conduct oversight. A moment ago, Mr. FRANK said the audit was just fist pounding and chest pounding. I disagree. It's the first step. It is our doing our homework to determine what needs to be done to reform the Fed.

Chairman Bernanke said this bill would be a ''nightmare scenario'' of political meddling in monetary affairs. I disagree. I think the current situation is a nightmare scenario in unaccountable government. As Justice Brandeis said, ''Sunshine is always the best disinfectant.'' As a member of the Oversight and Government Reform Committee, we demand transparency from agencies like the GSA, the TSA, and other Fed agencies.

I join my friend and neighbor in Congress, Dr. PAUL, in demanding for the American people that sunshine be shined into the Fed and this audit be conducted. I urge my colleagues to support this bill because the American people have a right to know.

Mr. CUMMINGS. I yield 1 minute to the gentleman from Massachusetts (Mr. FRANK).

Mr. FRANK of Massachusetts. Mr. Speaker, to illustrate the misconceptions about this bill, let's refer to what the gentleman from Utah (Mr. CHAFFETZ) had to say. He said 76 percent of the purchasers of this and that. Well, if they were so nontransparent, I don't know how he would know that. He didn't have a subpoena. But the fact is, yes, he knows that because of the

transparency we've already built in. But all the more important, the details, the specifics of every one of those transactions are already public.

This isn't about those transactions or about with whom they were done and under what time period. It's about the motives of the people setting monetary policy.

And let me address the Constitution. Yes, it is true that the Constitution gives us the power to do this. The Constitution gives us a lot of power. It gives us power to declare war on Canada. It gives us the power to do a lot of things. Wise people pick and choose which powers they use.

But this is not about getting more information about their transactions. All of that is out there. This is an effort to give politicians, a wonderful group of people of which I am one, more direct involvement in the actual decisions on setting of interest rates than is good for the economy.

Mr. ISSA. It is now my honor to yield 1 minute to the gentleman from Michigan (Mr. AMASH).

Mr. AMASH. I would like to thank Chairman ISSA and thank and congratulate Dr. RON PAUL for his tireless work on this issue for many decades.

Mr. Speaker, what is the Federal Reserve? I think even many Members of this body couldn't answer that question. And yet Congress has delegated its constitutional authority to this committee of bankers and Presidential appointees. To no institution in our country's history has Congress given so much power while knowing so little.

As our central bank, we've entrusted the Federal Reserve with managing inflation. That means the Fed can change the value of Americans' life savings, their retirement accounts and their mortgages. Lately, the Fed has taken on the role of ''lender of last resort.'' It has made unprecedented market interventions, promising billions of dollars to the country's largest financial institutions. When investors wouldn't buy mortgages, the Fed did. When creditors became wary of Congress' spending binge, the Feds stepped in.

Years ago, Congress enacted an audit statute, but it prevents an audit of monetary policy. The government's accountants understandably were outraged, saying they couldn't ''satisfactorily audit the Federal Reserve system without authority to examine the Fed's largest assets.''

Congress should be wary of all types of central planning. We should be especially vigilant against unaccountable groups that profoundly affect Americans' lives and liberty.

Pass this bill, and let's audit the Fed.

Mr. CUMMINGS. Mr. Speaker, I yield 2 minutes to the gentleman from North Carolina (Mr. WATT).

Mr. WATT. I thank the gentleman.

Let me say, first, that this bill is not about sunshine and it's not about transparency. It is about dissatisfaction that some individuals have with the mandate that Congress has given to the Federal Reserve.

The gentleman who just spoke is absolutely right; They are supposed to deal with inflation. That's what we told them to do in their mandate. They're supposed to deal with unemployment. That's what we told them to do in the mandate we gave.

And some people over there are dissatisfied with the fact that—they don't want them to deal with unemployment. They don't want them to try to adjust and make changes that will be beneficial to our economy. And if they don't want that, they ought to just introduce a bill that repeals the mandate that we gave to them.

Don't come and say that we are talking about sunshine and transparency.

Every time I turn on the television now, I hear the Federal Reserve, Chairman Bernanke and members of the Federal Reserve, talking about how the economy is going. That is not lack of sunshine and lack of information. I thought we had dealt with this when Mr. PAUL was the ranking member of the subcommittee and I was the chairman.

Mr. PAUL's problem is he doesn't like the Federal Reserve. He is avowedly in favor of doing away with the Federal Reserve. That's an honest position. But don't come in and try to cloak it in the guise of this agency is not transparent or it lacks sunshine. If you don't like the mandate that they have, then have the guts to stand up and introduce a bill that says that we are doing away with the Federal Reserve.

The SPEAKER pro tempore. The time of the gentleman has expired.

Mr. CUMMINGS. I yield the gentleman 1 additional minute.

Mr. WATT. If you think we are in trouble now, if you get the politics and the Congress involved in transactions with foreign governments and the decisions about how we get ourselves out of this unemployment situation, if we have some answers about how to get out of unemployment, then I would assume we would come forward with them. And nobody on this floor of this Congress has done anything to take up an unemployment bill. So I'm glad we have the Federal Reserve over there at least trying to figure out how to make some adjustments in our economy that will deal with unemployment.

The last thing I want is for this Congress to be second-guessing—or an auditor that is not elected by anybody to be second-guessing—the decisions of the people who are on the Federal Reserve. An auditor might be a good accountant, he can count, but I want somebody on the Federal Reserve, and hopefully it would be nice to have some people in Congress who can make some decisions about how to deal with unemployment.

Mr. ISSA. Mr. Speaker, the rules of the House prohibit going after someone's motivation. I'm very concerned that a bill that, in a substantially similar form, was placed into Dodd-Frank by then-Chairman BARNEY FRANK is now being characterized as somehow ill-intended and mischievous activity by the proponent. I would trust that that is not the intent of the speakers on behalf of that side of the aisle about this bipartisan bill. It is virtually identical to the language that BARNEY FRANK put into Dodd-Frank.

Mr. WATT. Will the gentleman yield?

Mr. ISSA. I yield to the gentleman from North Carolina.

Mr. WATT. I just want to be clear that Mr. FRANK and I both voted against the bill that you're talking about, so don't try to make it sound like it's Mr. FRANK's and my bill. We voted against the bill. This is RON PAUL's bill. We thought it was a terrible idea then, and we think it's a terrible idea now.

Mr. ISSA. Reclaiming my time, I would like to yield 15 seconds to the gentleman from Texas, the author of the bill.

Mr. PAUL. Did you vote against Dodd-Frank? Because it was in Dodd-Frank. It wasn't a separate bill. Maybe on a separate vote you might have done it, but it was in Dodd-Frank.

Mr. ISSA. I now yield 1 minute to the gentleman from Montana (Mr. REHBERG).

Mr. REHBERG. Thank you, Mr. ISSA, and I especially thank you, Dr. PAUL.

Tomorrow, the House of Representatives will uphold our constitutional duty and vote to pull back the secretive curtain of the Federal Reserve. The American people have a right to know. It's an important step in openness and government transparency that's long overdue.

Just a few years ago, the Senate rejected an effort to add this strong audit language to the Dodd-Frank bill, but times are changing. As our economy struggles and job creation lags, it's more important than ever to look under the hood of the Federal Reserve. We need to find out exactly what they are doing and why. That way, we can determine if the Fed is actually hurting our economy and discouraging job growth.

In a democracy, no government body should be allowed to hide behind a curtain of secrecy. That's why I stand strongly behind this legislation.

□ 1540

MOMENT OF SILENCE IN MEMORY OF OFFICER JACOB J. CHESTNUT AND DETECTIVE JOHN M. GIBSON

The SPEAKER pro tempore. Pursuant to the Chair's announcement of earlier today, the House will now observe a moment of silence in memory of Officer Jacob J. Chestnut and Detective John M. Gibson.

Will all present please rise in observance of a moment of silence.

Mr. CUMMINGS. Mr. Speaker, I yield 30 seconds to the gentleman from Massachusetts (Mr. FRANK).

Mr. FRANK of Massachusetts. Mr. Speaker, I'm glad that the Committee on Government and Oversight isn't the

official House historian. In fact, there was a motion to include language like this offered to the financial reform bill. I voted ''no,'' as did Mr. WATT. It was included in the bill. It's true, I voted for the bill. Of course, the gentleman from Texas voted against the bill. So if your vote on the whole bill is taken as an account of what you feel, he was against it.

But when it went to conference, it was not in the Senate bill—which was the text of the conference—so it did not come up, and no Republican conferee offered it as an amendment. That is, in the conference, that language which I and the gentleman from North Carolina voted against was not offered by any Member of the conference, Democrat or Republican.

Mr. ISSA. History records that Democrats broadly voted for it when it was voted out of this body. Nothing more need be said.

With that, I yield 1 minute to the gentlelady from Tennessee (Mrs. BLACKBURN).

Mrs. BLACKBURN. I thank the gentleman from California for the time. And I want to commend the gentleman from Texas (Mr. PAUL) for his excellent work on this issue.

Recently, I had a constituent say to me in a townhall meeting they thought it was time for Congress to start putting some mandates on the Federal Government. They're tired of government mandates on them. Why don't we mandate, why don't we hold them accountable?

This is a piece of legislation that does exactly that. It requires the GAO to conduct a full audit of the Board of Governors of the Federal Reserve System and of the Federal Reserve banks by the Comptroller General before the end of the year. That is significant. A timeline to do a job, to be held accountable to the people of this great Nation for how they spend their time, their money, the decisions they make that affect us.

It is imperative that we get this economy back on track. The actions that we will vote on today are part of that, having a Federal Reserve that is accountable—accountable to our constituents, accountable to the people of this Nation. I commend the gentleman for a move toward transparency and accountability.

Mr. CUMMINGS. Mr. Speaker, may I inquire as to how much time we have.

The SPEAKER pro tempore. The gentleman from Maryland has 6½ minutes remaining. The gentleman from California has 9¼ minutes remaining.

