

Working families are also on the hook for the corporate welfare that is compounding the national debt. Our tax system is riddled with loopholes so corporations can escape liability by shifting operations overseas. In fact, corporations are often actually rewarded for sending jobs overseas by our tax system. That has to stop.

There is something even more offensive. If BP is taken to court because of their negligence in this oil spill and a judge finds they owe punitive damages, those punitive damages can be deducted as a business expense. Why do we allow these oil giants that earned hundreds of billions of dollars in profits in the past decade to deduct punitive damages from the taxes they should pay? And that is if they pay taxes at all. ExxonMobil did not pay any taxes last year. Despite its \$45 billion profit, it paid no income tax.

I do not bring this up to inspire anger at corporations. I bring it up because these loopholes and allowances create revenue shortfalls. Revenue shortfalls equal deficits, unless they are shifted onto the backs of middle-class families.

But we would be remiss to go after these big oil companies without also tackling our own spending problems. Secretary Gates has led the way in explaining how we can, and must, achieve savings in the defense budget. While nothing is more important than the defense of our Nation, national security is not well-served by unnecessary, incredibly expensive weapons programs. Nor are we well-served by programs that come in late, and way over budget.

Secretary of Defense Gates recently quoted his predecessor, Secretary Rumsfeld, who said it best: "A person employed in a redundant task is one who could be countering terrorism or nuclear proliferation. Every dollar squandered on waste is one denied to the warfighter." That was Secretary Rumsfeld on September 10, 2001.

Our national security priorities must be matched to our real defense priorities in the 21 century, not dictated by expensive weapons systems that are only benefiting the bottom line of big defense contractors.

These are all things that we can do to bring down long-term deficits.

We urgently need bipartisan solutions. One idea that I have supported, a deficit reduction commission, was proposed by Senators CONRAD and GREGG. This commission would make recommendations that would then come up for an up-or-down vote by Congress. That proposal failed, despite its broad bipartisan support. The commission was ultimately supported by more on this side of the aisle than by those across it, including those who cosponsored the original bill and then voted against it when it came up as an amendment. I am curious what changes could be made to such a proposal for it to attract more support. I welcome working with my colleagues across the aisle to find such an approach.

We are all agreed that the current path forward is unsustainable. But we differ on what changes need to be made. It is economically unsound, and potentially dangerous, to require that all spending be offset while we are still recovering from a recession, reeling from nearly 10 percent unemployment rates, and looking for ways to temper the jobs deficit of 12 million workers.

We are putting our economy back at risk just when it is finally turning a corner. Nobel Prize-winning economist Joseph Stiglitz has warned that the upcoming phase-out of Recovery Act spending and State and local spending cutbacks are likely to exert further downward pressure on the economy.

Our working and middle classes are still struggling, and they continue to need our help. We can help them by extending unemployment insurance and COBRA subsidies for those who lost a job through no fault of their own. We can retain vital nutrition assistance programs in the Recovery Act to make sure kids do not go hungry. And we can make investments in renewing our Nation's infrastructure.

These are not government hand-outs, these are the most effective ways to get our economy going again and contributing to our economic recovery. Without these measures, we risk slipping back into a recession. And as I have noted, recessions directly contribute to long-term deficits.

I encourage my colleagues to join with me in standing up to the rhetoric that all spending is created equal. I encourage my colleagues to show compassion toward those still out of work. I encourage my colleagues to support spending programs that will help us emerge from this downturn. And I encourage my colleagues to join forces in coming up with new ways to tackle our long-term deficits because they matter.

We face enormous economic problems: the short-term economic crisis and the long-term deficit. But we also face a seemingly intractable political problem. As long as this body refuses to face up to the simple facts about where our deficits came from and what we need to do to solve them, as long as we turn a blind eye to the simple facts about what will get us out of this major downturn we will be unable to reach the solutions demanded by these problems and deserved by the American people.

