

Bachus Statement During Subcommittee Hearing on The Fed and Systemic Risk

July 9, 2009

WASHINGTON - Congressman Spencer Bachus, the top Republican on the Financial Services Committee, made the following statement today during the Capital Markets Subcommittee entitled "Regulatory Restructuring: Balancing the Independence of the Federal Reserve in Monetary Policy with Systemic Risk Regulation"

"Mr. Chairman, thank you for convening this hearing on one of the central questions that this Committee will need to answer as it considers reforms to our financial regulatory system: whether regulatory power should be centralized in the Federal Reserve at a time when our country is facing unprecedented fiscal and monetary policy challenges. We have as witnesses some of the foremost experts on the subject of the Federal Reserve and I am certain we will all benefit from hearing their views.

"During the past two years, we have watched as the Federal Reserve responded to dislocations in financial markets with far-reaching interventions in virtually every corner of our economy. To confront the crisis, the Fed used its emergency authority to bail out failing institutions, provided loans and loan guarantees to revive credit markets, lowered the target federal funds rate almost to zero, and more than doubled its balance sheet. Regardless of how one views these extraordinary Fed actions, I think we can all agree that, as we go forward, we need a more transparent institution with a more clearly defined role.

"Republicans believe that the Fed's core mission -- the conduct of monetary policy -- may be seriously undermined if its supervisory responsibilities are dramatically expanded, as proposed in the Obama administration's regulatory reform 'white paper.' Indeed, the proper role of the Fed represents a critical difference between the administration's proposal and the regulatory reform plan that House Republicans have put forward. The Administration would reward past regulatory and monetary policy mistakes by giving the Fed the preeminent role in regulating the financial system and determining which U.S. financial institutions are 'too big to fail.' This both stretches Fed resources and complicates its ability to carry out its monetary policy function.

"Mr. Chairman, according to the minority staff on the Senate Committee on Budget, the federal government has pledged more than \$9.7 trillion to address our economic credit crisis. The existing national debt is \$10.9 trillion and an it is estimated the 2009 budget deficit of \$1.8 trillion. Today, soaring deficits are the biggest threat to financial stability, economic recovery and job growth. The Republican plan would therefore relieve the Federal Reserve of its current regulatory responsibilities and allow it to focus on its core monetary policy mission. This will ensure that the central bank, which sets the interest rates that greatly affect both individuals and businesses of all sizes, sets those rates with a single goal in mind: sound monetary policy.

"Most importantly, we need to end the bailouts that the Fed has been instrumental in carrying out over the past 18 months. The most effective way to minimize systemic risk is not by empowering Federal bureaucracies that failed the American people during the recent crisis, but by ensuring that those institutions best able to measure, monitor and assess risk have the right incentives to do so. This means strengthening market discipline so that the costs of failure will be borne by a failing institution's creditors and counterparties, not the American public."