Mr. CUMMINGS. Mr. Speaker, I yield myself such time as I may consume.

Mr. Speaker, I rise today in opposition to H.R. 459, which passed out of the Oversight Committee without even a single hearing and without testimony from any Federal Reserve officials.

Let me be clear: the Government Accountability Office has had the authority to audit the Federal Reserve's books for three decades. In 2010, the Dodd-Frank Act expanded the types of audits GAO conducts of the Federal Reserve, as well as the data the Fed must disclose to the public. For example, Dodd-Frank required the GAO to audit the emergency financial assistance provided during the financial crisis.

The act also opens discount window operations and open market operations to audit so GAO can assess the operational integrity, collateral policies, fairness, and use of third-party contractors. And Dodd-Frank requires the Federal Reserve to release information regarding borrowers and counterparties participating in discount-lending programs and open market operations. Mr. Speaker, as a conferee who helped craft the final Dodd-Frank legislation, I supported all of these provisions.

I believe other areas of the Federal Reserve's operations are also ripe for audit. During the committee's consideration of this legislation, I offered an amendment that would require GAO to perform an audit of the independent foreclosure reviews currently being conducted by the Federal Reserve and the Office of the Comptroller of the Currency.

Fourteen mortgage servicers have been required to establish a process under which borrowers can request an independent review of their loan histories. But at the end of May, only 200,000 out of about 4.4 million eligible borrowers had requested an independent review of their foreclosure cases. We need to understand whether the design of the program has limited the number of borrowers who have sought reviews of their cases.

Further, it is unclear how the types and amounts of remediation are being determined. This is precisely the type of issue that should be reviewed by the GAO. Certainly, the public has a right and the Congress has a responsibility to know and understand the transactions and enforcement actions undertaken by the Nation's central bank. However, when Congress established the Fed in 1913, it understood that independence from political interference was critical to the bank's ability to fulfill its monetary policy responsibilities.

The Dodd-Frank Act was carefully crafted to expand transparency while preserving the protections that ensure the independence of the Federal Reserve's internal deliberations on monetary policy matters. The Board of Governors of the Federal Reserve must be able to pursue the policies it considers most responsive to our Nation's current economic conditions and most likely to fulfill its dual mandate of promoting maximum employment and stable prices.

We should not allow GAO examinations to be the back door through which politics intrude on monetary policy—which is what this legislation would allow. Opening the Federal Reserve's internal policy deliberations to GAO review could influence how such deliberations are conducted and potentially the policies that are chosen, thus degrading the Fed's independence.

Last week, the Chairman of the Federal Reserve, Mr. Bernanke, described the potential impact of this bill to the Financial Services Committee. He said:

> The nightmare scenario I have is one in which some future Fed Chairman would decide and say to raise the Federal funds rate to 25 basis points and somebody would say, I don't like that decision. I want the GAO to go in and get all the records, get all the transcripts, get all the preparatory materials and give us an independent opinion whether or not that was the right decision.

I share Chairman Bernanke's concern. For that reason, during the markup of this legislation in the Oversight Committee, I offered an amendment that would have retained the protections for the Board of Governors' internal monetary policy deliberations to ensure that the audit required by this legislation did not intrude on the Federal Reserve's independence. I continue to believe this provision is needed to ensure this bill does not prohibit the ability of the Federal Reserve to implement monetary policies to strengthen our Nation's economy as it has done repeatedly throughout the recent financial crisis.

I reserve the balance of my time.

Mr. ISSA. Mr. Speaker, can I inquire how much time we both have remaining, please.

The SPEAKER pro tempore. The gentleman from California has 9¼ minutes remaining. The gentleman from Maryland has 2 minutes remaining.

Mr. ISSA. I now yield 1 minute to the gentlelady from Kansas (Ms. JENKINS).

Ms. JENKINS. I thank the gentleman for yielding, and I thank Dr. PAUL for his leadership on this very important issue.

Mr. Speaker, the Federal Reserve lent out $16 trillion during the fiscal crisis. That's larger than the entire U.S. economy—or worse, our Federal debt. Trillions of taxpayer dollars, and we have very little understanding of where it went.

Congress holds the purse, but we have no oversight over how the Fed manages the funds. This is why I've cosponsored a bipartisan effort to audit the Fed in full. It's our responsibility.

Current monetary policy audits of the Fed are insufficient. Most Fed operations consist of transactions with foreign central banks, and yet they are exempt from review. When corruption is suspected, a common refrain is: follow the money. With the historic sovereign debt crisis brewing in Europe, we must look closely at our own balance sheet. We must follow the money.

As a CPA, I know we need more transparency in Washington. It should start with the Federal Reserve.

□ 1550

Mr. CUMMINGS. I yield 1 minute to the gentleman from Ohio (Mr. KUCINICH).

Mr. KUCINICH. I would like to include in the record of this debate an article about the Fed's policy model

sacrificing its maximum employment mandate and targeting 5 to 6 percent as unemployment.

SPEECH BY JANET L. YELLEN, VICE CHAIR, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM AT THE BOSTON ECONOMIC CLUB DINNER, BOSTON, MASSACHUSETTS JUNE 6, 2012

PERSPECTIVES ON MONETARY POLICY

Good evening. I'm honored to have the opportunity to address the Boston Economic Club and I'm grateful to Chip Case for inviting me to speak to you tonight. As most of you probably know, Chip was one of the first economists to document worrisome signs of a housing bubble in parts of the United States. After sounding an early alarm in 2003, Chip watched the bubble grow and was prescient in anticipating the very serious toll that its unwinding would impose on the economy. Chip recognized that declining house prices would affect not just residential construction but also consumer spending, the ability of households to borrow, and the health of the financial system. In light of these pervasive linkages, the repeat sales house price index that bears Chip's name is one of the most closely watched of all U.S. economic indicators. Indeed, as I will discuss this evening, prolonged weakness in the housing sector remains one of several serious headwinds facing the U.S. economy. Given these headwinds, I believe that a highly accommodative monetary policy will be needed for quite some time to help the economy mend. Before continuing, let me emphasize that my remarks reflect my own views and not necessarily those of others in the Federal Reserve System.

ECONOMIC CONDITIONS AND THE OUTLOOK

In my remarks tonight, I will describe my perspective on monetary policy. To begin, however, I'll highlight some of the current conditions and key features of the economic outlook that shape my views. To anticipate the main points, the economy appears to be expanding at a moderate pace. The unemployment rate is almost 1 percentage point lower than it was a year ago, but we are still far from full employment. Looking ahead, I anticipate that significant headwinds will continue to restrain the pace of the recovery so that the remaining employment gap is likely to close only slowly. At the same time, inflation (abstracting from the transitory effects of movements in oil prices) has been running near 2 percent over the past two years, and I expect it to remain at or below the Federal Open Market Committee's (the FOMC's) 2 percent objective for the foreseeable future. As always, considerable uncertainty attends the outlook for both growth and inflation; events could prove either more positive or negative than what I see as the most likely outcome. That said, as I will explain, I consider the balance of risks to be tilted toward a weaker economy.

Starting with the labor market, conditions have gradually improved over the past year, albeit at an uneven pace. Average monthly payroll gains picked up from about 145,000 in the second half of 2011 to 225,000 during the first quarter of this year. However, these gains fell back to around 75,000 a month in April and May. The deceleration of payroll employment from the first to the second quarter was probably exacerbated by some combination of seasonal adjustment difficulties and an unusually mild winter that likely boosted employment growth earlier in the year. Payback for that earlier strength probably accounts for some of the weakness we've seen recently. Smoothing through these fluctuations, the average pace of job creation for the year to date, as well as recent unemployment benefit claims data and other indicators, appear to be consistent with an economy expanding at only a moderate rate, close to its potential.

Such modest growth would imply little additional progress in the near term in improving labor market conditions, which remain very weak. Currently, the unemployment rate stands around 3 percentage points above where it was at the onset of the recession—a figure that is stark enough as it is, but does not even take account of the millions more who have left the labor force or who would have joined under more normal circumstances in the past four years. All told, only about half of the collapse in private payroll employment in 2008 and 2009 has been reversed. A critical question for monetary policy is the extent to which these numbers reflect a shortfall from full employment versus a rise in structural unemployment. While the magnitude of structural unemployment is uncertain, I read the evidence as suggesting that the bulk of the rise during the recession was cyclical, not structural in nature.

Consider figure 1, which presents three indicators of labor market slack. The black solid line is the unemployment gap, defined as the difference between the actual unemployment rate and the Congressional Budget Office (CBO) estimate of the rate consistent with inflation remaining stable over time. The red dashed line is an index of the difficulty households perceive in finding jobs, based on results from a survey conducted by the Conference Board. And the red dotted line is an index of firms' ability to fill jobs, based on a survey conducted by the National Federation of Independent Business. All three measures show similar cyclical movements over the past 20 years, and all now stand at very high levels. This similarity runs counter to claims that the CBO's and other estimates of the unemployment gap overstate the true amount of slack by placing insufficient weight on structural explanations, such as a reduced efficiency of matching workers to jobs, for the rise in unemployment since 2007. If that were the case, why would firms now find it so easy to fill positions? Other evidence also points to the dominant role of cyclical forces in the recent rise in unemployment: job losses have been widespread, rather than being concentrated in the construction and financial sectors, and the co-movement of job vacancies and unemployment over the past few years does not appear to be unusual.

As I mentioned, I expect several factors to restrain the pace of the recovery and the corresponding improvement in the labor market going forward. The housing sector remains a source of very significant headwinds. Housing has typically been a driver of economic recoveries, and we have seen some modest improvement recently, but continued uncertainties over the direction of house prices, and very restricted mortgage credit availability for all but the most creditworthy buyers, will likely weigh on housing demand for some time to come. When housing demand does pick up more noticeably, the huge overhang of both unoccupied dwellings and homes in the foreclosure pipeline will likely allow a good deal of that demand to be met for a time without a sizeable expansion in homebuilding. Moreover, the enormous toll on household wealth resulting from the collapse of house prices—almost a 35 percent decline from its 2006 peak, according to the Case-Shiller index—imposes ongoing restraint on consumer spending, and the loss of home equity has impaired many households' ability to borrow.

