

Bachus Statement During Humphrey-Hawkins Hearing

July 21, 2009

WASHINGTON - Congressman Spencer Bachus, the top Republican on the Financial Services Committee, made the following statement today during the Full Committee hearing entitled "Humphrey Hawkins Hearing on Monetary Policy."

"Chairman Bernanke, thank you for appearing before the Committee today and for your professionalism and your service to our country. All of us in Congress appreciate your willingness to make yourself available, both to congressional committees and to individual Members, as we work through this crisis.

"Over the past year, we have witnessed unprecedented intervention into the financial market. For some time Republicans on this committee have expressed a growing unease over the magnitude of federal government involvement and manipulations of our economy. Trillions of dollars of capital commitments, guarantees and loans have been extended. What started out last summer as a large but temporary stabilization effort to prevent a financial collapse has evolved month by month into a seemingly permanent government intervention regime. This included ad hoc bailouts of institutions deemed ‘too big to fail.'

"Today I read with interest the chairman's op-ed in the Wall Street Journal acknowledging the need for an exit strategy - something Republicans have called for since last Fall. Simultaneously, the Obama Administration has spent a staggering amount of money to fund an economic recovery that is slow in coming. It's been almost half a year since Congress passed the \$787 billion so-called stimulus bill and yet we continue to see record job losses. Unemployment has spiked to nine and a half percent and seems headed higher, despite the Administration's assurances that if we passed its stimulus package, unemployment would peak at 8 percent.

"Other federal government interventions have failed as well. The Administration's \$75 billion foreclosure prevention initiative intended to keep three to four million homeowners in their homes has so far offered only 220,000 trial loan modifications. The American people can be forgiven for increasingly asking tough questions about these enormous government outlays, because so far, Mr. Chairman, there has been very little bang for the taxpayers' buck.

"It is not only these past expenditures that give us pause, but it is the multitude of new proposals coming from the Obama administration and their allies in Congress calling for more government control and management - from health care to energy to financial services.

"One of the central questions that this Committee will need to answer as it considers reforms to our financial regulatory system is whether regulatory power should be centralized in the Federal Reserve at a time when our country is facing such unparalleled fiscal and monetary policy challenges. The Fed has made some big mistakes, and historically, the Board has done a poor job of identifying and addressing systemic risks before they become crises. A prime example of this is the troubled lender CIT which was allowed to convert into a bank holding company last December and was placed under the Fed's supervision - only after the Fed declared it was "adequately capitalized." This inability to assess risk

once again threatens to undermine a fragile economy and erase the \$2.5 billion in taxpayer funds provided CIT under the TARP.

"The Obama Administration has proposed a regulatory restructuring plan that would make the Federal Reserve responsible for first identifying and then regulating those financial firms that are, in the Fed's view, systemically significant, and for preventing systemic shocks. Republicans believe that the Fed's core mission -- the conduct of monetary policy -- may be seriously undermined if its supervisory responsibilities are expanded in this way.

"At a time when our economy faces serious structural problems and the threat of inflation if we maintain our current fiscal course, a distracted and overextended central bank subject to potential political interference is a luxury we cannot afford. Republicans believe that relieving the Federal Reserve of its current regulatory responsibilities and focusing it on its core monetary policy mission would enhance the Fed's ability to execute an effective exit strategy, and also ensure that it sets the interest rates that greatly affect both individuals and small businesses with a single goal in mind: sound monetary policy. The proper conduct of monetary policy is the best way the Fed can serve the American people. Asking the Fed to serve as a systemic risk regulator is just inviting a false sense of security that inevitably will be shattered at the expense of the taxpayer.

"Chairman Bernanke, it is not my goal or my custom to level criticism because I have great respect for you and the work you have done. I say these things because they need to be considered as we debate the road ahead. I look forward to your testimony and yield back the balance of my time."

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