The Federal Reserve's Coalition in Congress

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Abstract: The Federal Reserve's coalition in Congress changes over time with the mandate the Federal Reserve is pursuing. When the Fed is reducing inflation, the Right supports it while the Left attacks it. When the Fed's focus shifts to reviving employment, the coalitions reverse and the Left supports the Fed while the Right attacks it. I analyze a new dataset of all congressional legislative proposals since 1973 that would reduce the Fed's political independence from Congress. I find that cosponsors of these anti-Fed proposals move from left to right as the Fed's priority shifts from price stability to full employment. I also examine roll-call voting on an anti-Fed proposal that was approved in the House of Representatives in 2012. Voting patterns on this "Audit the Fed" proposal reveal that the Fed's congressional coalition is now solidly left-wing, with attacks emanating from the Right. This reflects a combination of macroeconomic conditions – reducing unemployment has been the Fed's priority during the Great Recession – and the Right's antipathy to the Fed's support of foreign central banks during the financial crisis.

1. Introduction

The Federal Reserve System (the Fed) is a creation of the U.S. Congress. The Fed was established by an Act of Congress in 1913 and the Congress can revise its founding legislation at any time, with the support of the president. The Fed's political independence is thus endogenous to the level of support the Fed maintains within the U.S. political system. In this paper, I argue that the Fed's congressional coalition is not constant but changes over time with the mandate the Fed is pursuing. Since the 1970s, the Fed has operated under a "dual mandate" to achieve price stability and full employment. When the Fed is pursuing its price stability mandate, the Right supports it and the Left attacks it. But when macroeconomic conditions change such that the Fed prioritizes its full employment mandate, the coalitions reverse and the Left supports it while the Right attacks it. In short, as the priorities of the Fed change from controlling inflation to promoting employment, the Fed becomes a natural ally of the Left and an adversary of the Right.

This argument has roots in the literature on how members of Congress and presidents take actions to constrain the actions of those to whom they delegate (Moe 1990, McCubbins, Noll, and Weingast 1987, Weingast 1984).[1] One relevant finding from this literature is that members of Congress from either side of the ideological spectrum may have reasons to rein in the agencies to which they have delegated authority (Weingast and Moran 1983). For example, the National Labor Relations Board (NLRB), which was created by a Democratic congress and president in 1935 as a mechanism for protecting workers against employers, is not always supported by Democrats and opposed by Republicans. As Moe (1982) shows, partisan support for the NLRB has changed over time in Congress due to changes in the economic and political environment. Similarly, Weingast (1984) illustrates that the Federal Trade Commission (FTC)

[1] For a review of this literature, see Miller (2005).

becomes less consumer-oriented and more pro-business as the Congress becomes more right-wing. These findings suggest that the coalition of politicians that support or oppose an independent agency's actions can change over time as either the agency or economic conditions change.

My argument is that the congressional coalitions that support or oppose the Federal Reserve change over time with changes in macroeconomic conditions and with interpretations of those conditions by Fed policymakers. I draw on the partisan political business cycle literature to identify the macroeconomic policy preferences of the Fed's congressional coalitions (Hibbs 1977, 1979, Alesina and Rosenthal 1995, Alesina, Roubini, and Cohen 1997). Political business cycles are cycles in macroeconomic variables – output, unemployment, inflation – induced by the electoral cycle (Drazen 2008). "Partisan" political business cycles are fluctuations in macroeconomic variables between electoral cycles resulting from leaders having different policy objectives. In partisan models, cycles are induced by differences among political parties in their ideology and in their economic goals. The basic partisan model is due to Hibbs (1977) who recognized that class-based parties hold different preferences over inflation and unemployment. Left-wing parties draw their support from low- and middle-income voters who are harmed more by unemployment than inflation while right-wing parties represent high-income citizens, capitalists, and net savers who are more concerned with inflation than unemployment (Hibbs 1979, Hibbs, Rivers, and Vasilatos 1982). Thus, in a two-party system, the right-wing party and the left-wing party are characterized by differences in the relative weight that they place on unemployment or inflation such that the left-wing party will pursue a more expansionary monetary policy than the right-wing party when it is in office (Alesina and Rosenthal 1995). The key insight from this literature is that, because the distributional incidence of inflation and unemployment vary across party constituencies, political parties will have different macroeconomic objectives.

What unites the insight that the Fed requires ongoing congressional support and the insight that political parties put different weights on inflation and unemployment is that the Fed is required by law to pursue both the Right's objective of price stability and the Left's full employment goal (Goldberg 2013). My claim is that the dual mandate – a political compromise of the 1970s – allows the Fed to garner congressional support through periods of either high inflation or high unemployment. When inflation is high and volatile and the Fed is pursuing its price stability mandate, I expect it to receive political support from the Right (Republicans), which has an objective economic interest in low and stable inflation. By contrast, when the Fed is pursuing its full employment mandate, it will find political support from the Left (Democrats), whose constituents have economic interests aligned with full employment. The argument is that the Fed's support coalition varies between the Left and the Right depending on which element of the dual mandate takes precedence at any point in time. When the Fed gives priority to reducing inflation it is supported in Congress by the Right and opposed by the Left. When the Fed gives priority to reducing unemployment, it is supported by the Left and opposed by the Right.

To illustrate the point that Federal Reserve policy priorities have varied with macroeconomic circumstances and with policymakers' understanding of the economy, **Figure 1** plots inflation and unemployment rates during the tenures of three recent Fed chairmen. Even though price stability had been established by Congress as an explicit goal of policy by 1975, inflation remained high and volatile until Paul Volcker took over as chairman. Under Volcker, the Fed took full responsibility for long-run price stability and began the process of disinflation even at the cost of a sharp increase in unemployment.[2] During the Volcker era, the economy suffered two recessions and unemployment rose above 10 percent while core inflation fell to about 3 percent. When Alan Greenspan became chairman in 1987, he inherited this moderate level of inflation and an improving employment situation. As inflation fell further and stabilized, Greenspan turned to the Fed's other mandate, emphasizing "maximum sustainable economic growth" in the context of price stability (quoted in Kahn and Taylor 2014, 13). When Ben Bernanke succeeded Greenspan, core inflation was down to about 2 percent and unemployment was close to 5 percent and this moderate environment seemed likely to continue. But the onset of the 2007 financial crisis and subsequent recession led Bernanke to give priority to the full employment component of the Fed's mandate, making the unemployment gap a key indicator of the likely future path of policy (Thornton 2012).[3]

I evaluate the claim that the Fed's congressional coalition changes with macroeconomic conditions and the Fed's interpretation of these conditions by way of an original dataset of congressional efforts to rein-in the independence of the Federal Reserve. The dataset cumulates all legislation since 1973 that would require the Fed to submit to more scrutiny by the General Accountability Office (GAO), the independent, nonpartisan agency that works for Congress and is often called the "congressional watchdog." The GAO's mission is to support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of federal government agencies. Its authority is not restricted to auditing the financial records of agencies as its mandate allows it to go much deeper, assessing the efficiency

[2] Kahn and Taylor (2014) and Schonhardt-Bailey (2013) systematically analyze how Volcker shifted the Fed's focus to price stability during his tenure.

[3] The unemployment gap is the difference between the actual unemployment rate and the nonaccelerating inflation rate of unemployment (NAIRU) provided by the Congressional Budget Office (CBO). It is a comparison of the actual unemployment rate with an equilibrium unemployment rate that would tend neither to increase nor decrease the inflation rate.

of program implementation as well as the evaluation of program results. Thus, efforts to expand GAO audits of the Fed imply greater congressional oversight of monetary policy (Labonte 2014). The dataset consists of all bill proposals in the U.S. House of Representatives since 1973 that would subject the Fed to more extensive audits by the GAO – a total of 38 proposals. **Appendix A** lists these proposals. Although no new audit proposal has been enacted into law since 1978, these proposals can serve as an observable record of sentiment toward the Federal Reserve in Congress.

I exploit two types of congressional behaviors to test inferences about the evolving nature of the Federal Reserve's political coalition. First, I consider cosponsoring behavior. Under the assumption that cosponsoring a GAO audit proposal indicates a representative's support for greater scrutiny of the Fed, I find that the characteristics of cosponsors change with the mandate the Fed is pursuing. When the Fed is reducing inflation, the cosponsors of these proposals tend to be from the left side of the political spectrum. But when the Fed is trying to lower the unemployment rate, cosponsors are overwhelmingly right-wing.

Second, I examine roll-call voting on the final passage of a GAO audit bill that progressed to a floor vote in 2012. This proposal was sponsored by Representative Ron Paul (R-TX), a fringe figure on monetary policy issues usually associated with efforts to abolish the Fed and resurrect the gold standard. However, Paul's "Audit the Fed" proposal was very popular, garnering 273 cosponsors and passing the House by a lopsided vote of 327-98.[4] The purpose of the proposal was to extend the GAO's right to inspect the Fed's monetary policy decision-making and its relations with foreign central banks, both of which were previously off-limits.

[4] The bill stalled in the Senate due to opposition from the Democratic leadership.

In analyzing the covariates of voting on this proposal, I find that left-wing legislators positioned themselves as defenders of the Fed (by voting against the bill) while right-wing members attacked the Fed for aggressively fighting unemployment via its quantitative easing programs and for providing foreign central banks with hundreds of billions of dollars via currency swap agreements. All but one Republican representative voted in favor of Paul's proposal while Democrats split about evenly (89-97), largely on ideological grounds. Focusing only on Democrats so as to eliminate concerns about the role of presidential election-year politics, I find that right-wing Democrats were as much as 67 percentage points more likely to vote "yes" on this anti-Fed bill than left-wing Democrats. As the Fed focused on reviving employment during worst recession since the 1930s, the Left became the defender of the Fed while the Right challenged the Fed to be more concerned with inflation and less "global".