A second headwind that will likely become more important over coming months relates to fiscal policy. At the federal level, stimulus-related policies are scheduled to wind down, while both defense and nondefense purchases are expected to decline in inflation-adjusted terms over the next several years. Toward the end of this year, important decisions regarding the extension of current federal tax and budget policies loom. I will return to the associated uncertainties and their potentially detrimental effects later.

A third factor weighing on the outlook is the likely sluggish pace of economic growth abroad. Strains in global financial markets have resurfaced in recent months, reflecting renewed uncertainty about the resolution of the European situation. Risk premiums on sovereign debt and other securities have risen again in many European countries, while European banks continue to face pressure to shrink their balance sheets. Even without a further intensification of stresses, the slowdown in economic activity in Europe will likely hold back U.S. export growth. Moreover, the perceived risks surrounding the European situation are already having a meaningful effect on financial conditions here in the United States, further weighing on the prospects for U.S. growth.

Given these formidable challenges, most private sector forecasters expect only gradual improvement in the labor market and I share their view. Figure 2 shows the unemployment rate together with the median forecast from last month's Survey of Professional Forecasters (SPF), the dashed blue line. The figure also shows the central tendency of the unemployment projections that my FOMC colleagues and I made at our April meeting: Those projections reflect our assessments of the economic outlook given our own individual judgements about the appropriate path of monetary policy. Included in the figure as well is the central tendency of FOMC participants' estimates of the longer-run normal unemployment rate, which ranges from 5.2 percent to 6 percent. Like private forecasters, most FOMC participants expect the unemployment rate to remain well above its longer-run normal value over the next several years.

Of course, considerable uncertainty attends this outlook: The shaded area provides an estimate of the 70 percent confidence interval for the future path of the unemployment rate based on historical experience and model simulations. Its width suggests that these projections could be quite far off, in either direction. Nevertheless, the figure shows that labor market slack at present is so large that even a very large and favorable forecast error would not change the conclusion that slack will likely remain substantial for quite some time.

Turning to inflation, figure 3 summarizes private and FOMC forecasts. Overall consumer price inflation has fluctuated quite a bit in recent years, largely reflecting movements in prices for oil and other commodities. In early 2011 and again earlier this year, prices of crude oil, and thus of gasoline, rose noticeably. Smoothing through these fluctuations, inflation as measured by the price index for personal consumption expenditures (PCE) averaged near 2 percent over the past two years. In recent weeks, however, oil and gasoline prices have moderated and are now showing through to the headline inflation figures. Looking ahead, most FOMC participants at the time of our April meeting expected inflation to be at, or a bit below, our long-run objective of 2 percent through 2014; private forecasters on average also expect inflation to be close to 2 percent. As with unemployment, uncertainty around the inflation projection is substantial.

In the view of some observers; the stability of inflation in the face of high unemployment in recent years constitutes evidence

that much of the remaining unemployment is structural and not cyclical. They reason that if there were truly substantial slack in the labor market, simple accelerationist ''Phillips curve'' models would predict more noticeable downward pressure on inflation. However, substantial cross-country evidence suggests that, in low-inflation environments, inflation is notably less responsive to downward pressure from labor market slack than it is when inflation is elevated.

In other words, the short-run Phillips curve may flatten out. One important reason for this non-linearity, in my view, is downward nominal wage rigidity—that is, the reluctance or inability of many firms to cut nominal wages.

The solid blue bars in figure 4 present a snapshot of the distribution of nominal wage changes for individual jobs during the depth of the current labor market slump, based on data collected by the Bureau of Labor Statistics. For comparison, the dashed red line presents a hypothetical distribution of wage changes, using a normal distribution that approximates the actual distribution of wage changes greater than zero. The distribution of actual wage changes shows that a relatively high percentage of workers saw no change in their nominal wage, and relatively few experienced modest wage cuts. This pile-up phenomenon at zero suggests that, even when the unemployment rate was around 10 percent, many firms were reluctant to cut nominal wage rates. In the absence of this barrier, nominal gains in wages and unit labor costs would have likely been even more subdued given the severity of the economic downturn, with the result that inflation would probably now be running at a lower rate.

Anchored inflation expectations are another reason why inflation has remained close to 2 percent in the face of very low resource utilization. As shown in figure 5, survey measures of longer-horizon inflation expectations have remained nearly constant since the mid-1990s even as actual inflation has fluctuated. As a result, the current slump has not generated the downward spiral of falling expected and actual inflation that a simple accelerationist model of inflation might have predicted. Indeed, keeping inflation expectations from declining has been an important success of monetary policy over the past few years. At the same time, the fact that longer-term inflation expectations have not risen above 2 percent has also proved extremely valuable, for it has freed the FOMC to take strong actions to support the economic recovery without greatly worrying that higher energy and commodity prices would become ingrained in inflation and inflation expectations, as they did in the 1970s.

While my modal outlook calls for only a gradual reduction in labor market slack and a stable pace of inflation near the FOMC's longer-run objective of 2 percent, I see substantial risks to this outlook, particularly to the downside. As I mentioned before, even without any political gridlock, fiscal policy is bound to become substantially less accommodative from early 2013 on. However, federal fiscal policy could turn even more restrictive if the Congress does not reach agreement on several important tax and budget policy issues before the end of this year; in fact, the CBO recently warned that the potential hit to gross domestic product (GDP) growth could be sufficient to push the economy into recession in 2013. The deterioration of financial conditions in Europe of late, coupled with notable declines in global equity markets, also serve as a reminder that highly destabilizing outcomes cannot be ruled out. Finally, besides these clearly identifiable sources of risk, there remains the broader issue that economic forecasters have repeatedly overestimated the strength of the recovery and so still may be too optimistic about the prospects that growth will strengthen.

Although I view the bulk of the increase in unemployment since 2007 as cyclical, I am concerned that it could become a permanent problem if the recovery were to stall. In this economic downturn, the fraction of the workforce unemployed for six months or more has climbed much more than in previous recessions, and remains at a remarkably high level. Continued high unemployment could wreak long-term damage by eroding the skills and labor force attachment of workers suffering long-term unemployment, thereby turning what was initially cyclical into structural unemployment. This risk provides another important reason to support the recovery by maintaining a highly accommodative stance of monetary policy.

THE CONDUCT OF POLICY WITH UNCONVENTIONAL TOOLS

Now turning to monetary policy, I will begin by discussing the FOMC's reliance on unconventional tools to address the disappointing pace of recovery. I will then elaborate my rationale for supporting a highly accommodative policy stance.

As you know, since late 2008, the FOMC's standard policy tool, the target federal funds rate, has been maintained at the zero lower bound. To provide further accommodation, we have employed two unconventional tools to support the recovery—extended forward guidance about the future path of the federal funds rate, and large-scale asset purchases and other balance sheet actions that have greatly increased the size and duration of the Federal Reserve's portfolio.

These two tools have become increasingly important because the recovery from the recession has turned out to be persistently slower than either the FOMC or private forecasters anticipated. Figure 6 illustrates the magnitude of the disappointment by comparing Blue Chip forecasts for real GDP growth made two years ago with ones made earlier this year. As shown by the dashed blue line, private forecasters in early 2010 anticipated that real GDP would expand at an average annual rate of just over 3 percent from 2010 through 2014. However, actual growth in 2011 and early 2012 has turned out to be much weaker than expected, and, as indicated by the dotted red line, private forecasters now anticipate only a modest acceleration in real activity over the next few years.

In response to the evolving outlook, the FOMC has progressively added policy accommodation using both of its unconventional tools. For example, since the federal funds rate target was brought down to a range of 0 to ¼ percent in December 2008, the FOMC has gradually adjusted its forward guidance about the anticipated future path of the federal funds rate. In each meeting statement from March 2009 through June 2011, the Committee indicated its expectation that economic conditions ''are likely to warrant exceptionally low levels of the federal funds rate for an extended period.'' At the August 2011 meeting, the Committee decided to provide more specific information about the likely time horizon by substituting the phrase ''at least through mid-2013'' for the phrase ''for an extended period''; at the January 2012 meeting, this horizon was extended to ''at least through late 2014.'' Has this guidance worked? Figure 7 illustrates how dramatically forecasters' expectations of future short-term interest rates have changed. As the dashed blue line indicates, the Blue Chip consensus forecast made in early 2010 anticipated that the Treasury-bill rate would now stand at close to 3½ percent; today, in contrast, private forecasters expect short-term interest rates to remain very low in 2014.

Of course, much of this revision in interest rate projections would likely have occurred in the absence of explicit forward guidance; given the deterioration in projections of real activity due to the unanticipated persistence of headwinds, and the continued subdued outlook for inflation, forecasters would naturally have anticipated a greater need for the FOMC to provide continued monetary accommodation. However, I believe the changes over time in the language of the FOMC statement, coupled with information provided by Chairman Bernanke and others in speeches and congressional testimony, helped the public understand better the Committee's likely policy response given the slower-than-expected economic recovery. As a result, forecasters and market participants appear to have marked down their expectations for future short-term interest rates by more than they otherwise would have, thereby putting additional downward pressure on long-term interest rates, improving broader financial conditions, and lending support to aggregate demand.

