CONGRATULATIONS PIONEER CITY RODEO

HON. GLENN POSHARD
OF ILLINOIS
IN THE HOUSE OF REPRESENTATIVES
Friday, April 7, 1995

Mr. POSHARD. Mr. Speaker, I rise today to congratulate the Pioneer City Rodeo of Palestine, IL, on being named the best small outdoor rodeo in America. The Pioneer City Rodeo was selected from a field of over 700 small outdoor rodeos by a distinguished panel of livestock contractors, top cowboys, and specialty rodeo acts.

Recently in Las Vegas, NV, the Professional Rodeo Cowboy Association awarded the Pioneer City Rodeo a commemorative flag, ceremonial belt buckle, and a check for $1,000. Continuing an annual tradition, the Pioneer City Rodeo donated their winnings to the Cowboys Crisis Fund to help families of injured cowboys. This is a true showing of cowboy honor and while the Rodeo's selection as the best in America is a grand achievement the example these fine people set is an even greater accomplishment.

Being voted the best small outdoor rodeo in America is a great achievement and I am honored to represent these award winning cowboys in Congress. Congratulations Pioneer City Rodeo, you are the best in America.

FEDERAL RESERVE REFORMS INTRODUCED

HON. LEE H. HAMILTON
OF INDIANA
IN THE HOUSE OF REPRESENTATIVES
Friday, April 7, 1995

Mr. HAMILTON. Mr. Speaker, today I am introducing important legislation that would make substantial improvements in the structure and practices of the Federal Reserve System—the Federal Reserve Reform Act of 1995. Senator BYRON DORGAN is introducing similar legislation in the Senate.

This bill addresses the three issues of great importance to the American economy and our system of democratic government—the public accountability of those who make important monetary policy decisions, the current absence of any channel of formal communication between the Federal Reserve and the administration, and the veil of secrecy surrounding policymaking at the Federal Reserve.

During the past year, the Federal Reserve has demonstrated the power it exerts over the U.S. economy through its ability to influence the level of interest rates. Since February, 1994, the Federal Reserve has raised interest rates seven times for a cumulative increase of 3 full percentage points—from a target Federal Funds rate of 3 percent in early 1994 to 6 percent currently. The recent decline in the housing sector—both sales and starts of single-family homes have fallen significantly during recent months—indicates that the rise in interest rates is starting to slow economic growth and may slow job growth in the months ahead.

The Federal Reserve occupies an anomalous position within the Government of the United States. It is an enormously powerful institution, but it does not conform to the normal standards of Government accountability. Power without proper accountability simply does not fit into the American system of democracy.

Through its control over monetary policy the Federal Reserve affects the lives of all Americans. It has the power to decide who prospers and who fails. The path that the Federal Reserve sets for monetary policy and interest rates affects every businessperson, worker, consumer, borrower and lender in the United States and has a major impact on the overall performance of the economy, as we became painfully aware during the 1990–91 recession and the anemic recovery since.

The independence that the Federal Reserve must have to insulate monetary policy from political pressures also removes the Fed from the normal processes of accountability that apply to every other agency of the Federal Government. We must address a very difficult and perplexing problem—how to make the Federal Reserve more accountable to the American people without jeopardizing its independence and its ability to conduct monetary policy free of political pressure.

No other government agency enjoys the Fed's prerogatives.

Monetary policy is decided in secret, behind closed doors.

The Federal Reserve is not required to consult with Congress or the administration before setting money or interest rate targets, even though its power affects the financial well-being of every American.

The President, who is responsible for the performance of the economy and is blamed if things go wrong, often must wait until late in his term to appoint a new Chairman of the Federal Reserve Board. President Clinton, for example, will not be able to appoint a new Fed Chairman until March 1996.

The Fed's budget is not published in the U.S. Government Budget, even though it spends about $1.7 billion per year. Only 7 percent of Federal Reserve expenditures are detailed in the U.S. Government Budget for fiscal year 1996—the $177 million spent by the Board of Governors.

The presidents of the 12 Federal Reserve Banks, who participate in monetary policy decisions on the Federal Open Market Committee [FOMC], are neither appointed by the President nor confirmed by the Senate.

Even though the Federal Reserve engages in more than $1 trillion in transactions in the money markets each year, most of these activities are exempt from audit by the GAO or any other outside agency.