The plan of the paper is as follows. In Section 2, I review the history of congressional oversight of the Fed and present the dataset of legislative proposals to enhance the GAO's authority over the Fed. Section 3 contains empirical analyses of congressional cosponsorship of these proposals. Section 4 assesses the Fed's coalition in Congress by analyzing roll-call voting on the "Audit the Fed" proposal of 2012. Section 5 concludes.

2. The Dual Mandate and GAO Oversight of the Federal Reserve

Congress first made the "dual mandate" explicit in House Resolution 133, which was approved in March 1975 (Kahn and Taylor 2014, Steelman 2011, Judd and Rudebusch 1999). Language from this resolution was later incorporated into the Federal Reserve Reform Act of 1977, which amended the Federal Reserve Act to define the Fed's monetary policy objectives as price stability and full employment:

> "The Board of Governors of the Federal Reserve System and the Federal Open Market Committee shall maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices and moderate long-term interest rates."[5]

The goal of "maximum employment" is generally interpreted as maximum *sustainable* employment, meaning the highest level of employment that can be maintained without upward pressure on inflation; i.e., "full employment" or the NAIRU. The goal of "moderate long-term interest rates" is understood to be a by-product of price stability since stable prices induce moderate long-term interest rates. Hence, the Fed's decision-making is guided by a dual mandate wherein full employment and price stability are given equal footing. These objectives were reaffirmed in the Full Employment and Balanced Growth Act of 1978, also known as the Humphrey-Hawkins Act.[6]

How does the Congress ensure that the Fed strives to attain these goals? Budgetary leverage is not an option because, unlike other nominally-independent agencies such as the NLRB and the FTC, the Fed is self-financed and pays its operating costs from the interest it earns on its assets. Thus, there is no regular avenue for the Congress to use budget control to achieve its monetary policy goals. In practice, this has meant that the GAO has played an outsized role in congressional oversight of the Fed. While oversight takes other forms as well, such as statutorily-required semi-annual hearings with the House Financial Services Committee and the Senate Banking, Housing, and Urban Affairs Committee, there is no dedicated body within Congress with the expertise to evaluate the Fed's policy actions. As a result, direct oversight of the Federal Reserve via hearings is typically sporadic and *ad hoc*, with legislators

[5] Public Law 95–188, 91 Stat. 1387, enacted November 16, 1977.

[6] P.L. 95–523, enacted October 27, 1978.

regularly displaying substantial ignorance of monetary policy issues (Schonhardt-Bailey 2013, Beck 1990, Woolley 1984). This is consistent with principal-agent theories of Congress and the bureaucracies that show that direct surveillance through hearings is more costly than other mechanisms that vest voters or interest groups with authority to monitor agency behavior (McCubbins and Schwartz 1984). However, in the case of the Fed, voters and interest groups other than bankers do not have direct access to Fed policymaking.[7] As a result, Congress has tended to rely on GAO audits for enhanced oversight (Labonte 2014).

The GAO is described as Congress's "watchdog" because its mission is to support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of federal agencies. The GAO's authority is broad and extends to assessing the efficiency of program implementation and evaluating program results. Thus, a potential consequence of greater GAO oversight of monetary policy is that it may undermine the Fed's political independence and reduce its inflation-fighting credibility. For this reason, Fed officials have *always* opposed greater GAO oversight (Labonte 2014).[8] However, Congress has debated and changed GAO oversight over time, providing a record of how support and opposition to the Fed has changed with the economic and political landscape.

Prior to the founding of the GAO in 1921, the Fed was audited by the Treasury Department. From 1921 to 1933, the Fed's Board of Governors was under the GAO's scrutiny but only for administrative expenses. However, with the Banking Act of 1933, Congress stripped away this limited audit capacity when it determined that the Board's administrative expenses

[7] According to Woolley (1984, 28), "Bankers are the sole interest group with the combination of access and technical expertise required to successfully affect [Fed] policy choice."

[8] The political history of GAO audits through 1975 is described by Federal Reserve Vice-Governor George Mitchell in testimony before the House Subcommittee on Domestic Monetary Policy (United States Congress 1975).

were not paid with government funds or appropriated moneys. This, and other measures in the Banking Act of 1933, helped consolidate the Board's authority and increase its political independence from both the Treasury and Congress.[9] As a result, the GAO was not allowed to audit the Fed at all between 1933 and 1978. While other auditing mechanisms existed, including internal audits and external reviews by private accounting firms, none of these oversight measures impinged on the Fed's monetary policy independence.

In 1978, Congress restored a role for the GAO with passage of the Federal Banking Agency Audit Act (P.L. 95-320). This Act gave the GAO power to audit the Fed's *non-monetary* policy functions, including its regulatory duties and its role in the payments system. After much debate, Congress decided to exempt monetary policy from GAO audits due to concerns about infringing on the Fed's political independence (United States Congress 1978). Congress also exempted the Fed's relations with foreign central banks from GAO review on the grounds that the release of sensitive proprietary information might damage relations with foreign governments and thereby complicate U.S. international financial policymaking.

In congressional hearings, the U.S. Chamber of Commerce and numerous other actors opposed the 1978 proposal, even with its exemption for monetary policy, on the grounds that "it threatens the necessary independence of our nation's central bank from political pressures."[10] Testifying on behalf of the Fed, Vice Chairman of the Board of Governors Stephen Gardner elaborated on this concern:

> "We are aware that an exception was granted for monetary policy deliberations, decisions and actions, including discount window operations, reserves of member banks…and open

[9] For a historical account of the oversight and governance of the Fed, see United States Congress (1985).

[10] Statement by Jack Carlsen, Vice President and Chief Economist of the Chamber of Commerce of the United States (United States Congress 1978, 50).

> market operations. However, we are also aware that the breadth of this exemption was granted somewhat reluctantly in the House of Representatives, and that some members believe that the scope of this exemption should be reconsidered in the near future. In any event, even if the GAO is not authorized to "audit" the monetary policy operations, their pervasive involvement in the System's other functions could well give rise to other opportunities for GAO audits to be misused in this regard. We are not unmindful of the fact that historically many proponents of GAO audits of the Federal Reserve have had as their principal objective the lowering of interest rates" (United States Congress 1978, 64).

This testimony reveals that Fed officials were cognizant that Congress had previously used GAO audits as leverage to gain influence over monetary policy, and that Congress might do so again in the future under certain economic conditions. As Vice Chairman Gardner put it, "*Exemption from GAO audit is one of the main pillars of Federal Reserve independence*" (United States Congress 1978, 64. Emphasis added).

The Federal Banking Agency Audit Act of 1978 remains the *status quo* on the GAO's authority over the Fed. Since 1978, the GAO has been prohibited from auditing Fed activities related to:

1. "Transactions for or with a foreign central bank, government of a foreign country, or non-private international financing organization;

2. Deliberations, decisions, or actions on monetary policy matters, including discount window operations, reserves of member banks, securities credit, interest on deposits, and open market operations;

3. Transactions made under the direction of the Federal Open Market Committee; or

4. A part of a discussion or communication among or between members of the Board and officers and employees of the Federal Reserve System related to clauses (1)-(3) of this subsection."[11]

[11] P.L. 95-320, July 21, 1978, 92 Stat. 391

Congress, however, has repeatedly challenged these remaining GAO exemptions, with the most recent challenges coming in the wake of the Global Financial Crisis. In the 112th Congress, Ron Paul sponsored H.R. 459, the *Federal Reserve Transparency Act*, which would remove all remaining restrictions on GAO audits – a move that the Fed strongly resisted on the grounds that it would undermine its political independence. Chairman Ben Bernanke argued that "the general repeal of the [audit] exemption would serve only to increase the perceived influence of Congress on monetary policy decisions, which would undermine the confidence the public and the markets have in the Fed."[12] In widely-reported testimony, Bernanke visualized a "nightmare scenario" that would have Congress second-guessing monetary policy decisions as they were being made:

> "The one thing which I consider to be absolutely critical, though, about the bill is that it would eliminate the exemption from monetary policy in deliberations. And the nightmare scenario I have is one in which some future Fed chairman would decide and say to raise the federal funds rate by 25 basis point, and somebody in this room would say I don't like that decision, I want the GAO to go in and get all of the records, get all the transcripts, get all the prepatory materials and give us an independent opinion whether or not that was the right decision. And I think that would have a chilling effect and would prevent the Fed from operating on the apolitical independent basis that is so important in which experience shows is likely to lead to a low inflation healthy currency kind of economy" (United States Congress 2012, 26-27).

In summary, proposals for GAO audits of the Federal Reserve have a long history. While Fed officials have always opposed these proposals on the grounds that they introduce politics into the making of monetary policy, supporters of GAO audits argue that the Fed needs to be more accountable to Congress. From a scholarly perspective, the fact that dozens of similar GAO audit bills have been proposed and debated over time provides a window into the support and opposition to the Federal Reserve in Congress.

[12] Chairman Ben Bernanke, speech at the Annual Meeting of the American Economic Association. Available at http://www.federalreserve.gov/newsevents/speech/bernanke20140103a.htm

3. Data, Models, and Results

Although the history of GAO audit proposals goes back to the early 1920s, I restrict my sample to 1973-2012 due to the absence of systematic information on earlier proposals and other data-availability constraints. Since few proposals progressed to a roll-call vote, I begin by examining cosponsoring behavior.[13]

Cosponsorship has been an important legislative activity in the House since the late-1960s when rules prohibiting it were relaxed and then removed completely.[14] While it might be tempting to dismiss cosponsorship as a largely symbolic activity, due to the fact that most cosponsors are attached to legislation that is never enacted, recent research suggests that cosponsorship holds two advantages for researchers over roll-call voting as a behavioral indication of a legislator's support for a policy. First, the very fact that cosponsorship data includes many bills that are never voted on means less selection bias in comparison to floor votes, whose introduction is closely controlled by the majority party (Carruba, Gabel, and Hug 2008, Aleman, Calvo, Jones, and Kaplan 2009). Second, cosponsorship activity should be less subject to party pressure than roll-call voting due to the lower stakes (Desposato, Kearney, and Crisp. 2011). Overall, the trajectory of the literature recognizes that cosponsorship is a

[13] Prior to 2012, only two audit proposals progressed to a roll-call vote: H.R.10265 in 1973 and H.R.2176 in 1977. Both proposals were approved by overwhelming majorities (see **Appendix A**). H.R. 2176 became the Federal Banking Agency Audit Act (PL95-320) and remains the legal *status quo*.