The FOMC has also provided further monetary accommodation over time by altering the size and composition of the Federal Reserve's securities holdings, shown in figure 8. The expansion in the volume of securities held by the Federal Reserve is shown in the left panel of the figure. During 2009 and early 2010, the Federal Reserve purchased about $1.4 trillion in agency mortgage-backed securities and agency debt securities and about $300 billion in longer-term Treasury securities. In November 2010, the Committee initiated an additional $600 billion in purchases of longer-term Treasury securities, which were completed at the end of June of last year. Last September, the FOMC decided to implement the ''Maturity Extension Program,'' which affected the maturity composition of our Treasury holdings as shown in the right panel. Through this program, the FOMC is extending the average maturity of its securities holdings by selling $400 billion of Treasury securities with remaining maturities of 3 years or less and purchasing an equivalent amount of Treasury securities with remaining maturities of 6 to 30 years. These transactions are currently scheduled to be completed at the end of this month.

Research by Federal Reserve staff and others suggests that our balance sheet operations have had substantial effects on longer-term Treasury yields, principally by reducing term premiums on longer-dated Treasury securities. Figure 9 provides an estimate, based on Federal Reserve Board staff calculations, of the cumulative reduction of the term premium on 10-year Treasury securities from the three balance sheet programs. These results suggest that our portfolio actions are currently keeping 10-year Treasury yields roughly 60 basis points lower than they otherwise would be. Other evidence suggests that this downward pressure has had favorable spillover effects on other financial markets, leading to lower long-term borrowing costs for households and firms, higher equity valuations, and other improvements in financial conditions that in turn have supported consumption, investment, and net exports. Because the term premium effect depends on both the Federal Reserve's current and expected future asset holdings, most of this effect—without further actions—will likely wane over the next few years as the effect depends less and less on the current elevated level of the balance sheet and increasingly on the level of holdings during and after the normalization of our portfolio.

THE RATIONALE FOR HIGHLY ACCOMMODATIVE POLICY

I have already noted that, in my view, an extended period of highly accommodative policy is necessary to combat the persistent headwinds to recovery. I will next explain how I've reached this policy judgment. In evaluating the stance of policy, I find the prescriptions from simple policy rules a logical starting point. A wide range of such rules has been examined in the academic literature, the most famous of which is that proposed by John Taylor in his 1993 study. Rules of the general sort proposed by Taylor (1993) capture well our statutory mandate to promote maximum employment and price stability by prescribing that the federal funds rate should respond to the deviation of inflation from its longer-run goal and to the output gap, given that the economy should be at or close to full employment when the output gap—the difference between actual GDP and an estimate of potential output—is closed. Moreover, research suggests that such simple rules can be reasonably robust to uncertainty about the true structure of the economy, as they perform well in a variety of models. Today, I will consider the prescriptions of two such benchmark rules—Taylor's 1993 rule, and a variant that is twice as responsive to economic slack. In my view, this latter rule is more consistent with the FOMC's commitment to follow a balanced approach to promoting our dual mandate, and so I will refer to it as the ''balanced-approach'' rule.

To show the prescriptions these rules would have called for at the April FOMC meeting, I start with an illustrative baseline outlook constructed using the projections for unemployment, inflation, and the federal funds rate that FOMC participants reported in April. I then employ the dynamics of one of the Federal Reserve's economic models, the FRB/US model, to solve for the joint paths of these three variables if the short-term interest rate had instead been set according to the Taylor (1993) rule or the balanced-approach rule, subject, in both cases, to the zero lower bound constraint on the federal funds rate. The dashed red line in figure 10 shows the resulting path for the federal funds rate under Taylor (1993) and the solid blue line with open circles illustrates the corresponding path using the balanced-approach rule. In both simulations, the private sector fully understands that monetary policy follows the particular rule in force. Figure 10 shows that the Taylor rule calls for monetary policy to tighten immediately, while the balanced-approach rule prescribes raising the federal funds rate in the fourth quarter of 2014—the earliest date consistent with the FOMC's current forward guidance of ''exceptionally low levels for the federal funds rate at least through late 2014.''

Although simple rules provide a useful starting point in determining appropriate policy, they by no means deserve the ''last word''—especially in current circumstances. An alternative approach, also illustrated in figure 10, is to compute an ''optimal control'' path for the federal funds rate using an economic model—FRB/US, in this case. Such a path is chosen to minimize the value of a specific ''loss function'' conditional on a baseline forecast of economic conditions. The loss function attempts to quantify the social costs resulting from deviations of inflation from the Committee's longer-run goal and from deviations of unemployment from its longer-run normal rate. The solid green line with dots in figure 10 shows the ''optimal control'' path for the federal funds rate, again conditioned on the illustrative baseline outlook. This policy involves keeping the federal funds rate close to zero until late 2015, four quarters longer than the balanced-approach rule prescription and several years longer than the Taylor rule. Importantly, optimal control calls for a later lift-off date even though this benchmark—unlike the simple policy rules—implicitly takes full account of the additional stimulus to real activity and inflation being provided over time by the Federal Reserve's other policy tool, the past and projected changes to the size and maturity of its securities holdings.

Figure 11 shows that, by keeping the federal funds rate at its current level for longer, monetary policy under the balanced-approach rule achieves a more rapid reduction of the unemployment rate than monetary policy under the Taylor (1993) rule does, while nonetheless keeping inflation near 2 percent. But the improvement in labor market conditions is even more notable under the optimal control path, even as inflation remains close to the FOMC's long-run inflation objective.

As I noted, simple rules have the advantage of delivering good policy outcomes across a broad range of models, and are thereby relatively robust to our limited understanding of the precise working of the economy—in contrast to optimal-control policies, whose prescriptions are sensitive to the specification of the particular model used in the analysis. However, simple rules also have their shortcomings, leading them to significantly understate the case for keeping policy persistently accommodative in current circumstances.

One of these shortcomings is that the rules do not adjust for the constraints that the zero lower bound has placed on conventional monetary policy since late 2008. A second is that they do not fully take account of the protracted nature of the forces that have been restraining aggregate demand in the aftermath of the housing bust. As I've emphasized, the pace of the current recovery has turned out to be persistently slower than most observers expected, and forecasters expect it to remain quite moderate by historical standards. The headwinds that explain this disappointing performance represent a substantial departure from normal cyclical dynamics. As a result, the economy's equilibrium real federal funds rate—that is, the rate that would be consistent with full employment over the medium run—is probably well below its historical average, which the intercept of simple policy rules is supposed to approximate. By failing to fully adjust for this decline, the prescriptions of simple policy rules—which provide a useful benchmark under normal circumstances—could be significantly too restrictive now and could remain so for some time to come. In this regard, I think it is informative that the Blue Chip consensus forecast released in March showed the real three-month Treasury bill rate settling down at only 1¼ percent late in the decade, down 120 basis points from the long-run projections made prior to the recession.

LOOKING AHEAD

Recent labor market reports and financial developments serve as a reminder that the economy remains vulnerable to setbacks. Indeed, the simulations I described above did not take into account this new information. In our policy deliberations at the upcoming FOMC meeting we will assess the effects of these developments on the economic forecast. If the Committee were to judge that the recovery is unlikely to proceed at a satisfactory pace (for example, that the forecast entails little or no improvement in the labor market over the next few years), or that the downside risks to the outlook had become sufficiently great, or that inflation appeared to be in danger of declining notably below its 2 percent objective, I am convinced that scope remains for the FOMC to provide further policy accommodation either through its forward guidance or through additional balance-sheet actions. In taking these decisions, however, we would need to balance two considerations.

On the one hand, our unconventional tools have some limitations and costs. For example, the effects of forward guidance are likely to be weaker the longer the horizon of the guidance, implying that it may be difficult to provide much more stimulus through this channel. As for our balance sheet operations, although we have now acquired some experience with this tool, there is still considerable uncertainty about its likely economic effects. Moreover, some have expressed concern that a substantial further expansion of the balance sheet could interfere with the Fed's ability to execute a smooth exit from its accommodative policies at the appropriate time. I disagree with this view: The FOMC has tested a variety of tools to ensure that we will be able to raise short-term interest rates when needed while gradually returning the portfolio to a more normal size and composition. But even if unjustified, such concerns could in theory reduce confidence in the Federal Reserve and so lead to an undesired increase in inflation expectations.

On the other hand, risk management considerations arising from today's unusual circumstances strengthen the case for additional accommodation beyond that called for by simple policy rules and optimal control under the modal outlook. In particular, as I have noted, there are a number of significant downside risks to the economic outlook, and hence it may well be appropriate to insure against adverse shocks that could push the economy into territory where a self-reinforcing downward spiral of economic weakness would be difficult to arrest.

CONCLUSION

In my remarks this evening I have sought to explain why, in my view, a highly accommodative monetary policy will remain appropriate for some time to come. My views concerning the stance of monetary policy reflect the FOMC's firm commitment to the goals of maximum employment and stable prices, my appraisal of the medium term outlook (which is importantly shaped by the persistent legacy of the housing bust and ensuing financial crisis), and by my assessment of the balance of risks facing the economy. Of course, as I've emphasized, the outlook is uncertain and the Committee will need to adjust policy as appropriate as actual conditions unfold. For this reason, the FOMC's forward guidance is explicitly conditioned on its anticipation of ''low rates of resource utilization and a subdued outlook for inflation over the medium run.'' If the recovery were to proceed faster than expected or if inflation pressures were to pick up materially, the FOMC could adjust policy by bringing forward the expected date of tightening. In contrast, if the Committee judges that the recovery is proceeding at an insufficient pace, we could undertake portfolio actions such as additional asset purchases or a further maturity extension program. It is for this reason that the FOMC emphasized, in its statement following the April meeting, that it would ''regularly review the size and composition of its securities holdings and is prepared to adjust those holdings as appropriate to promote a stronger economic recovery in a context of price stability.''

Mr. KUCINICH. I would also like to include in the record of this debate an article from Bloomberg News that talks about how secret Fed loans gave

banks billions that were undisclosed to Congress.