Simply put, if we do not face facts, we can not do our jobs. And that would leave this country in serious trouble.

I yield the floor.

The PRESIDING OFFICER. The Senator from Michigan.

FINANCIAL REGULATORY REFORM

Mr. LEVIN. Mr. President, roughly 2 years ago, our Nation suffered a catastrophe. It was not a hurricane or an earthquake. It was no act of God. It was a man-made disaster, manufactured in the boiler rooms of unscrupu-

lous mortgage lenders and the offices of pay-for-hire credit rating agencies, in the headquarters of sluggish regulators, and then vastly expanded in its negative impact in the boardrooms of Wall Street financial firms.

The financial crisis they all helped create has cost millions of Americans their jobs, their homes, and their financial security. It has endangered businesses large and small. It continues to weigh down our economy today. It required trillions of dollars of government aid just to keep the crisis from sliding into a depression.

Addressing the causes of this crisis, in an effort to ensure that it is not repeated, is our very serious obligation. We now have before us, months in the making, something that constitutes our best efforts to carry out that obligation. The legislation before us contains many important provisions.

But it is, in sum, an attempt to build a firewall between the worst high-risk excesses of Wall Street on the one hand and the jobs and homes and futures of ordinary Americans on the other. I strongly support the Dodd-Frank bill and encourage our colleagues to do the same.

Senator DODD spoke at some length a few minutes ago about this bill. He said that he cannot legislate integrity, wisdom, passion, or competency. That is surely true. But without Senator DODD's integrity, wisdom, passion, and competency, we would not be where we are today, on the threshold of making a generationally important reform of the financial community.

Senator DODD made reference to the Permanent Subcommittee on Investigations, and the investigations which we held into the financial crisis. I have seen up close and personal and in detail the worst of those excesses. Our colleagues on the subcommittee, including my ranking member, Senator COBURN, my very active member on that subcommittee, Senator KAUFMAN, and others, we saw these excesses in four different hearings.

For over almost a year and a half, our subcommittee devoted our resources to examining some of the causes and consequences of the financial crisis. We issued dozens of subpoenas. We examined millions of pages of documents. We conducted over 100 interviews. We took more than 30 hours of testimony during those four public hearings.

Those hearings focused on the practices of risky mortgage lenders, using Washington Mutual, WaMu, as a case history. We focused in the second hearing on the failures of the regulators to rein in WaMu's risky practices, in a third hearing on the inaccurate risk assessments of credit rating agencies, and then in the fourth hearing on the egregious practices of some Wall Street investment banks using, as a case history, Goldman Sachs.

In each of those hearings, we learned important facts about how the financial industry and those tasked with

overseeing it failed in their obligations, plunging the Nation into crisis and a deep recession. I want to set out how the legislation before us addresses many of the lessons we learned in the subcommittee's investigation.

Our hearings began with a case study of Washington Mutual Bank, a \$300 billion Seattle-based thrift, that, thanks to its reckless lending, became the largest bank failure in America's history. In the pursuit of higher and higher profits, WaMu's management turned its focus from traditional mortgage lending to high-risk subprime and adjustable-rate mortgage loans.

In doing so, it engaged in practices that endangered the bank, its borrowers, and the economy at large. It sold loans to borrowers that it knew or should have known would be unable to repay. It paid its salespeople more if they sold higher risk loans, with higher interest rates or other terms that made them more difficult to repay.

Internal audits repeatedly found high levels of fraud and abuse in the bank's loans. But business continued as usual. WaMu then dumped these risky loans into the financial system, selling them or packaging them into mortgage-backed securities that Wall Street eagerly scooped up, flooding the stream of commerce with toxic assets like a polluter dumping poison into a river.

WaMu collapsed in 2008, leaving behind a trail of shattered homeowners and investors. Its case history was emblematic of a whole host of irresponsible mortgage lenders that loaded up our mortgage markets with toxic securities.