[14] Prior to 1967, only one sponsor was allowed per bill, which meant that many more bills were proposed. Between 1967 and 1978, up to 25 cosponsors were allowed and, after 1978, all limits on the number of cosponsors were removed.

meaningful part of the legislative process and offers certain advantages for scholarship on legislators' policy preferences.[15]

Consistent with this literature, I assume that cosponsoring an "audit the Fed" proposal indicates that a legislator approves of more intrusive congressional oversight of the Fed. While cosponsoring an audit bill discloses the positive predisposition of a legislator toward a bill, I also assume that *not* cosponsoring a bill reflects a negative inclination toward the bill rather than disinterest or lack of knowledge about the proposal. This assumption is justified on the basis of high correlations ($r > 0.9$) between cosponsorship and roll-call voting ideal-point estimates (Aleman, Calvo, Jones, and Kaplan 2009).[16] Since cosponsoring generates ideal-point estimates that are very close to ideal-point estimates generated by roll-call voting, I assume that the decision not to cosponsor a Fed audit proposal indicates support for the Fed.

My argument predicts that the political party or ideology of supporters and opponents of the Fed changes with the priority the Fed gives to inflation or unemployment. As the Right cares more about inflation than unemployment I expect cosponsors of audit proposals to be more right-wing during periods when the Fed is trying to reduce the unemployment rate. As the Left cares more about unemployment than inflation, cosponsors of these anti-Fed bills should be more left-wing during periods when the Fed is pursuing disinflation.

To get a preliminary sense of whether the data support this conjecture, I grouped observations by macroeconomic conditions – high inflation, high unemployment – and then

[15] Cosponsorship has been used to study ideological signaling within the legislature (Kessler and Krehbiel 1996, Wawro 2001) legislative coalition-building (Bernhard and Sulkin 2013), position-taking aimed at district constituencies (Kroger 2003), and legislative networks (Fowler 2006), among other topics.

[16] Highton and Rocca (2005) also find a strong association between bill cosponsorship and roll-call voting.

examined the political party affiliations and ideological positions of audit proposal cosponsors. **Figure 2** reports the political party affiliation of GAO audit proposal cosponsors during periods of high inflation, where “high” is defined as one standard deviation above the 1973-2012 average level of inflation. As the figure illustrates, Democrats are about three times more likely to cosponsor audits than Republicans when inflation is high. However, when the unemployment rate is “high” (one standard deviation above the period mean), the partisan pattern reverses and Republicans are significantly more likely to cosponsor GAO audits than Democrats, as shown in **Figure 3**.

These figures provide strong suggestive evidence that the Fed’s support coalition is conditioned by macroeconomic conditions. During periods of high inflation, audit cosponsors are more likely to be Democrats or left-wing, which is to say that the Fed gains the support of the Right when it is fighting inflation. By contrast, when the Fed is working on its other mandate and promoting full employment, audit cosponsors are more likely to be Republicans or right-wing, which is to say that the Fed gains the support of the Left when it is working to expand employment. The dual mandate appears to imply that, depending on macroeconomic conditions, the Fed is able to garner congressional support from opposite sides of the ideological spectrum.

To explore this conjecture in more detail, I turn to regression analysis. The dependent variable is the dichotomous decision to cosponsor/not cosponsor a GAO audit proposal. Since some representatives cosponsor audit legislation more than once over the sample period, these observations cannot be considered independent. Therefore, I cluster standard errors at the individual level.[17] **Table 1** contains the results of probit regressions of cosponsorship on

[17] I do not employ individual fixed effects to address this problem because party affiliation and ideology rarely change over time, implying that fixed effects will harm my ability to identify the argument.

political party affiliation and its interaction with the effective FED FUNDS RATE and the UNEMPLOYMENT GAP.[18] I use the Federal Funds rate as opposed to the inflation rate because the Fed Funds rate is the Fed's most important policy tool and captures the Fed's *interpretation* of macroeconomic conditions. Likewise, the unemployment gap, defined as the civilian unemployment rate minus the Non-Accelerating Inflation Rate of Unemployment (NAIRU) is the main metric the Fed uses to assess the state of the labor market.[19] Model 1 contains only political party affiliation and this estimate suggests that Republicans are unconditionally more likely to cosponsor GAO audits than Democrats. Model 2 introduces the Federal Funds rate and the unemployment gap. These estimates suggest that as the Fed increases the Federal Funds rate to tamp down inflationary pressures, representatives are less likely to cosponsor GAO audit bills. But as the unemployment gap increases, representatives are more likely to cosponsor these proposals.

These initial results do not take into account the interaction of party affiliation and Fed policy as it relates to cosponsoring behavior. My claim is that the Right and the Left will support or oppose the Fed conditioned upon which mandate the Fed is pursuing. When inflation is the Fed's chief priority, its actions will find favor with the Right (Republicans) and enmity with the Left (Democrats). When the Fed is trying to revive employment, its actions will generate support from the Left (Democrats) and opposition from the Right (Republicans). Model 3

[18] Values are averaged over the year prior to the start of the Congress in which the GAO audit proposal was introduced. Most bill proposals are introduced early in the first session (i.e., in the first 6 months) of a new Congress. Lagging the macroeconomic data by one year prior to the start of a new Congress addresses this regularity in the legislative process.

[19] The NAIRU serves as a simple guide for policy because it captures the idea that there is a long-term unemployment rate consistent with maintaining stable prices. Although the NAIRU has been subject to criticism, it regularly appears FOMC policy discussions (Schonhardt-Bailey 2013).

directly tests this conditional inference by including interaction terms for PARTY*FED FUNDS RATE and PARTY*UNEMPLOYMENT GAP. The results strongly support this claim. The estimate of the first interaction term is negatively signed, indicating that when the Fed is fighting inflation by raising the Fed Funds rate, Republicans are less likely to sponsor Fed audits than Democrats (by not cosponsoring audits, representatives indicate their support for the Fed's focus on price stability). By contrast, the second estimated interaction term shows that as the unemployment gap increases, Republicans are more likely to cosponsor audits than Democrats (by cosponsoring audits, representatives indicate their opposition to the Fed's focus on unemployment). This sharp reversal in the impact of political party affiliation on cosponsorship behavior accords with my argument that Fed coalitions in Congress fluctuate with the Fed's macroeconomic priorities.

Model 4 adds individual-level controls for CHAMBER SENORITY (the number of terms a representative has held office) and BANKING COMMITTTEE (indicating membership on the House Committee on Financial Services or prior versions of this committee). These intuitive results suggest that representatives with longer tenures are less likely to sponsor attacks on the Fed while members of the committee that oversees the Fed are more likely to cosponsor bills that give greater authority to the GAO.

To give substantive meaning to the main results, **Figure 4** plots average marginal effects of the interaction terms from Model 4 of **Table 1**. The vertical axis shows the change in the predicted probability that a member sponsors a Fed audit and the plots illustrate the affect of party affiliation on cosponsorship as the Fed Funds rate and the unemployment gap increase from their minimum to their maximum values. As the unemployment gap increases – that is, as the civilian employment rate rises above the NAIRU – Republicans are much more likely to cosponsor audits, suggesting that Republicans attack the Fed when it is pursuing its mandate to maintain full employment. By contrast, when the Fed increases the Federal Funds rate to tamp down inflationary pressures, Republicans become less likely to cosponsor GAO audit proposals. It thus appears that the Fed's partisan supporters and opponents change with the Fed's macroeconomic priorities.

Since political partisanship is a blunt, dichotomous measure of political ideology, I repeat the analysis substituting first dimension DW-Nominate ideal point estimates for party affiliation. DW-Nominate scores are derived from a spatial model of representatives' individual roll-call voting histories. As Poole and Rosenthal (2000) explain, the first dimension can be interpreted as a representative's position on government intervention in the economy. Values range from -1 to 1, with higher values indicating a more right-wing, anti-government ideology.

Table 2 reports the results, which are very similar to the results in Table 1. Therefore, I move straight to the substantive effects. **Figure 5** reports marginal effect estimates of the interaction of DW-Nominate and the Fed's policy priorities from Model 4 in **Table 2**. The figure reveals that a continuous measure of political ideology yields more nuanced estimates when compared to party affiliation. As the unemployment gap increases, the likelihood of cosponsoring Fed audits rises sharply with DW-Nominate scores, indicating that right-wing representatives are increasingly likely to cosponsoring Fed audits. The situation reverses when the Fed is engaged in disinflation: when the Fed Funds rate rises, right-wing members become less likely to cosponsor audits. This suggests that the Fed's congressional opponents (supporters) shift to the right (left) as the Fed moves from controlling inflation to reviving employment.

For robustness, I re-ran these analyses excluding the two latest audit proposals from the 111th and 112th Congresses (see **Appendix A**). These two proposals attracted 594 cosponsors –

51 percent of all cosponsors in the sample – and thus may exert a disproportionate influence on the results. The two tables in **Appendix B** report estimates after dropping these proposals from the sample. The replication on this restricted sample produces estimates that are substantively similar to those from the full sample.