The bill that I am introducing today aims to make the Federal Reserve more accountable to the American people, not by giving politicians control but by making duly appointed public officials solely responsible for the conduct of monetary policy, by creating a formal channel of communication between the President and the Federal Reserve, and by providing Congress and the American people with more and better information on the Federal Reserve's policies and procedures. This bill updates similar bills I introduced to previous Congresses.

The Federal Reserve Reform Act has six major provisions:

ROLE OF FEDERAL RESERVE BANK PRESIDENTS

First, it would vest sole responsibility for the conduct of monetary policy and open market operations in the seven-member Board of Governors of the Federal Reserve System and would create a special new Federal Open Market Advisory Council through which the presidents of the regional Federal Reserve Banks could advise the Board on monetary policy.

The Federal Reserve System consists of the Board of Governors in Washington and the 12 regional Federal Reserve Banks. The Board of Governors has seven members, who are appointed by the President and confirmed by the Senate to 14-year terms. The governors of the Federal Reserve are thus duly appointed Government officials who are responsible to the President and Congress, and through them to the American people, for their conduct in office.

The Federal Reserve Bank presidents, in contrast, owe their jobs to the Boards of Directors of the regional banks—boards dominated by local commercial banks. Neither the President nor Congress has any role in selecting the presidents of the Federal Reserve Banks Some of the bank presidents are career employees, others have backgrounds in banking, business, and academics; none are duly appointed Government officials. Nonetheless, they participate in monetary policy decisions through their membership on the FOMC, where they cast 5 of the 12 votes that determine monetary policy and interest rates.

The role of the Federal Reserve Bank presidents—and the broader issue of the influence of the Nation's banks and of private interests on the Federal Reserve—has been a source of concern ever since Congress decided to establish the Federal Reserve in 1913.

In the initial draft of the Federal Reserve Act, there was a debate between some Members of Congress and President Wilson over whether the Nation's banks should be allowed to appoint members of the Federal Reserve Board, with the President arguing that there should be no individuals on the Board representing private interests. During the 1920's, when uncoordinated open market operations by the Federal Reserve Banks were disrupting the markets for Treasury securities, Treasury Secretary Andrew Mellon argued that the properly appointed public officials on the Federal Reserve Board should have sole responsibility for regulating open market operations.

And when Congress rewrote the banking laws during the 1930's, President Roosevelt, who proposed to vest sole responsibility for open market operations in the Board, ultimately compromised on a provision of the Banking Act of 1935 under which a rotating group of five Federal Reserve Bank presidents was allowed to share voting responsibility for open market operations with the seven members of the Federal Reserve Board.

This situation, in which private individuals who are neither appointed by the President of the United States nor confirmed by the Senate nonetheless directly participate in monetary policy decisions, is an anomaly in our system of democratic government. It is true that almost all Government agencies make extensive use of private citizens in an advisory status. The Federal Reserve, for instance, has three major advisory panels which meet with the Board of Governors three to four times a year, including the Federal Advisory Council, a panel of 12 bankers which advises the Board of Governors ''on all matters within the jurisdiction of the Board.''

But nowhere other than the Federal Reserve are representatives of private interests permitted to have a vote on Government policy. This is the proper function of Government officials who have either been elected by the people or duly appointed and confirmed in the appropriate manner, and that is the way it should be at the Federal Reserve as well.

The bill that I am introducing today would address this controversy by going back to the first principles laid out by Presidents Wilson and Roosevelt, that properly appointed Government officials should be responsible for the conduct of monetary policy at the Federal Reserve.

First, the bill would dissolve the Federal Open Market Committee and make the Board of Governors of the Federal Reserve responsible for monetary policy and open market operations. Second, it would create a Federal Open Market Advisory Council, through which the presidents of the 12 Federal Reserve Banks could advise the Board of Governors on regional economic conditions and other factors affecting the conduct of monetary policy and open market operations. The Bank presidents would no longer have a vote on monetary policy, but the Board of Governors would still have the benefit of their advice.

Power without accountability does not fit the American system of democracy. In no other government agency do private individuals make government policy. The Federal Reserve Reform Act 1995 will now apply this same principle of democracy to the Federal Reserve.

CONSULTATION ON ECONOMIC POLICY

Second, it would require the Secretary of the Treasury, the Chairman of the Council of Economic Advisers, and the Director of the Office of Management and Budget to meet three times a year on a non-voting basis with the Board of Governors, to consult on monetary and fiscal policy.