The legislation before us does much to address these problems. A consumer financial protection bureau will bring new scrutiny to the practices of financial companies, providing important oversight that can end the kind of abusive and even fraudulent practices used by WaMu and other mortgage lenders.

Other provisions will require those who create mortgage-backed securities, such as WaMu, and the investment banks it used, to retain a portion of the risk of securities that are backed by those high-risk loans, such as subprime mortgages or option ARMs so that securitizers will not be able to offload all that risk onto the market and walk away from the losses that occur down the road.

Still another set of provisions in this bill ban so-called liar loans, which allowed WaMu and others to sell loans without any documentation of a borrower's income or ability to repay.

The bill also prohibits the practice of paying salespeople more for gouging homeowners with higher rates or other terms that make loans harder to repay. Each of those reforms addresses critical problems exposed in our subcommittee's hearings, which helped to build the legislative history supporting the need for this bill.

Most of the reforms also require implementing regulations. I hope that those writing the regulations will pay

heed to the problems uncovered in our hearings and take the steps needed to protect our mortgage markets from future abuses.

WaMu might not have been able to engage in its worst practices for as long as it did had it been confronted by Federal regulators. Instead, our investigation found that the Office of Thrift Supervision, WaMu's primary regulator, was more a lapdog than a watchdog. Repeatedly its examiners identified enormous problems with the bank's lending and securitization operation. Yet higher-ups in the Office of Thrift Supervision failed to take appropriate action. When the Federal Deposit Insurance Corporation sought to address the obvious problems in WaMu, the Office of Thrift Supervision, OTS, erected roadblocks that prevented action.

Documents show that the head of OTS referred to Washington Mutual as their agency's constituent, perhaps reflecting an awareness that the country's largest thrift was also the OTS's largest single source of funding.

I am also afraid that comment calling Washington Mutual a constituent of its regulatory agency also ignored the obligation that should result from an agency being a fiduciary whose constituents are not the people they regulate but are the people of the United States of America.

Clearly, OTS has outlived its usefulness, and the legislation before us dissolves the OTS. In addition, a new Financial Stability Oversight Council will have broad authority to monitor individual financial institutions as well as the system at large to catch problem institutions such as WaMu and problematic practices such as high risk lending before they endanger the financial system as a whole.

Credit-rating agencies also failed their essential role in this crisis. Our investigation found these agencies, which supposedly supply expert and objective analysis of credit risk, used faulty risk models and assigned super-safe AAA ratings to products later revealed to be little better than junk. Paid by the Wall Street firms whose products they were supposed to objectively assess, they sought market share by working with these firms to ensure the high ratings needed to sell risky products to risk-averse investors such as pension funds and university endowments. They failed to account for overwhelming evidence that fraud was a major factor in a growing number of mortgage loans.

The Dodd-Frank bill sets up a new office in the Securities and Exchange Commission to oversee and examine the work of the credit-rating agencies. I pay tribute, by the way, to Senator FRANKEN for the work he did in this area in the amendment he offered to the Senate. The Dodd-Frank bill requires the agencies to disclose their methodology and their track records. It allows investors to file private causes of action against such agencies

that fail to thoroughly investigate products they rate.

The bill also tasks the SEC with examining the clear conflict of interest involved in Wall Street firms shopping for the highest rating among the various rating agencies. I am hopeful, at the end of the study, the SEC will adopt the approach taken in the Franken amendment that won bipartisan support in the Senate, and establish an intermediary that will separate the credit-rating firms from the investment banks that press them for high ratings in return for lucrative compensation. As part of their work, I hope the SEC will take an in-depth look at the documents and testimony in our subcommittee hearings that laid bear the conflicts of interest that undermine the accuracy of credit ratings.