[From: Bloomberg Markets Magazine, Nov. 27, 2011]

SECRET FED LOANS GAVE BANKS $13 BILLION UNDISCLOSED TO CONGRESS

(By Bob Ivry, Bradley Keoun, and Phi Kuntz)

The Federal Reserve and the big banks fought for more than two years to keep details of the largest bailout in U.S. history a secret. Now, the rest of the world can see what it was missing. The Fed didn't tell anyone which banks were in trouble so deep they required a combined $1.2 trillion on Dec. 5, 2008, their single neediest day. Bankers didn't mention that they took tens of billions of dollars in emergency loans at the same time they were assuring investors their firms were healthy. And no one calculated until now that banks reaped an estimated $13 billion of income by taking advantage of the Fed's below-market rates, Bloomberg Markets magazine reports in its January issue.

Saved by the bailout, bankers lobbied against government regulations, a job made easier by the Fed, which never disclosed the details of the rescue to lawmakers even as Congress doled out more money and debated new rules aimed at preventing the next collapse.

A fresh narrative of the financial crisis of 2007 to 2009 emerges from 29,000 pages of Fed documents obtained under the Freedom of Information Act and central bank records of more than 21,000 transactions. While Fed officials say that almost all of the loans were repaid and there have been no losses, details suggest taxpayers paid a price beyond dollars as the secret funding helped preserve a broken status quo and enabled the biggest banks to grow even bigger.

''CHANGE THEIR VOTES''

''When you see the dollars the banks got, it's hard to make the case these were successful institutions,'' says Sherrod Brown, a Democratic Senator from Ohio who in 2010 introduced an unsuccessful bill to limit bank size. ''This is an issue that can unite the Tea Party and Occupy Wall Street. There are lawmakers in both parties who would change their votes now.'' The size of the bailout came to light after Bloomberg LP, the parent of Bloomberg News, won a court case against the Fed and a group of the biggest U.S. banks called Clearing House Association LLC to force lending details into the open.

The Fed, headed by Chairman Ben S. Bernanke, argued that revealing borrower details would create a stigma—investors and counterparties would shun firms that used the central bank as lender of last resort—and that needy institutions would be reluctant to borrow in the next crisis. Clearing House Association fought Bloomberg's lawsuit up to the U.S. Supreme Court, which declined to hear the banks' appeal in March 2011.

$7.77 TRILLION

The amount of money the central bank parceled out was surprising even to Gary H. Stern, president of the Federal Reserve Bank of Minneapolis from 1985 to 2009, who says he ''wasn't aware of the magnitude.'' It dwarfed the Treasury Department's better-known $700 billion Troubled Asset Relief Program, or TARP. Add up guarantees and lending limits, and the Fed had committed $7.77 trillion as of March 2009 to rescuing the financial system, more than half the value of everything produced in the U.S. that year.

''TARP at least had some strings attached,'' says Brad Miller, a North Carolina Democrat on the House Financial Services Committee, referring to the program's executive-pay ceiling. ''With the Fed programs, there was nothing.''

Bankers didn't disclose the extent of their borrowing. On Nov. 26, 2008, then-Bank of America (BAC) Corp. Chief Executive Officer Kenneth D. Lewis wrote to shareholders that he headed ''one of the strongest and most stable major banks in the world.'' He didn't say that his Charlotte, North Carolina-based firm owed the central bank $86 billion that day.

''MOTIVATE OTHERS''

JPMorgan Chase & Co. CEO Jamie Dimon told shareholders in a March 26, 2010, letter that his bank used the Fed's Term Auction Facility ''at the request of the Federal Reserve to help motivate others to use the system.'' He didn't say that the New York-based bank's total TAF borrowings were almost twice its cash holdings or that its peak borrowing of $48 billion on Feb. 26, 2009, came more than a year after the program's creation.

Howard Opinsky, a spokesman for JPMorgan (JPM), declined to comment about Dimon's statement or the company's Fed borrowings. Jerry Dubrowski, a spokesman for Bank of America, also declined to comment.

The Fed has been lending money to banks through its so- called discount window since just after its founding in 1913. Starting in August 2007, when confidence in banks began to wane, it created a variety of ways to bolster the financial system with cash or easily traded securities. By the end of 2008, the central bank had established or expanded ii lending facilities catering to banks, securities firms and corporations that couldn't get short-term loans from their usual sources.

''CORE FUNCTION''

''Supporting financial-market stability in times of extreme market stress is a core function of central banks,'' says William B. English, director of the Fed's Division of Monetary Affairs. ''Our lending programs served to prevent a collapse of the financial system and to keep credit flowing to American families and businesses.''

The Fed has said that all loans were backed by appropriate collateral. That the central bank didn't lose money should ''lead to praise of the Fed, that they took this extraordinary step and they got it right,'' says Phillip Swagel, a former assistant Treasury secretary under Henry M. Paulson and now a professor of international economic policy at the University of Maryland. The Fed initially released lending data in aggregate form only. Information on which banks borrowed, when, how much and at what interest rate was kept from public view.

The secrecy extended even to members of President George W. Bush's administration who managed TARP. Top aides to Paulson weren't privy to Fed lending details during the creation of the program that provided crisis funding to more than 700 banks, say two former senior Treasury officials who requested anonymity because they weren't authorized to speak.

BIG SIX

The Treasury Department relied on the recommendations of the Fed to decide which banks were healthy enough to get TARP money and how much, the former officials say. The six biggest U.S. banks, which received $160 billion of TARP funds, borrowed as much as $460 billion from the Fed, measured by peak daily debt calculated by Bloomberg using data obtained from the central bank. Paulson didn't respond to a request for comment.

The six—JPMorgan, Bank of America, Citigroup Inc. (C), Wells Fargo & Co. (WFC), Goldman Sachs Group Inc. (GS) and Morgan Stanley—accounted for 63 percent of the average daily debt to the Fed by all publicly traded U.S. banks, money managers and investment- services firms, the data show. By comparison, they had about half of the industry's assets before the bailout, which lasted from August 2007 through April 2010. The daily debt figure excludes cash that banks passed along to money-market funds.

BANK SUPERVISION

While the emergency response prevented financial collapse, the Fed shouldn't have allowed conditions to get to that point, says Joshua Rosner, a banking analyst with Graham Fisher & Co. in New York who predicted problems from lax mortgage underwriting as far back as 2001. The Fed, the primary supervisor for large financial companies, should have been more vigilant as the housing bubble formed, and the scale of its lending shows the ''supervision of the banks prior to the crisis was far worse than we had imagined,'' Rosner says.

Bernanke in an April 2009 speech said that the Fed provided emergency loans only to ''sound institutions,'' even though its internal assessments described at least one of the biggest borrowers, Citigroup, as ''marginal.''

On Jan. 14, 2009, six days before the company's central bank loans peaked, the New York Fed gave CEO Vikram Pandit a report declaring Citigroup's financial strength to be ''superficial,'' bolstered largely by its $45 billion of Treasury funds. The document was released in early 2011 by the Financial Crisis Inquiry Commission, a panel empowered by Congress to probe the causes of the crisis.

''NEED TRANSPARENCY''

Andrea Priest, a spokeswoman for the New York Fed, declined to comment, as did Jon Diat, a spokesman for Citigroup.

''I believe that the Fed should have independence in conducting highly technical monetary policy, but when they are putting taxpayer resources at risk, we need transparency and accountability,'' says Alabama Senator Richard Shelby, the top Republican on the Senate Banking Committee.

Judd Gregg, a former New Hampshire senator who was a lead Republican negotiator on TARP, and Barney Frank, a Massachusetts Democrat who chaired the House Financial Services Committee, both say they were kept in the dark.

''We didn't know the specifics,'' says Gregg, who's now an adviser to Goldman Sachs.

''We were aware emergency efforts were going on,'' Frank says. ''We didn't know the specifics.''

DISCLOSE LENDING

Frank co-sponsored the Dodd-Frank Wall Street Reform and Consumer Protection Act, billed as a fix for financial-industry excesses. Congress debated that legislation in 2010 without a full understanding of how deeply the banks had depended on the Fed for survival. It would have been ''totally appropriate'' to disclose the lending data by mid-2009, says David Jones, a former economist at the Federal Reserve Bank of New York who has written four books about the central bank.

''The Fed is the second-most-important appointed body in the U.S., next to the Supreme Court, and we're dealing with a democracy,'' Jones says. ''Our representatives in Congress deserve to have this kind of information so they can oversee the Fed.''

The Dodd-Frank law required the Fed to release details of some emergency-lending programs in December 2010. It also mandated disclosure of discount-window borrowers after a two- year lag.

PROTECTING TARP

TARP and the Fed lending programs went ''hand in hand,'' says Sherrill Shaffer, a banking professor at the University of Wyoming in Laramie and a former chief economist at the New York Fed. While the TARP

money helped insulate the central bank from losses, the Fed's willingness to supply seemingly unlimited financing to the banks assured they wouldn't collapse, protecting the Treasury's TARP investments, he says.

''Even though the Treasury was in the headlines, the Fed was really behind the scenes engineering it,'' Shaffer says.

Congress, at the urging of Bernanke and Paulson, created TARP in October 2008 after the bankruptcy of Lehman Brothers Holdings Inc. made it difficult for financial institutions to get loans. Bank of America and New York-based Citigroup each received $45 billion from TARP. At the time, both were tapping the Fed. Citigroup hit its peak borrowing of $99.5 billion in January 2009, while Bank of America topped out in February 2009 at $91.4 billion.

NO CLUE

Lawmakers knew none of this.

They had no clue that one bank, New York-based Morgan Stanley (MS), took $107 billion in Fed loans in September 2008, enough to pay off one-tenth of the country's delinquent mortgages. The firm's peak borrowing occurred the same day Congress rejected the proposed TARP bill, triggering the biggest point drop ever in the Dow Jones Industrial Average. (INDU) The bill later passed, and Morgan Stanley got $10 billion of TARP funds, though Paulson said only ''healthy institutions'' were eligible.

