

Opening Statement of Ranking Member Spencer Bachus Full Committee Oversight Hearing on the Troubled Asset Relief Program

November 18, 2008

Mr. Chairman, thank you for holding this important hearing on the government's implementation of the Troubled Asset Relief Program, or TARP. And thanks also to Secretary Paulson, Chairman Bernanke, and Chairman Bair for being with us this morning, and for their continued service to our country.

There have been reports in the past few days that some are claiming that the use of TARP funds for the direct injection of capital is contrary to the Congressional intent when the legislation was adopted. While it is correct that the original proposal presented by Secretary Paulson did not include the capital injection alternative, this approach was added by Congress and is clearly consistent with the intent of the legislation. As has been previously reported, when Secretary Paulson and Chairman Bernanke first briefed the congressional leadership on September 18th on the crisis in the credit markets and the need for Federal intervention to address it, I asked them whether a better use of taxpayer money would be the injection of capital directly into the banking system. My suggestion was based on a belief that recapitalizing the banks would avoid the difficulties inherent in pricing, purchasing and managing complex and highly illiquid assets, in addition to being a quicker and more direct means of jump-starting lending. Direct capital contributions also afford taxpayers greater protection and potential for upside return than investments in hard-to-value toxic mortgage-backed securities.

But while I applaud Secretary Paulson for recognizing that capital injections would best serve the taxpayers' interest, I have serious concerns about the improvised and ad hoc nature of Treasury's implementation of the Capital Purchase Program and other elements of the TARP. We all understand that when conditions on the ground change, policymakers must be agile enough to adjust to those changed circumstances. But changing too quickly, without adequately explaining why you've changed or what you're going to do next, risks sending mixed signals to a marketplace that is in dire need of certainty and a sense of direction.

It is of particular concern that we do not appear to have an exit strategy for the government's deep involvement in private business. Many of us were deeply troubled by any program to have government investing in what we believe should be private market activities and decisions. As the program continues, more and more supplicants are coming forward and there seems to be no end in sight. How do we decide when to stop? Most disturbing of all is that the government is starting to invest in inefficient businesses and diverting capital from more efficient and successful business enterprises. We should not prop up faulty and improvident businesses and their managements with taxpayer money which will inevitably perpetuate their inefficient and ineffective business practices. Is this how the United States became an economic superpower?

The justifications we were offered for supporting government intervention involved mostly claims that we were facing a catastrophic economic collapse if we did not act. Since we adopted this legislation, I have been researching past recessions and it seems to me some of those claims were overblown. In all but two of the recessions since World War II, there have been steep GDP declines. In none of those did we see the level of taxpayer subsidized government intervention into the private sector which we are seeing now. Why is this event so different?

Let me close, Mr. Chairman, by saying that the events of the past year have demonstrated the important role that confidence (or the lack thereof) plays in driving financial markets and the larger economy. Because of the repeated shifts in direction that have marked the administration's implementation of the economic rescue legislation, I fear that many Americans are losing confidence in their government's ability to devise and execute an effective and

coherent strategy for stabilizing our financial system. Hopefully today's hearing will help get the process back on track by providing the Members of this Committee and those we represent with some much-needed answers.

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