Wall Street investment banks also played the major role in the crisis. Seeking ever higher profits, they aggressively marketed the mortgage-backed securities and exotic derivatives tied to the mortgage market that were at the heart of the crisis. Increasingly, those banks drew their profits not from helping client investors prosper but by trading for their own accounts, often in direct conflict with their clients' interests. Internal e-mails that the subcommittee disclosed showed Goldman Sachs repeatedly marketed mortgage-related financial instruments that it created and knew to be faulty, junk, and worse. After it did so, it then made the large bets against those very same instruments. Our investigation also showed Goldman Sachs made a large bet that the mortgage market as a whole was headed down, a bet it denies to this very day that it made, despite a mountain of evidence contained in the firm's own documents that it did so.

With Senator MERKLEY, I worked to address the outrageous conflicts of interest revealed in our hearings on investment banks. The Dodd-Frank bill makes important progress on this front. It sharply limits the risky proprietary trading that Goldman Sachs and other Wall Street firms used to rack up enormous profits while endangering the stability of the financial system.

While I wish the bill was more forceful in limiting these risky trades, especially in terms of limiting financial firm investments in hedge funds and private equity funds, the language in this bill will add substantial strength to the stability of the financial system.

In addition, the bill includes language to end the conflicts of interest revealed in our investigation of Goldman Sachs. No longer will financial firms be able to package and sell asset-backed products to investors and then bet against those same products. Those conflicts of interest will end, unless the regulators water down our strong language with weak enforcement.

The Dodd-Frank bill contains other much needed measures as well. It will

bring new transparency and accountability to the shadowy market in derivatives. It will protect taxpayers from the need to engage in the kind of multibillion-dollar bailouts required in the current crisis by allowing for an orderly resolution of failing financial firms. It empowers regulators to establish tough new capital requirements that make it harder for firms to become so big they endanger the stability of the system. It requires hedge funds to register with the SEC and provide information about their once-hidden operations. It also strengthens the process for shareholders to select corporate directors and to limit excessive executive pay.

We have seen all too clearly the consequences of lax regulation and tepid oversight, the consequences of assuming that Wall Street can police itself. That attitude has put millions of Americans in unemployment lines, has plastered foreclosure signs on millions of American homes, and has pumped billions of dollars of taxpayer money into Wall Street firms that happily profited from their risky bets and then leaned on the rest of us to bail them out when the bill came due.

I say to those colleagues who are considering voting against this bill: Knowing what our investigation and others have discovered, how can you oppose this effort to erect a wall between Wall Street's never-ending appetite for reckless risk and the rest of the American economy?

It is time to put the cop back on the beat on Wall Street. It is time to end Wall Street's "heads we win, tails you lose" game. It is time to prevent as best we can the next manmade disaster threatening our jobs, our homes, and our businesses. It is time to pass this major financial reform legislation, and I hope we will see a strong vote for it in the day ahead.

PAKISTAN AND AFGHANISTAN TRIP

Mr. LEVIN. Mr. President, I rise to speak about a trip Senator JACK REED and I recently took to Pakistan and Afghanistan. In Pakistan, we met with the Prime Minister, the Governor of the critical northern province that includes the Swat Valley, the Pakistani general who is commander of their Army's 11th Corps. In Afghanistan, we met in Kabul with General Petraeus, with Ambassador Eikenberry, with President Karzai, with many of his ministers.

Then, in Afghanistan, we traveled to Kandahar Province, where we met with General Carter, who is the commander of the ISAF forces, the Kandahar Governor and the city mayor of Kandahar. Then we met with the commander of the Afghan Army's 205th Corps, Major General Zazai.

One of the key things we saw, and something which is critically important to the success of this mission in Afghanistan, is that the Afghan Army

be strengthened, take responsibility, primarily, for the security of the country, and lead operations which are joint operations between the Afghan Army and the coalition forces, including American forces.

That will be dramatized, that movement towards the shift of responsibility to the Afghans, where it belongs. A dramatic moment is going to take place later in July or early in August when, in a major operation in the area around Kandahar city, right in the heart of Taliban country, there is going to be a large number of forces that are Afghan forces, a large number of American forces, and from other countries, and it will be the Afghans who will be in the lead in that operation.