3. Roll-Call Voting on the "Audit the Fed" Proposal of 2012

Another way to check the reliability of the results is to analyze roll-call voting instead of cosponsorship activity. Despite selection bias and other problems, roll-call voting is the more traditional method of analyzing representatives' policy preferences. Unfortunately, there are not enough roll-call votes on GAO audit proposals to provide sufficient temporal variation in the macroeconomic context to test my conditional arguments (see footnote 13). Nevertheless, I can test the argument within a given macroeconomic context using roll-call voting behavior on the *Federal Reserve Transparency Act of 2012*, widely known as "Audit the Fed." This proposal would remove all remaining restrictions on GAO audits, thereby allowing the GAO to probe the Fed's monetary policy decisions and its transactions with foreign central banks. Elijah Cummings (D-MD) wrote the minority opinion section of the committee report and argued that this bill would critically undermine the political independence of the Federal Reserve.[20]

This proposal was popular in the Republican-controlled House where the vote was taken under the "suspension of the rules" procedure that is used to fast-track non-controversial bills (suspension requires a two-thirds majority). The vote tally of 327-98 easily met this threshold. All Republicans except Robert Turner (NY) voted in favor of the bill but Democrats were divided, with 89 Democrats joining Republicans to approve the bill and 97 voting against it.

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[20] Committee on Oversight and Government Reform report, CRPT-112hrpt607-pt1.

While presidential election-year politics probably had some impact on Republican support for the bill, it is noteworthy that Republicans – the champions of the Fed when the Fed is reducing inflation – voted *en masse* for the bill while Democrats – the party that usually attacks the Fed as an unaccountable power with incestuous relations with banks – lined up as the Fed's protector. In a striking indicator of this reversal, Democratic Party Whip Steny Hoyer (D-MD) implored Democrats to vote "no" on the grounds that the bill "impedes the independence of this critical institution…House Republicans cannot be allowed to hold our economy or our critical economic institutions hostage in order to further their extreme agenda."[21]

The whip was not effective as almost half of the Democrats broke ranks and voted with Republicans. I leverage this variation and analyze Democrats' vote choice with an eye toward gauging the influence of ideology while controlling for personal and constituency factors that may contribute to voting decisions. By focusing only on the Democrats, I also eliminate the possibility that representatives voted for the bill because they wanted to pressure the Fed to cut back on its stimulus programs in the run-up to the 2012 presidential election (only Republicans could benefit from this strategy).

The macroeconomic context around the time of this vote had the Fed squarely focused on reviving employment. With the unemployment rate averaging 9.3 percent between 2009 and 2012, the Fed cut its target range for the Fed Funds rate to between zero and 0.25 percent but the civilian unemployment rate remained stubbornly above the NAIRU. As the effective Fed Funds rate approached the zero lower bound, the Fed then began implementing its unconventional quantitative easing programs (Kahn and Taylor 2014).

[21] Office of the Democratic Whip Steny Holler http://www.democraticwhip.gov/content/daily-whip-tuesday-july-24-2012

My baseline argument is that when the Fed gives priority to its full employment mandate, the Right attacks it out of concern for the potential inflationary consequences of this mandate while the Left supports it. With Fed policymakers squarely focused on reducing unemployment, the Right certainly did rail against the Fed (O'Brien 2011). But in aftermath of the Global Financial Crisis, the Right's "hard money" opposition to the Fed was conjoined with "anti-bailout" and "anti-globalization" messages. For example, the Republican Party made GAO audits a central plank in its 2012 election platform and included the Fed's foreign relations in its attack:

> "Because the Federal Reserve's monetary policy actions affect both inflation and economic activity, those actions should be transparent. Moreover, the Fed's important role as a lender of last resort should also be carried out in a more transparent manner. A free society demands that the sun shine on all elements of government. Therefore, the Republican Party will work to advance substantive legislation that brings transparency and accountability to the Federal Reserve, the Federal Open Market Committee, and the Fed's dealings with foreign central banks."[22]

The reference to the Fed's "dealings with foreign central banks" refers to the currency swaps agreements the Fed established with 14 foreign central banks between 2007 and 2010 (Broz 2012). This was the Fed's largest crisis program, accounting for over a quarter of its total assets during the crisis. Over $600 billion was channeled though Fed currency swaps to foreign central banks, who then lent the U.S. dollars to private commercial banks in their jurisdictions. Although the Fed's currency swaps helped stabilize the global financial system, they were controversial on the Right because they had the appearance of foreign aid to foreign bankers

Ron Paul was particularly outraged by the Fed's global lending: "I am surprised and deeply disturbed to learn the staggering amount of money that went to foreign banks. These lending activities provided no benefit to American taxpayers, the American economy, or even

[22] Republican National Committee. 2012. "We Believe in America." Republican Platform 2012, p. 4. Downloaded from http://www.gop.com/2012-republican-platform_Committee/

directly to American banks."[23] In recent years, the Right has moved sharply against foreign aid and international institutions like the International Monetary Fund (IMF) and the World Bank (Milner and Tingley 2011, Broz 2011, Broz 2007). Now that the Fed has entered the ranks of institutions like the IMF that provide crisis liquidity assistance ("bailouts") on a global scale, it appears to be attracting the ire of the same right-wing representatives that oppose the IMF and foreign aid.

In the analysis below, I control for the connections (as measured by campaign contributions) between representatives and large commercial banks. According to Posen (1995), the financial sector is the critical member of an independent central bank's societal support coalition with a material stake in both price stability and lender-of-last-resort facilities. I focus on the largest banks since they are well connected to the Fed and highly engaged in the political process. I control for the ties between representatives and large banks due to concern with omitted variable bias. If there is a Wall Street wing of the Democratic Party that protects the Fed from legislative attacks, campaign contributions from large banks should capture this relationship.

The subprime housing crisis may also have contributed to hostility toward the Fed and be correlated with ideology. If older, home-owning constituents were both hard hit by the crisis and more likely to be right-wing, then a representative's ideology might be picking up the housing shock rather than monetary policy preferences. As retired homeowners living on their savings and social security, Tea Party conservatives had a material basis for criticizing the Fed (Skocpol and Williamson 2012). They blamed the Fed for causing the housing bubble, arguing that easy credit conditions early in the housing cycle facilitated the boom. The subsequent bust devastated

[23] Felsenthal and Zargham 2011.

older homeowners who saw their primary nest eggs plummet in value. During the slow recovery that followed, older savers were hit again as the Fed's stimulus programs resulted in deposit interest rates hovering near zero for several years. To control for this alternative explanation for the association between ideology and Audit the Fed voting, I include district-level indicators for the severity of the housing crisis and the proportion of households receiving social security benefits.

Table 3 reports results of probit regressions of Democrats' voting on the 2012 proposal. Model 1 contains my variable of interest: the political "ideology" of representatives using the first dimension DW-NOMINATE score. The positive estimate in Model 2 suggests that right-leaning Democrats were more likely than left-leaning Democrats to support deeper GAO auditing of the Fed. This finding suggests that the Fed's recent policy innovations designed to revive employment found support in the left-wing of the Democratic Party where representatives historically advocate pro-labor policies.

To gauge the impact of large banks, I constructed the variable BANK CONTRIBUTIONS, operationalized as campaign contributions from large banks' Political Action Committees (PACs) to representatives during the two election cycles prior to the vote, divided by total contributions a representative received from all sources during these two cycles. My expectation is that members that are more dependent on these banks for campaign contributions are more likely to the vote against the proposal. I identified "large banks" from the Federal Financial Institutions Examination Council list of "Large Financial Institutions".[24] The banks comprising this group are: Bank of America, Bank of New York, Citigroup, Deutsche

[24] Federal Financial Institutions Examination Council Statistical Release E.16, December 31, 2007 http://www.ffiec.gov/E16.htm

Bank (Taunus Corp.), HSBC, JPMorgan Chase, State Street Corp., Wachovia Corp., and Wells Fargo. Deutsche Bank and HSBC are foreign-owned banks with branches in the United States and each has a PAC that contributes to congressional campaigns. This measure thus captures the role that large banks play in Congress via contributions to campaigns. Model 2 reveals that BANK CONTRIBUTIONS are negatively related to voting to audit the Fed, as one might expect.

To control for the possibility that opposition to the Fed among right-leaning Democrats might reflect the impact of the housing crisis on older, more conservative homeowners, Model 3 includes SOCIAL SECURITY, which is the share of a district's population receiving OASDI benefits, and FORECLOSURE RATE, which is the share of a district's private housing stock in foreclosure.[25] The first variable proxies for the importance in a district of retired savers who saw the interest income on their savings fall to near zero. The foreclosure rate identifies congressional districts by the extent of the housing meltdown. The estimates are both positively signed but not significant.[26] The estimated effect of DW-NOMINATE remains virtually unchanged to these controls, which suggests that ideology is driving representatives' voting, not the hardships endured by older constituents during the housing crisis.

In Model 4, I control for additional factors to ensure that my main estimates are not spurious. BANK HQ is an indicator variable equal to 1 if a representative's district is home to

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[25] Social security data are from the U.S. Social Security Administration, Office of Retirement and Disability Policy, Office of Research, Evaluation, and Statistics, December 2010. http://www.ssa.gov/policy/docs/factsheets/cong_stats/2010/index.html. The foreclosure rate is from the real estate listing service Hotpads.com http://hotpads.com/sites/Election/congressional-districts-all

[26] Interacting these two variables does not yield significant results. The results (not reported) are nearly identical when the share of a district's population aged 65 and over is used in place of the share of social security beneficiaries. The two measures are highly correlated (r = 0.85).

the headquarters to one of the nation's eleven money-center banks. I expected a negative sign since large banks typically support central banks (Posen 1995). The estimate, however, is positive but not significant. CHAMBER SENIORITY counts the number of terms representatives have served in the House. The estimate is negative and significant, indicating that more senior Democrats were less likely to support the bill, in line with their party's whip. FINANCE COMMITTEE is an indicator variable equal to 1 if a representative sits on the House Financial Services Committee. Membership on this committee may be correlated with ideology such that Democrats with ideologies closer to the party median on monetary policy will gravitate toward this committee. The estimate is positive but not significant. Model 5 applies the same analyses to voting by all representatives, Democrats and Republicans, and the estimates are very similar to those in Model 4.