Two of the required meetings would take place just before the FOMC sets its annual money growth targets in February and July and reports to Congress, as required by the Full Employment and Balanced Growth Act of 1978. The third meeting would occur in the fall at the start of the administration's annual budget cycle. These meetings will bring together the key members of the fiscal and monetary policymaking teams.

The purpose of the meetings is to improve the flow of information between the administration and the Federal Reserve. Currently, there is no formal channel of communication between the President and the Fed. At times, various Presidents and their economic advisers have been reduced to carrying on policy disputes by publicly sniping at the Fed through the press.

In the past, the Fed Chairman and the Treasury Secretary have tried to maintain some communication through informal meetings, but this process depends too heavily on the personalities involved. While Nicholas Brady was Treasury Secretary, the process apparently broke down and the meetings became very sporadic, while I understand that Chairman Greenspan and former Treasury Secretary Lloyd Bentsen worked together very well. But with the appointment of a new Treasury Secretary, Robert Rubin, the process will have to be sorted out all over again.

But informal meetings are not enough. These meetings do not involve all the major participants in monetary policy decisions and this process requires no formal presentation or discussion of economic goals or plans. Under the Federal Reserve Reform Act, the administration will have a formal avenue to present its program for the economy to the Federal Reserve Board and lay out its goals and targets for monetary policy. The members of the Board will also have an avenue to convey their concerns about fiscal policy to the administration. Communication will flow both ways.

TERM OF THE CHAIRMAN OF THE FEDERAL RESERVE

Third, the bill would allow the President to appoint a Chairman of the Federal Reserve Board—with the advice and consent of the Senate—1 year after taking office, at the time when the first regular opening would occur on the Federal Reserve Board. This would make the Fed Chairman's term basically coterminous with the term of office of the President of the United States.

The current chairman of the Board of Governors, Alan Greenspan, was appointed by President George Bush and will hold that office until March 1996, more than 3 years into President Clinton's term. Fortunately, Chairman Greenspan and President Clinton appear to work well together. Even though Mr. Greenspan was not appointed by President Clinton, this does not appear to have caused any significant problems with monetary policy or the progress of the economy. But if they had not been able to work together, the result could have been serious damage to the American economy and a paralysis of economic policy. This is a risk the country should not take.

The Federal Reserve Reform Act would address this by having the President appoint the Fed Chairman to a 4-year term beginning 1 year after taking office, when there will be a new vacancy on the Board in any event. Each appointee will still be subject to Senate confirmation, as under current law. Giving the President 3 years of a term with a Federal Reserve chairman of his own choosing is surely preferable to the possibility under current law of a lengthy period where the President and Fed chairman cannot work together.

IMMEDIATE DISCLOSURE OF CHANGES IN MONETARY POLICY

Fourth, this bill would require the FOMC to disclose immediately any changes in the targets of monetary policy, including its targets for monetary aggregates, credit aggregates, prices, interest rates, or bank reserves.

This provision would codify the Fed's new practice of announcing policy decisions immediately, which it implemented with the first of its recent increases in interest rates on February 4, 1994. Prior to that time, the Fed would keep its policy decision secret. Any change in monetary policy or interest rate targets would have to be inferred by the financial markets and investors from the Fed's subsequent actions. This process was akin to reading tea leaves or gazing into crystal balls, and gave powerful financial institutions that could pay enormous salaries to professional Fed-watchers an advantage over small investors in Indiana and much of the rest of the Nation.

I am very pleased by the Fed's decision to announce its policy decisions immediately. It was a change that I and other members of Congress had been recommending for some time and I think it was an excellent decision. Small investors now have the same information at the same time as the money-center banks and other financial institutions. While my bill would not make any changes in the Fed's new procedures, it would write them into law, confirming the approval of Congress for what the Fed has done.

GAO AUDITS OF THE FEDERAL RESERVE

Fifth, the bill would permit the Comptroller General to conduct more thorough audits of Federal Reserve operations, by removing selected current restrictions on GAO access to the Federal Reserve.

The General Accounting Office is the watchdog of Congress. It carries out that responsibility through financial and program audits of government agencies. These audits are of tremendous value to Congress. Not only do they ferret out waste, fraud and abuse, they perform the even more important function of telling Congress when programs are not working and where programs can be improved.