Mark Lake, a spokesman for Morgan Stanley, declined to comment, as did spokesmen for Citigroup and Goldman Sachs.

Had lawmakers known, it ''could have changed the whole approach to reform legislation,'' says Ted Kaufman, a former Democratic Senator from Delaware who, with Brown, introduced the bill to limit bank size.

MORAL HAZARD

Kaufman says some banks are so big that their failure could trigger a chain reaction in the financial system. The cost of borrowing for so-called too-big-to-fail banks is lower than that of smaller firms because lenders believe the government won't let them go under. The perceived safety net creates what economists call moral hazard—the belief that bankers will take greater risks because they'll enjoy any profits while shifting losses to taxpayers.

If Congress had been aware of the extent of the Fed rescue, Kaufman says, he would have been able to line up more support for breaking up the biggest banks.

Byron L. Dorgan, a former Democratic senator from North Dakota, says the knowledge might have helped pass legislation to reinstate the Glass-Steagall Act, which for most of the last century separated customer deposits from the riskier practices of investment banking.

''Had people known about the hundreds of billions in loans to the biggest financial institutions, they would have demanded Congress take much more courageous actions to stop the practices that caused this near financial collapse,'' says Dorgan, who retired in January.

GETTING BIGGER

Instead, the Fed and its secret financing helped America's biggest financial firms get bigger and go on to pay employees as much as they did at the height of the housing bubble.

Total assets held by the six biggest U.S. banks increased 39 percent to $9.5 trillion on Sept. 30, 2011, from $6.8 trillion on the same day in 2006, according to Fed data.

For so few banks to hold so many assets is ''un-American,'' says Richard W. Fisher, president of the Federal Reserve Bank of Dallas. ''All of these gargantuan institutions are too big to regulate. I'm in favor of breaking them up and slimming them down.''

Employees at the six biggest banks made twice the average for all U.S. workers in 2010, based on Bureau of Labor Statistics hourly compensation cost data. The banks spent $146.3 billion on compensation in 2010, or an average of $126,342 per worker, according to data compiled by Bloomberg. That's up almost 20 percent from five years earlier compared with less than 15 percent for the average worker. Average pay at the banks in 2010 was about the same as in 2007, before the bailouts.

''WANTED TO PRETEND''

''The pay levels came back so fast at some of these firms that it appeared they really wanted to pretend they hadn't been bailed out,'' says Anil Kashyap, a former Fed economist who's now a professor of economics at the University of Chicago Booth School of Business. ''They shouldn't be surprised that a lot of people find some of the stuff that happened totally outrageous.''

Bank of America took over Merrill Lynch & Co. at the urging of then-Treasury Secretary Paulson after buying the biggest U.S. home lender, Countrywide Financial Corp. When the Merrill Lynch purchase was announced on Sept. 15, 2008, Bank of America had $14.4 billion in emergency Fed loans and Merrill Lynch had $8.1 billion. By the end of the month, Bank of America's loans had reached $25 billion and Merrill Lynch's had exceeded $60 billion, helping both firms keep the deal on track.

PREVENT COLLAPSE

Wells Fargo bought Wachovia Corp., the fourth-largest U.S. bank by deposits before the 2008 acquisition. Because depositors were pulling their money from Wachovia, the Fed channeled $50 billion in secret loans to the Charlotte, North Carolina-based bank through two emergency-financing programs to prevent collapse before Wells Fargo could complete the purchase. ''These programs proved to be very successful at providing financial markets the additional liquidity and confidence they needed at a time of unprecedented uncertainty,'' says Ancel Martinez, a spokesman for Wells Fargo.

JPMorgan absorbed the country's largest savings and loan, Seattle-based Washington Mutual Inc., and investment bank Bear Stearns Cos. The New York Fed, then headed by Timothy F. Geithner, who's now Treasury secretary, helped JPMorgan complete the Bear Stearns deal by providing $29 billion of financing, which was disclosed at the time. The Fed also supplied Bear Stearns with $30 billion of secret loans to keep the company from failing before the acquisition closed, central bank data show. The loans were made through a program set up to provide emergency funding to brokerage firms.

''REGULATORY DISCRETION''

''Some might claim that the Fed was picking winners and losers, but what the Fed was doing was exercising its professional regulatory discretion,'' says John Deane, a former speechwriter at the New York Fed who's now executive vice president for policy at the Financial Services Forum, a Washington-based group consisting of the CEOs of 20 of the world's biggest financial firms. ''The Fed clearly felt it had what it needed within the requirements of the law to continue to lend to Bear and Wachovia.''

The bill introduced by Brown and Kaufman in April 2010 would have mandated shrinking the six largest firms.

''When a few banks have advantages, the little guys get squeezed,'' Brown says. ''That, to me, is not what capitalism should be.''

Kaufman says he's passionate about curbing too-big-to-fail banks because he fears another crisis.

''CAN WE SURVIVE?''

''The amount of pain that people, through no fault of their own, had to endure—and the prospect of putting them through it again—is appalling,'' Kaufman says. ''The public has no more appetite for bailouts. What would happen tomorrow if one of these big banks got in trouble? Can we survive that?''

Lobbying expenditures by the six banks that would have been affected by the legislation rose to $29.4 million in 2010 compared with $22.1 million in 2006, the last full year before credit markets seized up—a gain of 33 percent, according to OpenSecrets.org, a research group that tracks money in U.S. politics. Lobbying by the American Bankers Association, a trade organization, increased at about the same rate, OpenSecrets.org reported.

Lobbyists argued the virtues of bigger banks. They're more stable, better able to serve large companies and more competitive internationally, and breaking them up would cost jobs and cause ''long-term damage to the U.S. economy,'' according to a Nov. 13, 2009, letter to members of Congress from the FSF.

The group's website cites Nobel Prize-winning economist Oliver E. Williamson, a professor emeritus at the University of California, Berkeley, for demonstrating the greater efficiency of large companies.

''SERIOUS BURDEN''

In an interview, Williamson says that the organization took his research out of context and that efficiency is only one factor in deciding whether to preserve too-big-to-fail banks.

''The banks that were too big got even bigger, and the problems that we had to begin with are magnified in the process,'' Williamson says. ''The big banks have incentives to take risks they wouldn't take if they didn't have government support. It's a serious burden on the rest of the economy.''

Deane says his group didn't mean to imply that Williamson endorsed big banks.

Top officials in President Barack Obama's administration sided with the FSF in arguing against legislative curbs on the size of banks.

GEITHNER, KAUFMAN

On May 4, 2010, Geithner visited Kaufman in his Capitol Hill office. As president of the New York Fed in 2007 and 2008, Geithner helped design and run the central bank's lending programs. The New York Fed supervised four of the six biggest U.S. banks and, during the credit crunch, put together a daily confidential report on Wall Street's financial condition. Geithner was copied on these reports, based on a sampling of e-mails released by the Financial Crisis Inquiry Commission.

At the meeting with Kaufman, Geithner argued that the issue of limiting bank size was too complex for Congress and that people who know the markets should handle these decisions, Kaufman says. According to Kaufman, Geithner said he preferred that bank supervisors from around the world, meeting in Basel, Switzerland, make rules increasing the amount of money banks need to hold in reserve. Passing laws in the U.S. would undercut his efforts in Basel, Geithner said, according to Kaufman.

Anthony Coley, a spokesman for Geithner, declined to comment.

''PUNISHING SUCCESS''

Lobbyists for the big banks made the winning case that forcing them to break up was ''punishing success,'' Brown says. Now that they can see how much the banks were borrowing from the Fed, senators might think differently, he says.

The Fed supported curbing too-big-to-fail banks, including giving regulators the power to close large financial firms and implementing tougher supervision for big banks, says Fed General Counsel Scott G. Alvarez. The Fed didn't take a position on whether large banks should be dismantled before they get into trouble.

Dodd-Frank does provide a mechanism for regulators to break up the biggest banks. It established the Financial Stability Oversight Council that could order teetering banks to shut down in an orderly way. The council is headed by Geithner.

''Dodd-Frank does not solve the problem of too big to fail,'' says Shelby, the Alabama Republican. ''Moral hazard and taxpayer exposure still very much exist.''

BELOW MARKET

Dean Baker, co-director of the Center for Economic and Policy Research in Washington, says banks ''were either in bad shape or taking advantage of the Fed giving them a good deal. The former contradicts their public statements. The latter—getting loans at below-market rates during a financial crisis—is quite a gift.''

The Fed says it typically makes emergency loans more expensive than those available in the marketplace to discourage banks from abusing the privilege. During the crisis, Fed loans were among the cheapest around, with funding available for as low as 0.01 percent in December 2008, according to data from the central bank and money-market rates tracked by Bloomberg.

The Fed funds also benefited firms by allowing them to avoid selling assets to pay investors and depositors who pulled their money. So the assets stayed on the banks' books, earning interest.

Banks report the difference between what they earn on loans and investments and their borrowing expenses. The figure, known as net interest margin, provides a clue to how much profit the firms turned on their Fed loans, the costs of which were included in those expenses. To calculate how much banks stood to make, Bloomberg multiplied their tax-adjusted net interest margins by their average Fed debt during reporting periods in which they took emergency loans.

ADDED INCOME

The 190 firms for which data were available would have produced income of $13 billion, assuming all of the bailout funds were invested at the margins reported, the data show.

The six biggest U.S. banks' share of the estimated subsidy was $4.8 billion, or 23 percent of their combined net income during the time they were borrowing from the Fed. Citigroup would have taken in the most, with $1.8 billion.

''The net interest margin is an effective way of getting at the benefits that these large banks received from the Fed,'' says Gerald A. Hanweck, a former Fed economist who's now a finance professor at George Mason University in Fairfax, Virginia.

While the method isn't perfect, it's impossible to state the banks' exact profits or savings from their Fed loans because the numbers aren't disclosed and there isn't enough publicly available data to figure it out.