Figure 6 presents the marginal effects of DW-NOMINATE computed from Model 4 in **Table 3** (Democrats only). According to the figure, moving DW-NOMINATE from the value of the most left-wing Democrat (Jim McDermott, WA-7) to the value of the most right-wing Democrat (Heath Shuler NC-11) increases the probability of voting for the GAO audit proposal by 67 percentage points. Ideology appears to have a large substantive effect on voting to make the Fed more accountable to Congress. When this vote was taken in July 2012, unemployment was still high at 8.2 percent but inflation was not a concern. These are the circumstances under which the Right will challenge the Fed to be more transparent and more accountable while the Left will position itself as the defender of the Fed.

4. Conclusions

The Federal Reserve is the agent of Congress. As Paul Volcker aptly put it, “The Congress created us and the Congress can un-create us” (quoted in Stiglitz 2003, 82). I have explored the coalitions in Congress that support and oppose the Fed and found that these coalitions are not constant but change with macroeconomic conditions and with the Fed’s interpretation of its dual mandate. Drawing on the partisan political business cycle literature, I argued that the Right should be the Fed’s core base of support when the Fed’s top priority is disinflation because the Right puts a greater weight on controlling inflation than on full employment. By contrast, the Left should be the Fed’s core supporter when the Fed’s priority is full employment because the Left places a greater weight on full employment than on price stability.

Such swings in the Fed’s congressional coalition result from the fact that the Fed has acted “lexicographically,” meaning that it has operated its dual mandate by working on one objective at a time (Meltzer 2011, 39). Before 1979, the Fed concentrated on unemployment and let the inflation rate reach double digits. My argument suggests that the Left should have been an ally of the Fed and the Right its enemy during this period. From 1979 to 1982, the Fed pursued disinflation, letting unemployment rise to over 10 percent. In this context, I expect congressional attacks on the Fed to come from the political Left while support emanates from the Right. During the Great Recession, reducing unemployment was the Fed’s main goal and inflation was downgraded to a second-order concern. This context implies that the Left should have returned as the Fed’s congressional champion while the Right went on the attack.[27]

I tested for the existence of these patterns with cosponsorship data on proposals to give the GAO greater authority to audit the Fed. I assumed that audit proposal cosponsors (non-

[27] I have not made predictions about how the Great Moderation affected the coalition structure, but it is objectively clear that congressional interest in auditing the Fed fell off during this period (see **Appendix A**).

sponsors) favored (opposed) reducing the Fed's political independence from Congress. I interacted representatives' party affiliation and political ideologies with measures of the Fed's policy stances and found support for the argument: As the Fed increases the Federal Funds rate to reduce inflationary pressures, Republicans and right-leaning representatives become less likely to cosponsor GAO audits proposals than left-wing members. This supports the inference that the Right defends the Fed when the Fed's priority is stabilizing prices. However, as the unemployment gap increases, Republicans and right-wing representatives become more likely to cosponsor audit proposals than Democrats and left-wing members. This evidence is consistent with the idea that the Fed's support coalition shifts to the left when the Fed is focused on full employment. The reversal in the impact of party and ideology on cosponsorship behavior is in line with my overall claim that the Fed's congressional coalitions fluctuate with the Fed's macroeconomic priorities.

As an alternative to cosponsoring behavior, I also analyzed roll-call voting using data from an Audit the Fed proposal that progressed to a floor vote in 2012. The macroeconomic context surrounding this vote was that the Fed had lowered the Federal Funds rate to near-zero and initiated unconventional quantitative easing programs to combat high and persistent unemployment. With all but one Republican voting "yes" to greater GAO security, and 97 mostly right-wing Democrats joining them, my analysis shows that, in this context, the Fed had fallen out of favor with the Right and found support on the Left. Analyzing only Democrats, I confirmed that the Fed's left-wing support coalition was driven by ideology and not election-year party politics. By controlling for campaign contributions from large banks, I eliminated the concern that left-wing Democrats opposed the bill because they have close ties to banks. While I found that contributions from banks to representatives increase the likelihood of voting "no," left-wing ideology remained an important correlate of opposition to the bill. Controls for personal characteristics and constituency factors related to the housing crisis had little impact on the baseline results.

An area that requires further attention involves the possibility that the Right's current hostility toward the Fed reflects, in part, a backlash to the Fed's global operations during the financial crisis. At this point, I have not been able to determine how much of the Right's opposition to the Fed reflects this issue versus the concern that the Fed is giving too much attention to unemployment. The Fed's statutory authority to bail out foreign banks and to serve as global lender-of-last-resort is fuzzy at best and the Right has severely criticized the Fed on this account (Baker 2013, Broz 2012). In future research, I hope to determine how much of the Right's antipathy toward the Fed reflects the Fed's monetary policy priorities relative to its global policies, which the Right views as unauthorized grants of foreign aid to foreign banks.

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Table 1: Political Party Conditioned by the Fed Funds Rate and Unemployment Gap

	(1)	(2)	(3)	(4)
Party	0.003***	0.003***	0.333***	0.306***
	(0.000)	(0.000)	(0.086)	(0.086)
Fed Funds Rate		-0.030***	-0.001	-0.003
		(0.005)	(0.007)	(0.007)
Unemployment gap		0.453***	0.343***	0.346***
		(0.016)	(0.020)	(0.020)
Party * Fed Funds Rate			-0.069***	-0.068***
			(0.011)	(0.011)
Party * Unemployment Gap			0.266***	0.264***
			(0.032)	(0.033)
Chamber Seniority				-0.020***
				(0.006)
House Banking Committee				0.257***
				(0.073)
Constant	-1.547***	-2.049***	-1.699***	-1.613***
	(0.064)	(0.095)	(0.061)	(0.071)
Observations	8786	8786	8786	8762
Pseudo R2	0.01	0.24	0.27	0.27
P-Value	0.0000	0.0000	0.0000	0.0000
Log Pseudo-likelihood	-3392.0	-2606.7	-2517.4	-2490.0
Wald Chi2	49.16	911.3	1238.0	1216.9

Standard errors clustered by representative in parentheses * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Notes: The dependant variable is a member's decision to cosponsor proposals that would enhance the GAO's ability to audit the Fed, where 1 = cosponsor and 0 = not cosponsor. **Party** is Democrat = 100, Republican = 200. **Fed Funds Rate** is the effective Federal Funds Rate averaged over the year prior to the Congress in which the proposal was introduced. **Unemployment Gap** is the difference between the civilian unemployment rate and the NAIRU, averaged over the year prior to the Congress in which the proposal was introduced. **Chamber Seniority** is a count of the number of terms a representative has been in office. **House Banking Committee** is a dummy variable indicating membership on the House Committee on Financial Services.

Sources: Voteview (Party), Board of Governors of the Federal Reserve System (Fed Funds Rate), U.S. Bureau of Labor Statistics and the U.S. Congressional Budget Office (Unemployment Gap), Fowler 2006 (Chamber Seniority), Nelson 2005, and Stewart and Woon 2011 (House Banking Committee).

Table 2: Ideology Conditioned by the Fed Funds Rate and the Unemployment Gap

	(1)	(2)	(3)	(4)
DW-Nominate	0.547***	0.508***	0.188***	0.165*
	(0.048)	(0.059)	(0.092)	(0.093)
Fed FundsRate		0.039***	-0.039***	-0.040***
		(0.005)	(0.005)	(0.005)
Unemployment Gap		0.462***	0.455***	0.459***
		(0.015)	(0.016)	(0.016)
DW-Nominate *			-0.051***	-0.050***
Fed Funds Rate			(0.015)	(0.014)
DW-Nominate *			0.387***	0.384***
Unemployment Gap			(0.035)	(0.036)
Chamber Seniority				-0.017***
				(0.006)
House Banking				0.259***
Committee				(0.074)
Constant	-1.152*** (0.021)	-1.504***	-1.487***	-1.431***
		(0.046)	(0.042)	(0.058)
Observations	8798	8798	8798	8774
Pseudo R2	0.03	0.26	0.29	0.29
P-Value	0.0000	0.0000	0.0000	0.0000
Log Pseudo likelihood	-3332.9	-2557.6	-2451.7	-2426.0
Wald Chi2	128.7	1003.1	1303.7	1308.8

Standard errors clustered by representative in parentheses * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

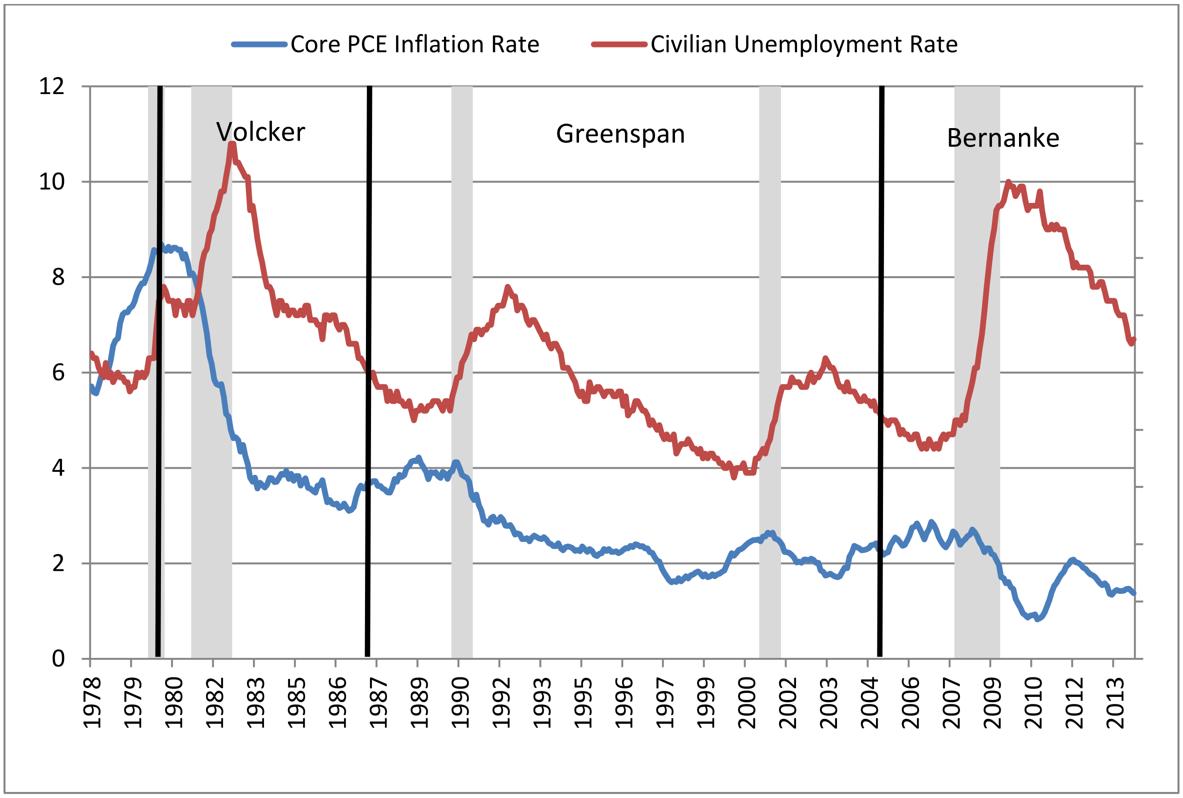
Table 3: Roll-Call Voting on the "Audit the Fed" Proposal of 2012