For many years, from the mid-1930's to the late 1970's, the Federal Reserve was exempt from GAO audits along with the other bank regulatory agencies, on the grounds that it funds were not appropriated by Congress. In 1978, the Federal Banking Agency Audit Act authorized the GAO to audit the bank regulatory agencies, allowing full audits of the Comptroller of the Currency and the Federal Deposit Insurance Corporation and limited audits of the Federal Reserve. Since then, the GAO has conducted numerous audits of the Fed's regulatory activities. These audits have provided useful suggestions for reducing costs at the Federal Reserve, improving regulatory programs, and strengthening the banking system with no noticeable harm to the Federal Reserve or its effectiveness in regulating member banks.

Currently, the GAO is prohibited access to any Federal Reserve function involving, first, transactions with a foreign central bank or foreign government, second, any deliberations or actions on monetary policy matters or third, any transactions made under the direction of the FOMC. Thus, even though the Federal Reserve engages in more than $1 trillion in transactions in the money markets each year, most of these activities are exempt from audit by the GAO or any other government agency.

My bill would remove the last two restrictions, and thus provide for more thorough audits of the Fed, while retaining the restriction against GAO access to transactions with foreign central banks or foreign governments.

PUBLICATION OF FEDERAL RESERVE BUDGET

The final provision of the bill would require that the Federal Reserve's annual budget be published in the Budget of the U.S. Government. The Fed would submit its budget for the current year and the two following years to the President by October 16 of each year, and the President would be required to print the Fed's budget in the Government Budget without change.

The Federal Reserve's expenditures are not subject to approval by either the President or Congress, unlike the budgets of other government agencies.

Despite the fact that the Federal Reserve takes in and spends billions of dollars each year, the Federal Reserve's budget is not conveniently available to Congress or the public. Only a small fraction of the Fed's $1.6 billion of operating expenses were included in the U.S. Government Budget for fiscal year 1996—just the $177 million of expenses incurred by the Board of Governors in Washington. The details on this part of the Fed's budget, only 7 percent of the Federal Reserve's total spending, appeared in Appendix of the Budget, at the very end of the section entitled ''Government-Sponsored Enterprises.''

During 1996, the revenues of the Federal Reserve System will be about $20 billion. A small fraction of these revenues, less than $1 billion, will consist of payments by banks for services provided by the Fed. Most will consist of interest received from the Treasury on the Fed's holding of U.S. Government securities, which the Fed acquired during open market operations conducted for monetary policy purposes. Out of this $20 billion, paid mostly by taxpayers, the Federal Reserve will incur approximately $1.7 billion in operating expenses. About $1 billion of this will be for personnel costs. The rest will be for supplies, travel expenses, telephone and postage, printing money, maintenance of equipment, amortization of buildings, etc. The remainder of the Fed's revenues will be returned to the Treasury, where it is listed in the Budget as an offsetting receipt.

The Federal Reserve Reform Act will not reduce the Federal Reserve's control over its own budget. The bill will not subject the Federal Reserve to the Congressional appropriations process, nor will it give either Congress or the administration any control over the Federal Reserve's spending. All it does is require that the data be published conveniently in the U.S. Government Budget, where spending by every other government agency is already listed. This includes the Supreme Court, which has its budget published in the Government budget without any loss of independence.

Adopting the bill would thus implement a basic principle of democracy that no Government agency should take in and spend billions of dollars without having its budget readily accessible to the public.

In conclusion, in our Nation the Government must be accountable to the people. The Federal Reserve, with its enormous power over the economy and the well-being of the American people, does not meet the normal standards of accountability in a democracy. The bill that I am introducing today will make the Fed more accountable without impairing its ability to conduct monetary policy. The bill does not impose presidential or congressional or other outside controls on Fed policy. Instead, my bill addresses the complex problem of increasing Federal Reserve accountability in a democratic society without jeopardizing the Federal Reserve's independence or injecting politics into monetary policy.

In the 80 years since the Federal Reserve System was created, Congress has made a number of changes in its structure and procedures, adding responsibilities and powers from time to time and periodically revising its relationship with Congress and the administration. The bill that I am introducing today continues this process by proposing a handful of evolutionary changes in the practices and structure of the Federal Reserve.

THE BALANCED BUDGET ENFORCEMENT ACT OF 1995

HON. PETER J. VISCLOSKY

OF INDIANA

IN THE HOUSE OF REPRESENTATIVES

Friday, April 7, 1995

Mr. VISCLOSKY. Mr. Speaker, today, I am joined by our colleagues, Representatives CHARLIE STENHOLM, CALVIN DOOLEY, and TOM BARRETT, in introducing the Balanced Budget Enforcement Act of 1995. This legislation would put in place tough, new measures to reform the budget process and eliminate the Federal budget deficit by the year 2002.