Opinsky, the JPMorgan spokesman, says he doesn't think the calculation is fair because ''in all likelihood, such funds were likely invested in very short-term investments,'' which typically bring lower returns.

STANDING ACCESS

Even without tapping the Fed, the banks get a subsidy by having standing access to the central bank's money, says Viral Acharya, a New York University economics professor who has worked as an academic adviser to the New York Fed.

''Banks don't give lines of credit to corporations for free,'' he says. ''Why should all these government guarantees and liquidity facilities be for free?''

In the September 2008 meeting at which Paulson and Bernanke briefed lawmakers on the need for TARP, Bernanke said that if nothing was done, ''unemployment would rise—to 8 or 9 percent from the prevailing 6.1 percent,'' Paulson wrote in ''On the Brink'' (Business Plus, 2010).

OCCUPY WALL STREET

The U.S. jobless rate hasn't dipped below 8.8 percent since March 2009, 3.6 million homes have been foreclosed since August 2007, according to data provider RealtyTrac Inc., and police have clashed with Occupy Wall Street protesters, who say government policies favor the wealthiest citizens, in New York, Boston, Seattle and Oakland, California.

The Tea Party, which supports a more limited role for government, has its roots in anger over the Wall Street bailouts, says Neil M. Barofsky, former TARP special inspector general and a Bloomberg Television contributing editor.

''The lack of transparency is not just frustrating; it really blocked accountability,'' Barofsky says. ''When people don't know the details, they fill in the blanks. They believe in conspiracies.''

In the end, Geithner had his way. The Brown-Kaufman proposal to limit the size of banks was defeated, 60 to 31. Bank supervisors meeting in Switzerland did mandate minimum reserves that institutions will have to hold, with higher levels for the world's largest banks, including the six biggest in the U.S. Those rules can be changed by individual countries. They take full effect in 2019.

Meanwhile, Kaufman says, ''we're absolutely, totally, 100 percent not prepared for another financial crisis.''

This is all about disclosure and accountability. You know, the Fed's not some kind of hocus-pocus, black box operation. The Fed essentially supplants the constitutional mandate in article I, section 8 that belongs to the Congress of the United States.

Let's look at some recent history here: 2008, subprime meltdown, collateralized debt obligations go back to mortgage-backed securities. Neighborhoods in Cleveland melting down, people losing their homes. The Fed looked the other way.

And we're saying, don't go into the Fed; it will be political. Yes, it's political. We have unemployment because of politics. We have people losing their homes because of politics. We have banks getting uncalculated amounts of money from the Federal Reserve, and we don't even know about it.

Meanwhile, people can't get a loan to keep their home or keep their business.

Audit the Fed? You bet we should audit the Fed. We have to have accountability. It's time the Congress stood up for its constitutional role. Article I, section 8: power to coin and create money.

It's time that we stood up for America's 99 percent. It's time that we stood up to the Federal Reserve that right now acts like it's some kind of high, exalted priesthood, unaccountable in a democracy.

Let's change that by voting for the Paul bill.

Mr. ISSA. I yield 1 minute to the gentlewoman from Wyoming (Mrs. LUMMIS).

Mrs. LUMMIS. Mr. Speaker, before the financial crisis, the Fed's lending to the financial system was minimal, and monetary policy was limited; but since 2008, they've tripled their balance sheet and transacted nearly $16 trillion in loans.

Clearly, Congress has delegated monetary policy to the Fed; and I, for one, am not advocating that we abolish the Fed. But Congress retains oversight responsibility, and Congress should insist on an accurate accounting of the Fed so Members of Congress can better understand monetary policy.

Our colleague, RON PAUL, was instrumental in getting an audit of the Fed's emergency activities during the financial crisis, but restrictions remain in place on examining monetary policy actions such as quantitative easing and assisting failing banks in Europe.

When the Fed's cumulative lending hits the size and scope to be greater than the entire GDP of the United States, it's past time for Congress to insist on transparency.

Mr. CUMMINGS. Mr. Speaker, I reserve the balance of my time.

Mr. ISSA. I yield myself 2 minutes.

Mr. Speaker, it appears as though we agree on certain things. We agree that some transparency is required. We certainly agree, on a bipartisan basis, that what the GAO did, under Dodd-Frank, at a minimum, was a good thing. I think there's no question my colleague who was here earlier, Mr. FRANK, certainly would agree to the numbers, the expansion of the Fed in that period that Mrs. LUMMIS talked about between 2008 and now.

I think we would all agree the Federal Reserve is the people's bank. It is broadly owned by 316 or 320 million Americans.

I served on the board of a public company, one that I founded. I understand that if you have more than 500 stockholders, you have an obligation to considerable disclosure.

Although the Fed is audited to see whether, basically, some numbers are correct or not on a limited basis, the truth is the Federal Reserve is not open and transparent, not even years after they make decisions.

I think the American people have a piercing question right now, one that is not the question that Dr. PAUL was asking when he first wanted to audit the Fed. The question is, Will we be like Greece? Will we be like Germany? Will we be like the trauma that's sweeping over the European Union?

Do we, in fact, know the true numbers? Do we know the extent of the leverage and the policies and the accuracy and the knowledge of the Federal Reserve?

I think calmly we have to ask that question. Do we know what we need to know, or are we willing to not know, in hopes that we won't be political because we don't know?

I've been in Congress for 12 full years at the end of this term, and I've learned one thing: Congress has a tendency to do two things well: nothing at

all, and overreact. I trust today will be a day in which we're in between.

The SPEAKER pro tempore. The time of the gentleman has expired.

Mr. ISSA. I yield myself an additional minute.

We would do something so that we would know more a year from now than we know today. We would not overreact. We would not want to stifle what the Fed has done historically, without an awful lot more study. Changes to an entity like the Central Bank should be done thoughtfully and over time.

My friend, Dr. PAUL, would like to do more than this bill does; but this minimal effort, offered on a bipartisan basis, is offered today because we believe the American people have a right to know, an interest to know, and a need to know.

With that, I reserve the balance of my time.

Mr. CUMMINGS. I yield 1 minute to the gentleman from Missouri (Mr. CLAY).

Mr. CLAY. Mr. Speaker, I rise in support of H.R. 459. This bill directs the Comptroller General to conduct an audit of the Federal Reserve.

Since 1982, the GAO has had authority to audit the Federal Reserve Board and Bank, subject to exceptions for monetary policy-related decisions and activities.

In 2009, Congress provided authority for the GAO to audit actions by the Fed under section 13(3) of the Federal Reserve Act to lend to any single and specific partnership or corporation, notwithstanding the generally applicable monetary policy-related exceptions.

In 2010, the Dodd-Frank Wall Street Reform Act added new audit authorities. In addition, GAO has conducted a number of other reviews of Federal Reserve activities; but we need a full audit, and I urge my colleagues to vote for the bill.

Mr. ISSA. Mr. Speaker, could I inquire how much time is available.

The SPEAKER pro tempore. The gentleman from California has 4¼ minutes remaining. The time of the gentleman from Maryland has expired.

Mr. ISSA. Mr. Speaker, I won't use all of our time.

I have a slightly different opinion than the ranking member's. I believe regular order has been followed on this bill, followed and then some.

This is something that Dr. PAUL has worked on, on a bipartisan basis, with Republican Presidents and Democratic Presidents, with Republican Congresses and Democratic Congresses. The support for this, as you saw here today, goes to Republicans and Democrats, Progressives, Conservatives, Blue Dogs.

The American people want to know. I don't believe the American people are afraid to know. Of course, the American people would not be comfortable with interference with the Fed, with micromanaging policy decisions, with tearing down the institution.

But, in fact, I think that the 9/11 of the financial market, if you will, the meltdown in 2008 and 2009, $1 trillion nearly in TARP money, and countless trillions in expansion of the balance sheet, have taught us one thing: what we don't know can hurt us.

Now, before 9/11 of the financial market, before the meltdown, before Lehman Brothers and Bear, Stearns evaporated, we would have thought, well, there are some very smart people on Wall Street, and we'd have been right. But smart people can be wrong.

We put very good people on the Federal Reserve Board. We choose very good chairmen. Chairman Bernanke was a choice of Republicans and Democrats alike.

But, ultimately, looking over the shoulder by Congress, by my committee, by the Financial Services Committee, just to ask the question, are those numbers undeniable truths brought down on tablets; or are they, in fact, open to second guessing after the fact, questioning of whether or not a model works or whether there is just a small, but meaningful, opportunity for tens of trillions of dollars to fall on the backs of the American people if they got it wrong?

□ 1600

That's the question the American people asked, and after 2008, it's a question Congress must ask.

When Chairman FRANK voted for RON PAUL's bill, perhaps he didn't want it, but he voted for it as did countless Democrats. Ultimately, it was reduced—but not eliminated—in conference. There was some recognition that it needed to be audited.

Today, what we are doing is asking to send to the Senate a piece of legislation that more purely and clearly says: I believe the American people have a right to know. Perhaps the Senate will take up a slightly different version. Perhaps it will be truly a one-time audit. Perhaps it will be limited.

The American people need to hold us in the House and our counterparts in the Senate responsible, that we do know what we need to know and that we will never again say we rely on other people to be so smart that we shouldn't look over their shoulders. That's not the America that I grew up in. It's not the clear and transparent America the American people are asking for.

With that, I urge the passage of this bipartisan bill, and I yield back the balance of my time.

Mr. YOUNG of Florida. Mr. Speaker, I rise in strong support of H.R. 459, the Federal Reserve Transparency Act. I am an original cosponsor of this important measure and I have long supported Representative PAUL's efforts to authorize a full audit of the Federal Reserve by the Government Accountability Office (GAO).

In 2009, I conducted a "We the People Town Hall By Mail" and asked my constituents how they felt about several issues before the Congress. Of the 32,000 Pinellas County residents who responded, 95 percent said they supported a full audit of the Federal Reserve.