	(1) Dems	(2) Dems	(3) Dems	(4) Dems	(5) All
DW-Nominate	3.118***	3.650***	3.571***	2.876***	3.425***
	(0.814)	(0.850)	(0.870)	(0.934)	(0.502)
Bank Contributions		-98.931***	-94.910***	-100.845***	-94.637***
		(27.838)	(28.010)	(33.400)	(25.554)
Social Security			1.771	2.268	1.982
			(2.920)	(3.137)	(3.091)
Foreclosure Rate			10.656	9.732	9.700
			(15.617)	(16.419)	(16.657)
Bank HQ				-0.055	-0.067
				(0.666)	(0.662)
Chamber Seniority				-0.065***	-0.060***
				(0.022)	(0.020)
House Banking Committee				0.143	0.133
				(0.334)	(0.319)
Constant	1.244***	1.666***	1.283*	1.403**	1.636***
	(0.345)	(0.375)	(0.670)	(0.701)	(0.609)
Observations	174	174	174	174	327
Pseudo R2	0.08	0.12	0.13	0.16	0.47
P-Value	0.0001	0.0000	0.0000	0.0000	0.0000
Log Pseudo-likelihood	-111.4	-105.8	-105.5	-101.3	-101.9
Wald Chi2	14.66	27.10	26.74	38.73	63.74

Robust standard errors in parentheses * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Notes: The dependant variable is a member's vote on the 2012 "Audit the Fed" proposal where 1= yea and 0=nay. Models 1-4 are for Democrats only. Model 5 is for all representatives.

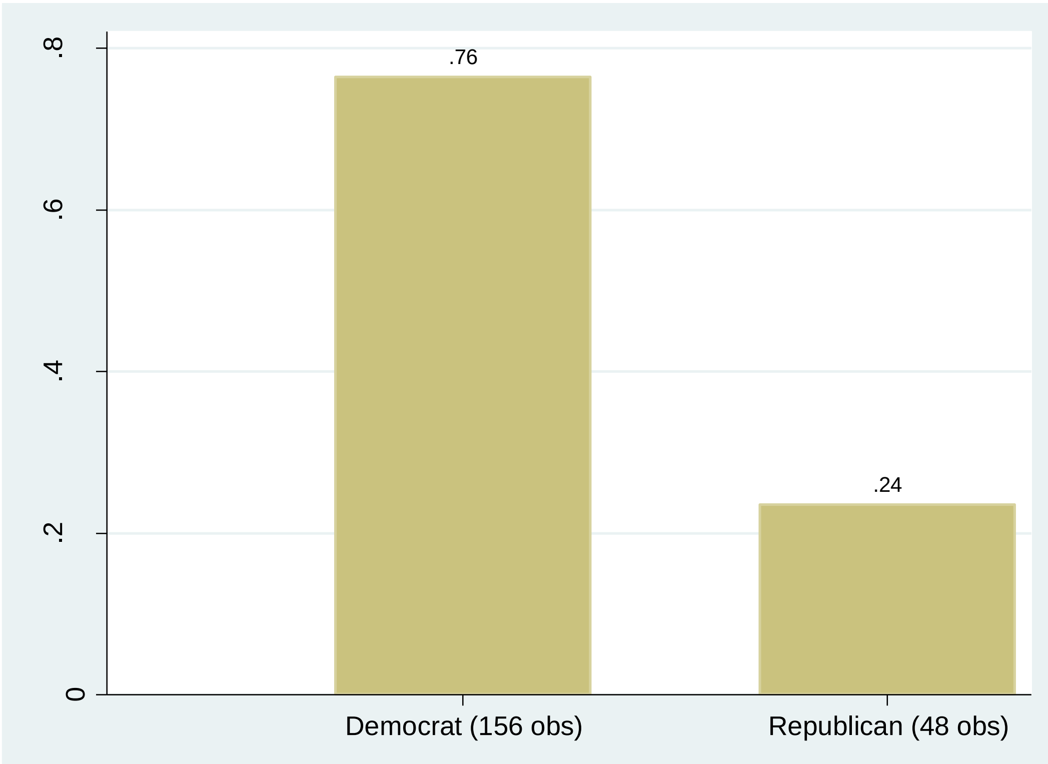
Figure 1: Inflation and Unemployment under three Federal Reserve Chairmen



Notes: Gray bars represent NBER-defined recessions. The vertical lines represent the terms of the Volcker, Greenspan, and Bernanke chairmanships.

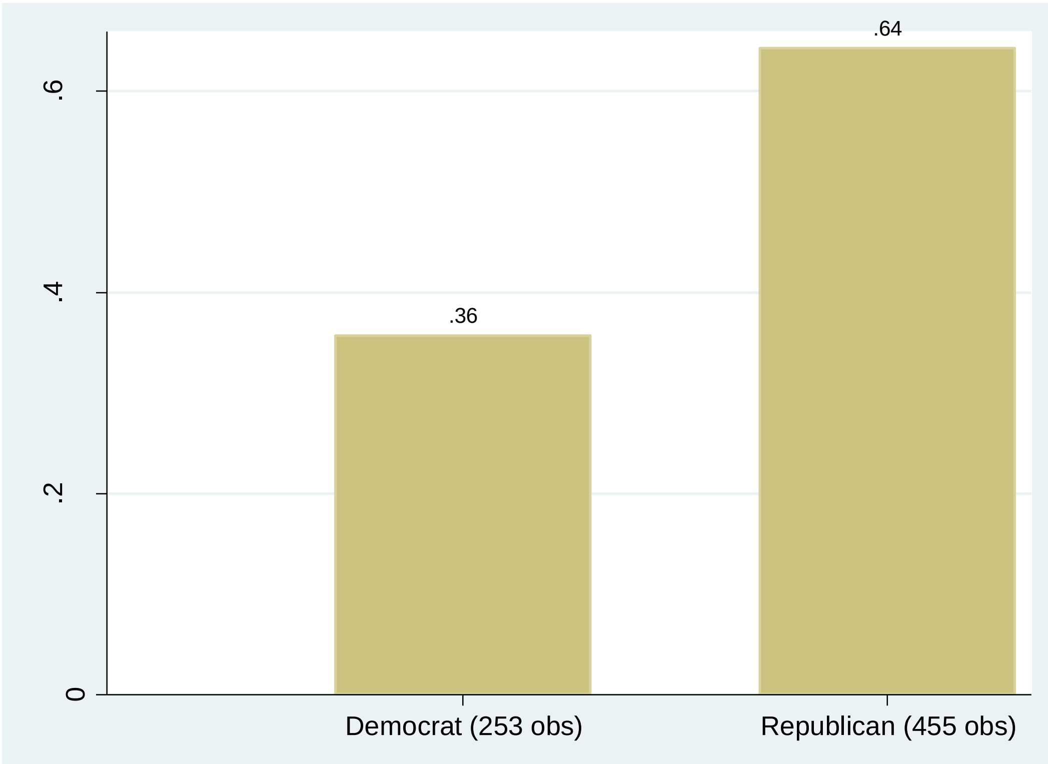
Sources: U.S. Bureau of Economic Analysis (civilian unemployment rate), Federal Reserve Bank of Dallas (core personal consumption expenditures (PCE) inflation rate), Federal Reserve Bank of St. Louis (NBER-defined recession dates).