I cosponsored the predecessors to this bill when they were introduced in the 102d and 103d Congresses by our former colleagues, Leon Panetta and Tim Penny. This Balanced Budget Enforcement Act of 1995 would force us to start now and begin bringing the budget into balance by the year 2002. It would do so by setting spending caps and using across-the-board cuts if the caps aren't met. Here's how:

THE BALANCED BUDGET ENFORCEMENT ACT OF 1995 SUMMARY

(1) Deficit Reduction Targets (in addition to the amounts required by current law) to reach balance in 2002.

	1996	1997	1998	1999	2000	2001	2002	Total
Discretionary caps	12.9	30.1	53.9	73.8	98.9	121.7	144.6	535.9
Entitlement/revenue scorecard	31.9	59.6	80.6	105.6	125.3	147.4	169.4	719.9
Debt service	1.7	6.2	13.6	24.2	38.4	56.2	77.9	218.1
Grand total	46.5	95.9	148.1	203.6	262.6	325.3	391.9	1,473.9

(2) Setting Sound Economic Estimates: The President appoints a ''Board of Estimates,'' consisting of the Chairman of the Federal Reserve and four private citizens nominated by House and Senate party leaders. The Board must choose either CBO's or OMB's estimates of how much deficit reduction is needed in that Session. The Board's choices would be binding on the President and Congress, so that the deficit reduction requirement for each would be identical. Finally, the Board would meet again after adjournment to pick either CBO's or OMB's estimates of how much deficit reduction was actually accomplished by Congress during the Session.

(3) Requirement of President to Submit Balanced Budget: The President must propose a budget that will reach balance by 2002. Further, the President's budget must use the assumptions chosen by the Board of Estimates, meet all discretionary caps and entitlement/revenue deficit reduction targets, achieve balance in 2002 and each year thereafter, and be voted on by Congress.

(4) Requirement of Budget Committees to Report Balanced Budget: Likewise, the congressional budget resolution must lay out a plan to reach balance by 2002. Budget resolutions also must use the estimating assumptions chosen by the Board of Estimates, meet all discretionary caps and entitlement/revenue deficit reduction targets, and achieve balance in 2002 and each year thereafter.

(5) Enforcement:

A. Discretionary savings—Appropriations. The discretionary savings will be achieved by keeping appropriations bills within a single annual cap, and enforced by across-the-board sequestration of discretionary programs.

B. Entitlement/revenue savings—Reconciliation. The entitlement/revenue deficit reduction priorities will be set through the annual budget process. The budget resolution (conference agreement) will include a reconciliation directive targeting by committee the dollar amount of deficit reduction to be achieved from entitlements and/or revenues and will generate a ''spin-off bill'' (to be sent to the President) putting those targets into law.

C. Sequestration: Overall reconciliation requirements will be enforced by sequestration; the type of sequestration in any year depends on whether a spin-off bill has been enacted.

(1) Targeted sequestration to enforce reconciliation: (applies if a spin-off bill has been enacted, either as a result of a budget resolution or, later, as a title in a reconciliation bill). If a committee misses its entitlement target, entitlement programs within that committee's jurisdiction will be sequestered by a uniform percentage to meet the target. If revenues do not meet the revenue target, a uniform personal and corporate surtax will be imposed to meet the target.

(2) Comprehensive sequestration: (applies if a spin-off bill has not been enacted; this would generally occur if the President first vetoes the spin-off bill, then vetoes a reconciliation bill containing the committee targets). There will be a comprehensive sequestration of entitlement spending and some revenue provisions in the amount needed to hit the overall target for entitlement/revenue deficit reduction. For revenues, a surtax would be imposed upon personal annual incomes greater than $250,000 and corporate incomes over $10 million. This formula will produce $4 in entitlement spending cuts for every $1 in revenue increases.

(6) Tax cuts/Investment: Tax cuts and/or investment policies can be enacted if they are paid for.

I believe that balancing the budget is our moral responsibility as Members of Congress. I have always supported a balanced budget, and the responsibility to achieve this is not one that I take lightly. Over the years, I have frequently taken the political road less traveled in the name of deficit reduction. When I am in northwest Indiana, I tell my constituents that I am opposed to cutting their taxes because it would undermine serious efforts to reduce the deficit. In March, I was one of only six Democrats to support the rescissions bill because I believe we need to start making tough spending decisions now. In January, I supported a constitutional amendment to balance the budget for the first time because I finally lost