This is the Taliban's worst nightmare: facing an Afghan-led force that is going to clear them from control of the area. The Afghan people detest the Taliban, and they respect their own army. And our major goal and mission should be to build up that army, strengthen it sizewise and with equipment and training so it can take major security responsibility for that country. This is the path to success in Afghanistan.

Again, because of this planned operation, which is now announced, and because of a number of other steps which have been taken—a very significant number of positive steps in the last 6 months—I have some confidence we are on the way to a successful outcome in Afghanistan.

Afghanistan has made progress in a number of ways since my visit there in January.

The progress I refer to is toward the key goal of preventing Afghanistan from being dominated by a Taliban organization that would once again provide a haven for the international terrorist movement, al-Qaida.

To achieve that goal, Afghanistan must be able to take principal responsibility for its own security. We and other outsiders cannot secure Afghanistan, but we can help the Afghan security forces do so.

The building blocks to achieve that goal are present. The Afghan National Army, ANA, is respected by the people and the Taliban is despised and feared because of the terror they spread and threaten.

A capable, strong, large Afghan Army is the Taliban's worst nightmare because it means that the Taliban's propaganda that foreigners seek to dominate Afghanistan rings hollow. This is particularly true when Afghan troops are in the lead in joint operations with the troops of ISAF.

That is why I believed we should have focused on training and equipping the ANA, why we should have sent in trainers and mentors instead of sending in more combat troops. That is why when President Obama decided to send in 30,000 more U.S. troops, I strongly supported the decision to begin to reduce those troops in July of 2011. That

date is the action-driving mechanism to demonstrate to the Afghans the urgency of acting to get their army up to the size and capability where they can succeed in the mission so vital to them and to us—securing their country against the Taliban.

A number of steps have been taken in the last 6 months toward achieving that goal.

First, recruitment for the ANA is up, partly because, according to General Caldwell, who leads the ISAF training mission, the announcement of the July 2011 date last December incentivized the Afghan leaders to act to stimulate recruitment.

Second, the Afghan army has grown very quickly, exceeding the goals. Last December the army had 100,000 men; by May the number was 125,000; and Minister of Defense Wardak said he expects to announce that the end of September 2010 goal of 134,000 will be met by the time of the Kabul conference in late July.

Third, the ratio of ISAF forces to Afghan forces is improving in terms of Afghans becoming numerically dominant. When I was with our marines in Helmand Province in January, there were two or three marines for each Afghan soldier. In Kandahar Province, where Senator REED and I visited last week, the ratio is about one to one and by September it will be predominantly Afghan.

Fourth, the partnering in the field between the ANA and ISAF is real. Every Afghan unit from battalion down to company level is now planning and operating together with ISAF units. This has the twin benefits of training Afghan troops and having the Afghan people see that it is their respected army that they want to provide the security which is doing that, rather than foreign troops which have less understanding of their culture and will someday leave.

Fifth, and central to the success of the mission of Afghans being principal providers of security, is the fact that Afghan troops are more and more in the lead in joint operations. A highly significant event will take place at the end of July and early August. A major joint ANA-ISAF operation will move into the Taliban heartland of the Arghandab Valley, just west of Kandahar city. Approximately 10,000 troops—the Afghan 205th Corps with 5,160 soldiers and ISAF with 4,430 soldiers—will clear the area of insurgents.

The planning is complete and the orders signed. It is a major, incredibly important effort and, of great significance, the Afghans will be in the lead.

The significance of this will not be lost on the Afghan people, nor on the Taliban.

Kandahar Province is where the Taliban movement was born. Months of effort have been extended to "shape" the upcoming effort. The city of Kandahar and its environs are being secured at the cost of many lives—both Afghan and coalition forces—so as to