Figure 2: Political Party Affiliation of GAO Audit Cosponsors under High Inflation



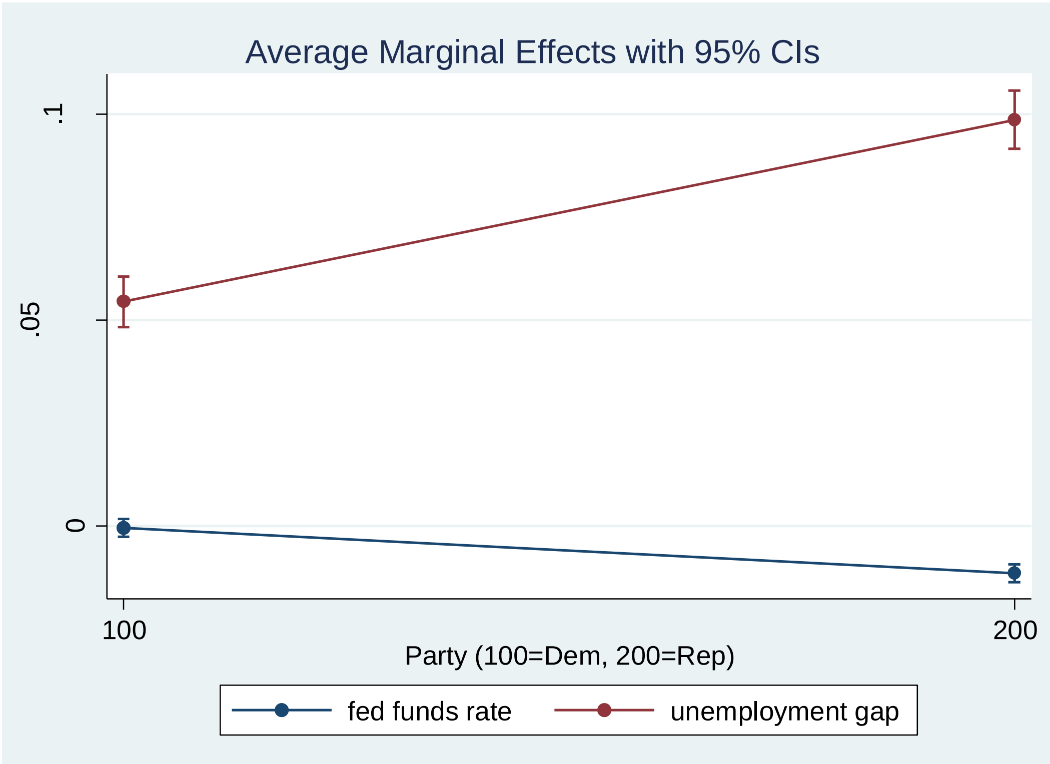
Notes: "High inflation" is one standard deviation above mean inflation for the 1973-2012 period (i.e., high inflation >=7.5%) with values averaged over the year prior to the Congress in which the GAO audit proposal was introduced.

Figure 3: Political Party Affiliation of GAO Audit Cosponsors under High Unemployment



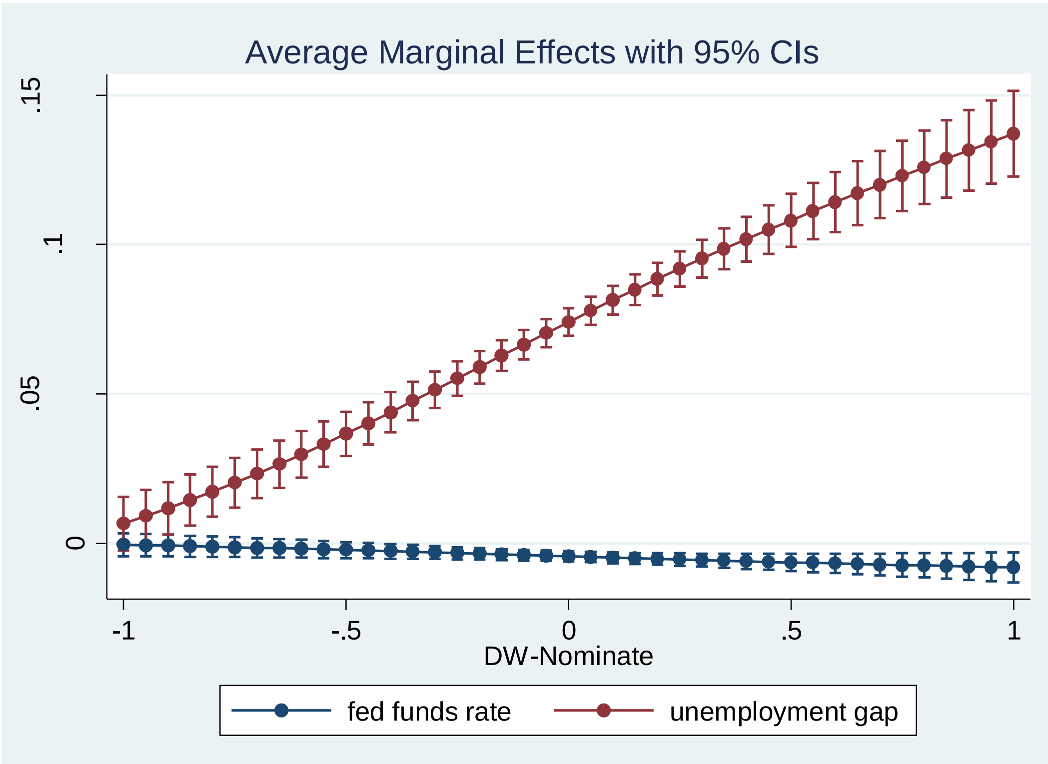
Notes: "High unemployment" is one standard deviation above mean unemployment (i.e., high unemployment >=7.8%) with values averaged over the year prior to the Congress in which the GAO audit proposal was introduced.

Figure 4: Party Affiliation Interacted with the Fed Funds Rate and the Unemployment Gap



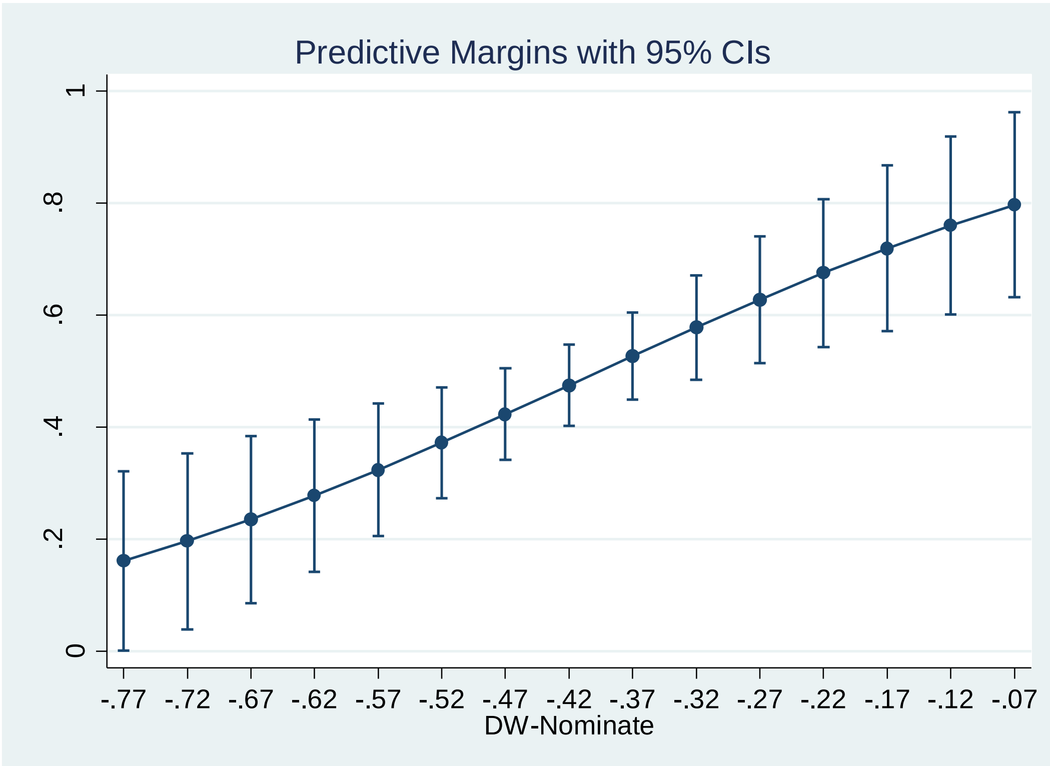
Notes: The vertical axis shows the change in the predicted probability that a representative cosponsors a GAO audit proposal. The plots and 95% confidence intervals indicate the affect of party on sponsorship as the Fed Funds rate and unemployment gap change from their minimum to their maximum values.

Figure 5: Ideology (DW-Nominate) Interacted with the Fed Funds Rate and the Unemployment Gap



Note: The vertical axis shows the change in the predicted probability that a representative cosponsors a GAO audit proposal. The horizontal axis gives the range of DW-NOMINATE (higher values indicate a more right-wing ideology).

Figure 6: Marginal Effect of Ideology (DW-Nominate) on Voting to Audit the Fed in 2012



Notes: The figure displays the predicted marginal effects and 95% confidence intervals of DW-NOMINATE on voting "yes" on the 2012 proposal to Audit the Fed. Higher values indicate a more right-wing ideology. The estimates are based on partial derivatives from Model 4 in **Table 3**.

Appendix A: Legislative Proposals to enhance the GAO's audit authority over the Federal Reserve, 1973-2012

Cong	Date	Number	Sponsor	Cosponsors	Roll Call	Title
93	8/2/1973	H.R.9802	Rep Gibbons, Sam [FL-7]	Cosponsors (24)	-	A bill to amend the Accounting and Auditing Act of 1950 to provide for the audit of certain Federal agencies by the Comptroller General.
93	8/2/1973	H.R.9803	Rep Gibbons, Sam [FL-7]	Cosponsors (11)	-	A bill to amend the Accounting and Auditing Act of 1950 to provide for the audit of certain Federal agencies by the Comptroller General.
94	9/13/1973	H.R.10265	Rep Patman, Wright [TX-1]	Cosponsors (0)	335-22 D: 192-15 R: 143-7	A bill to provide for an audit by the General Accounting Office of the Federal Reserve Board, banks, and branches.
94	3/5/1975	H.R.4316	Rep Patman, Wright [TX-1]	Cosponsors (24)	-	A bill to authorize and direct the General Accounting Office to audit the Federal Reserve Board, the Federal Advisory Council, the Federal Open Market Committee and Federal Reserve banks and their branches.
94	3/5/1975	H.R.4317	Rep Patman, Wright [TX-1]	Cosponsors (24)	-	A bill to authorize and direct the General Accounting Office to audit the Federal Reserve Board, the Federal Advisory Council, the Federal Open Market Committee and Federal Reserve banks and their branches.
94	3/5/1975	H.R.4318	Rep Patman, Wright [TX-1]	Cosponsors (14)	-	A bill to authorize and direct the General Accounting Office to audit the Federal Reserve Board, the Federal Advisory Council, the Federal Open Market Committee and Federal Reserve banks and their branches.
94	3/13/1975	H.R.4321	Rep Patman, Wright [TX-1]	Cosponsors (12)	-	A bill to authorize and direct the General Accounting Office to audit the Federal Reserve Board, the Federal Advisory Council, the Federal Open Market Committee and Federal Reserve banks and their branches.
94	3/26/1975	H.R.5533	Rep Patman, Wright [TX-1]	Cosponsors (6)	-	A bill to authorize and direct the General Accounting Office to audit the Federal Reserve Board, the Federal Advisory Council, the Federal Open Market Committee and Federal Reserve banks and their branches.