The Constitution gives the Congress the authority to coin money and to regulate the dollar's value. In an effort to remove politics from decisions about monetary policy, the Congress outsourced this responsibility to an independent Federal Reserve almost one hundred years ago.

Unfortunately, for too long the Fed has operated in secret. Current law actually prohibits the Congress from having access to all of the Federal Reserve's books. The GAO serves as Congress's watchdog, and should be allowed to audit the Fed just as it does other agencies. Only through increased transparency can the Congress conduct the necessary oversight of the Fed and hold it accountable for the American people. This institution plays an important role in managing the dollar and the American people deserve to know what is being done to our currency.

One of the few good provisions of the Dodd-Frank financial reform legislation was that it permitted a limited audit of the Federal Reserve's response to the financial crisis. What the GAO uncovered in this limited audit was astonishing. Between December 2007 and July 2010, Fed committed trillions of dollars to backstop hundreds of financial institutions. Some of the largest of recipients of this aid were even foreign banks. According to Bloomberg News, "the Fed and its secret financing helped America's biggest financial firms get bigger and go on to pay employees as much as they did at the height of the housing bubble."

Much of this emergency action was run through the Federal Reserve Bank of New York, which at that time was headed by Tim Geithner, who is now President Obama's Treasury Secretary.

The Fed has continued its extraordinary tactics. In addition to holding the federal funds rate at practically zero since December 2008, the Fed has engaged in programs called Quantitative Easing 1, Quantitative Easing 2, and Operation Twist. In 2011 alone, the Fed's balance sheet grew by 20 percent. The Federal Reserve says it will likely hold interest rates at "exceptionally low levels" through 2014 and there is speculation that it will soon implement a third round of quantitative easing.

Mr. Speaker, this legislation has broad support from all sides. In fact, it seems like the only one who opposes H.R. 459 is the Chairman of the Federal Reserve Ben Bernanke. My question would be: "What is there to hide?" We should have passed this legislation long ago, and it is my hope that my colleagues in the Senate will follow the House's lead and act quickly to approve the Federal Reserve Transparency Act so that we can finally shine a light on the Fed's policies.

Mr. GINGREY of Georgia. Mr. Speaker, I rise in strong support of H.R. 459, the Federal Reserve Transparency Act of 2012, and I would like to commend our colleague from Texas, Dr. RON PAUL, who has worked tirelessly as the author of this legislation for a number of years.

With its ability to control monetary supply policy, the Federal Reserve is arguably the most powerful entity of the federal government. Yet, despite this power, current law specifically prevents Congress from fully auditing the monetary policy actions the Fed takes that impact each of us on a daily basis.

Mr. Speaker, as a proud cosponsor of H.R. 459, I believe it is well past time to change that policy. This legislation would simply require the Comptroller General to conduct a full audit of the Federal Reserve before the end of 2012.

At a time when the Federal Reserve has expanded its balance sheet to $3 trillion as of last month, the American people deserve to have transparency and accountability when it comes to our monetary supply policy. I urge all of my colleagues to support H.R. 459.

Mrs. MILLER of Michigan. Mr. Speaker, in America we believe in freedom, in democracy and in the belief that in this country the people rule. And in order for the people to rule responsibly they must have knowledge and information about the handling of our economy.

Unfortunately, the American people are denied the basic information they need on one of the most important pillars of our economy, the Federal Reserve.

Today the Federal Reserve operates in secrecy. It creates money out of thin air, it can make purchases of questionable assets from friendly Wall Street firms and it can loan hundreds of billions of dollars to foreign governments and central banks—all out of the sight of the American people and even policy makers in Washington.

It is time to lift the veil of secrecy by passing H.R. 459, the Federal Reserve Transparency Act.

This bill will allow for a thorough audit of the Fed, including transactions with foreign governments, central banks and the decision making process in setting monetary policy.

We should never fear transparency in a free society—it is vital—and we should embrace it. Today I urge my colleagues to join me in supporting this bill which provides for a long overdue audit of the Fed.

Mr. TIPTON. Mr. Speaker, the ability to provide oversight of the Federal Reserve's dealings is hindered by current law that prohibits the Government Accountability Office from auditing aspects of the Bank's activities including monetary policy matters and transactions with foreign entities. H.R. 459 would remove these and other restrictions on GAO audits of the Federal Reserve, increasing transparency.

It defies common sense that there is currently no full oversight over the Federal Reserve, which sets the monetary policy that impacts every American citizen and holds a balance sheet of $3 trillion. H.R. 459 will increase transparency of the Federal Reserve by allowing a full audit of all aspects of the bank's dealings including the decision-making behind its monetary policy. The ability to fully audit the Federal Reserve is long overdue, and this bill is a victory for all who strive for a more transparent government.

Mr. MICA. Mr. Speaker, I rise in strong support of legislation that will provide greater transparency within our Federal Reserve System.

H.R. 459, the Federal Reserve Transparency Act, requires an audit of that agency. As a cosponsor, I urge my colleagues to join me in voting for this crucial piece of legislation. In order to get our financial house in order, we must take all necessary steps to ensure the Federal Reserve, which sets the conditions for the free market to thrive; is operating in the most efficient manner possible. The auditing of the Federal Reserve is the first step in inspecting this important level of government for financial and regulatory waste and inefficiency.

It was recently revealed that the New York District Federal Reserve had previous knowledge of dangers threatening our financial markets before the financial market collapsed in 2007. The New York Fed, led then by Treasury Secretary Timothy Geithner, had knowledge that certain rates were being manipulated but failed to act. Auditing the Federal Reserve will pinpoint responsibility, foster accountability and provide Congress and the American people with transparency over this powerful Federal entity. Our Nation's central bank should not be exempt from financial audit, especially with the immense financial power it controls. In its hands lies the fate of our country's financial stability.

As I have worked to uncover waste throughout government as Chairman of the House Transportation Committee and as a senior member of the House Oversight and Government Reform Committee, I must insist that our Nation's financial operators be subject to the same level of scrutiny. An audit is the first positive step in that direction, and I will continue to work for passage of the Federal Reserve Transparency Act.

The SPEAKER pro tempore. The question is on the motion offered by the gentleman from California (Mr. ISSA) that the House suspend the rules and pass the bill, H.R. 459, as amended.

The question was taken.

The SPEAKER pro tempore. In the opinion of the Chair, two-thirds being in the affirmative, the ayes have it.

Mr. CUMMINGS. Mr. Speaker, on that I demand the yeas and nays.

The yeas and nays were ordered.

The SPEAKER pro tempore. Pursuant to clause 8 of rule XX, further proceedings on this question will be postponed.

## PRESERVING AMERICA'S FAMILY FARMS ACT

Mr. WALBERG. Mr. Speaker, I move to suspend the rules and pass the bill (H.R. 4157) to prohibit the Secretary of Labor from finalizing a proposed rule under the Fair Labor Standards Act of 1938 relating to child labor, as amended.

The Clerk read the title of the bill.

The text of the bill is as follows:

H.R. 4157

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

**SECTION 1. SHORT TITLE AND FINDINGS.**

(a) SHORT TITLE.—This Act may be cited as the ''Preserving America's Family Farms Act''.

(b) FINDINGS.—Congress finds that—

(1) family farms have a long history and tradition of providing youth with valuable work experience;

(2) Department of Labor regulations should not adversely impact the longstanding tradition of youth working on farms where they can gain valuable skills and lessons on hard work, character, and leadership;

(3) the Department of Labor's proposed regulations would have curtailed opportunities for youth to gain experiential learning and hands-on skills for enrollment in vocational agricultural training;

(4) the proposed regulations would have obstructed the opportunity for youth to find rewarding employment and earn money for a college education or other meaningful purposes;

(5) the proposed regulations would have limited opportunities for young farmers wishing to pursue a career in agriculture at a time when the average age of farmers continues to rise; and

(6) working on a farm has become a way of life for thousands of youth across the rural United States.

**SEC. 2. RULE RELATING TO CHILD LABOR.**

The Secretary of Labor shall not reissue in substantially the same form, or issue a new rule that is substantially the same as, the proposed rule entitled ''Child Labor Regulations, Orders and Statements of Interpretation; Child Labor Violations—Civil Money Penalties'' (published at 76 Fed. Reg. 54836 (September 2, 2011)).

The SPEAKER pro tempore (Mr. DOLD). Pursuant to the rule, the gentleman from Michigan (Mr. WALBERG) and the gentlewoman from California (Ms. WOOLSEY) each will control 20 minutes.

The Chair recognizes the gentleman from Michigan.

GENERAL LEAVE

Mr. WALBERG. Mr. Speaker, I ask unanimous consent that all Members may have 5 legislative days in which to revise and extend their remarks on H.R. 4157.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Michigan?

There was no objection.

Mr. WALBERG. Mr. Speaker, I yield myself such time as I may consume.

I want to first thank my colleague from Iowa, Congressman TOM LATHAM, for introducing this very important legislation. Representative LATHAM is a long-time advocate for farmers and agribusiness, and his leadership in Congress is greatly appreciated.

According to a report on MLive.com, which is a new site from my home State of Michigan, parts of the country are experiencing the worst drought in more than 20 years. Jim Spink, a sixth-generation farmer from Michigan's Liberty Township, said:

> It's going to be one of the years that separates those that are positioned well financially and those that are not.

Unpredictability in the weather and harvest is not a new challenge for American farmers. Quite the contrary, it's a way of life. Farmers work each day under difficult circumstances, growing the food and resources necessary to power this Nation and this world. Often the presence of a son or a daughter working with his or her parents is important to a farm's long-term success.

Federal labor policies recognize the support youth provide to family farms by exempting farmworkers between 14 and 16 years of age from restrictions on agriculture activities. For decades, this exemption has applied to youth working on a farm owned or operated by the parent or an individual standing in place of his or her parent. With farmers facing a tough year with high temperatures and low rainfall, we should continue to support the ability for youth