94	4/21/1975	H.R.6205	Rep Patman, Wright [TX-1]	Cosponsors (4)	-	A bill to authorize and direct the General Accounting Office to audit the Federal Reserve Board, the Federal Advisory Council, the Federal Open Market Committee and Federal Reserve banks and their branches.
94	6/4/1975	H.R.7590	Rep Patman, Wright [TX-1]	Cosponsors (22)	-	A bill to authorize and direct the General Accounting Office to audit the Federal Reserve Board, the Federal Advisory Council, the Federal Open Market Committee and Federal Reserve banks and their branches.
95	1/19/1977	H.R.2176	Rep Rosenthal, Benjamin S. [NY-8]	Cosponsors (0)	336-24 D: 233-4 R: 103-20	**Federal Banking Agency Audit Act (PL95-320)**. Amends the Accounting and Auditing Act of 1950 to authorize the General Accounting Office (GAO) to conduct independent audits of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency.
95	10/6/1977	H.R.9465	Rep Hannaford, Mark W. [CA-34]	Cosponsors (7)	-	A bill to amend the Federal Reserve Act to require that detailed minutes of Federal Open Market Committee meetings be released to the general public 3 years after the date of the meeting to which they relate.
95	12/15/1977	H.R.10365	Rep Vento, Bruce F. [MN-4]	Cosponsors (10)	-	A bill to promote further the accountability of the Federal Reserve System.
96	1/30/1980	H.R.6350	Rep Mitchell, Parren J. [MD-7]	Cosponsors (7)	-	A bill to amend the Federal Reserve Act to require that detailed minutes of Federal Open Market Committee meetings shall be published on a deferred basis.
96	4/29/1980	H.R.7202	Rep Watkins, Wes [OK-3]	Cosponsors (12)	-	Federal Reserve Act Amendments of 1980
97	2/4/1981	H.R.1640	Rep Dorgan, Byron L. [ND]	Cosponsors (15)	-	Federal Reserve Accountability Act of 1981
97	3/4/1981	H.R.2322	Rep Paul, Ron [TX-22]	Cosponsors (44)	-	A bill to authorize and direct the General Accounting Office to audit the Federal Reserve Board, the Federal Advisory Council, the Federal Open Market Committee, and Federal Reserve banks and their branches.
97	3/4/1981	H.R.2333	Rep Watkins, Wes [OK-3]	Cosponsors (26)	-	Federal Reserve Act Amendments of 1981

97	9/15/1981	H.R.4478	Rep Fauntroy, Walter E. [DC]	Cosponsors (12)	-	A bill to amend the Federal Reserve Act to require that detailed minutes of Federal Open Market Committee meetings shall be published on a deferred basis.
97	8/5/1982	H.R.6938	Rep Patman, William N. [TX-14]	Cosponsors (10)	-	A bill to amend the Federal Reserve Act to require the Board of Governors of the Federal Reserve System to transmit to the Congress a monetary early warning report whenever the Board or the Federal Open Market Committee takes any action to implement a change in existing monetary policy.
98	2/15/1983	H.R.1432	Rep Patman, William N. [TX-14]	Cosponsors (18)	-	A bill to amend Federal Reserve Act to require the Board of Governors of the Federal Reserve System to transmit to the Congress a monetary early warning report whenever the Board or the Federal Open Market Committee takes any action to implement a change in existing monetary policy.
98	1/25/1983	H.R.877	Rep Paul, Ron [TX-22]	Cosponsors (18)	-	A bill to authorize and direct the General Accounting Office to audit the Federal Reserve Board, the Federal Advisory Council, the Federal Open Market Committee, and Federal Reserve banks and their branches.
99	1/3/1985	H.R.70	Rep Crane, Philip M. [IL-12]	Cosponsors (16)	-	A bill to authorize and direct the General Accounting Office to audit the Federal Reserve Board, the Federal Advisory Council, the Federal Open Market Committee, and Federal Reserve banks and their branches.
99	3/25/1986	H.R.4496	Rep Dorgan, Byron L. [ND]	Cosponsors (5)	-	Federal Reserve Accountability Act of 1986
99	3/25/1986	H.R.4497	Rep Dorgan, Byron L. [ND]	Cosponsors (4)	-	Federal Reserve Accountability Act of 1986
100	1/6/1987	H.R.96	Rep Crane, Philip M. [IL-12]	Cosponsors (6)	-	A bill to authorize and direct the General Accounting Office to audit the Federal Reserve Board, the Federal Advisory Council, the Federal Open Market Committee, and Federal Reserve banks and their branches.
101	8/1/1989	H.R.3066	Rep Evans, Lane [IL-17]	Cosponsors (8)	-	Federal Reserve System Accountability Act of 1989
101	10/24/1989	H.R.3512	Rep Dorgan, Byron L. [ND]	Cosponsors (35)	-	Federal Reserve Reform Act of 1989

101	2/6/1989	H.R.844	Rep Crane, Philip M. [IL-12]	Cosponsors (68)	-	To authorize and direct the General Accounting Office to audit the Federal Reserve Board, the Federal Advisory Council, the Federal Open Market Committee, and Federal Reserve banks and their branches.
102	3/19/1991	H.R.1468	Rep Crane, Philip M. [IL-12]	Cosponsors (56)	-	To authorize and direct the General Accounting Office to audit the Federal Reserve Board, the Federal Advisory Council, the Federal Open Market Committee, and Federal Reserve banks and their branches.
103	1/5/1993	H.R.28	Rep Gonzalez, Henry B. [TX-20]	Cosponsors (23)	-	Federal Reserve System Accountability Act of 1993
103	1/5/1993	H.R.145	Rep Crane, Philip M. [IL-8]	Cosponsors (30)	-	To authorize and direct the General Accounting Office to audit the Federal Reserve Board, the Federal Advisory Council, the Federal Open Market Committee, and Federal Reserve banks and their branches.
104	2/10/1995	H.R.888	Rep Gonzalez, Henry B. [TX-20]	Cosponsors (14)	-	Federal Reserve Audit and Accountability Act
104	2/15/1995	H.R.949	Rep Bunning, Jim [KY-4]	Cosponsors (21)	-	Federal Reserve System Accountability Act of 1995
104	2/2/1995	H.R.809	Rep Volkmer, Harold L. [MO-9]	Cosponsors (16)	-	To authorize and direct the General Accounting Office to audit the Federal Reserve Board, the Federal Advisory Council, the Federal Open Market Committee, and Federal Reserve banks and their branches.
105	3/20/1997	H.R.1160	Rep Gonzalez, Henry B. [TX-20]	Cosponsors (4)	-	Federal Reserve Audit and Accountability Act
111	2/26/2009	H.R.1207	Rep Paul, Ron [TX-14]	Cosponsors (320)	-	Federal Reserve Transparency Act of 2009
112	1/26/2011	H.R. 459	Rep Paul, Ron [TX-14]	Cosponsors (274)	327-98 D: 89-97 R: 238-1	Federal Reserve Transparency Act of 2012

Appendix B: Replication of Table 1 Excluding Proposals from the 111th and 112th Congresses

	(1)	(2)	(3)	(4)
Party	-0.000	0.000	-0.082	-0.095
	(0.001)	(0.001)	(0.101)	(0.101)
Fed Funds Rate		0.044***	0.035***	0.035***
		(0.007)	(0.009)	(0.009)
Unemployment Gap		0.165***	0.196***	0.195***
		(0.021)	(0.030)	(0.030)
Party * Fed Funds Rate			0.023*	0.022*
			(0.013)	(0.013)
Party * Unemployment Gap			-0.076*	-0.073*
			(0.042)	(0.042)
Chamber Seniority				-0.019**
				(0.008)
House Banking Committee				0.384***
				(0.076)
Constant	-1.437***	-1.903***	-1.844***	-1.803***
	(0.085)	(0.099)	(0.068)	(0.079)
Observations	7900	7900	7900	7889
Pseudo R2	0.00	0.04	0.04	0.05
P-Value	0.756	0.0000	0.0000	0.0000
Log Pseudo likelihood	-2039.7	-1958.4	-1956.5	-1927.8
Wald Chi2	0.0967	166.9	168.2	194.5

Standard errors clustered by representative in parentheses * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Appendix B: Replication of Table 2 Excluding Proposals from the 111th and 112th Congresses

	(1)	(2)	(3)	(4)
DW-Nominate	0.022	0.095	0.354***	0.368***
	(0.075)	(0.079)	(0.120)	(0.119)
Fed Funds Rate		0.045***	0.045***	0.046***
		(0.007)	(0.007)	(0.007)
Unemployment Gap		0.165***	0.164***	0.164***
		(0.021)	(0.021)	(0.022)
DW-Nominate * Fed Funds Rate			0.073***	0.073***
			(0.019)	(0.018)
DW-Nominate * Unemployment Gap			-0.018	-0.014
			(0.059)	(0.060)
Chamber Seniority				-0.017**
				(0.008)
House Banking Committee				0.398***
				(0.076)
Constant	-1.462***	-1.880***	-1.876***	-1.854***
	(0.028)	(0.050)	(0.050)	(0.070)
Observations	7912	7912	7912	7901
Pseudo R2	0.00	0.04	0.04	0.06
P-Value	0.763	0.0000	0.0000	0.0000
Log Pseudo-likelihood	-2045.7	-1963.8	-1954.4	-1925.0
Wald Chi2	0.0907	165.3	184.0	215.8

Standard errors clustered by representative in parentheses * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$