Bachus Statement During Systemic Risk Hearing

September 24, 2009

WASHINGTON - Congressman Spencer Bachus, the top Republican on the Financial Services Committee, made the following statement today during the Full Committee hearing entitled, "Experts' Perspectives on Systemic Risk and Resolution Issues."

"Mr. Chairman, I want to thank you for calling this hearing. The problem of ‘too big to fail' financial institutions is one of the most pressing and contentious issues of the regulatory reform debate. Chairman Volcker, we know you as not only a gentleman, but also someone whose opinion we respect.

"Mr. Chairman, in yesterday's hearing with Treasury Secretary Geithner, you identified the ‘too big to fail' problem as one ‘that most aggravates people in the country.' I agree with you to a point, Mr. Chairman. However, those I have talked to are not merely aggravated-they are outraged! And they, the American taxpayers, are tired of paying for Wall Street's mistakes and guaranteeing obligations. They see something manifestly and fundamentally wrong with a casino environment in which the high rollers pocket the profits, often measured in millions if not billions, while the taxpayers pay off the losses. The American people are justifiably outraged by a ‘heads I win, tails you lose' approach. When we designated ten or twenty of our largest financial institutions as ‘too big to fail,' we endorsed a financial marketplace in which a handful of enormous financial institutions are supported by the promise of government-engineered, taxpayer-funded bailouts. We pull people into assuming they will be saved. The time has come for every Member of this body to reject once and for all the concept of taxpayer bailouts of these so-called ‘too big to fail institutions.' Equally important, is the fact that in concept and in practice ‘too big to fail' necessarily creates a much larger universe of companies and businesses which are deemed unworthy and ‘too small to save.' To establish as law such disparate, inequitable, and discriminatory treatment not only should offend our sense of fair play and justice; its elitist operation should be rejected out of hand as contrary to our democratic principles.

"The Administration wants to codify a permanent bailout authority with its proposal to create a "resolution authority." It really is a permanent TARP, administered by government bureaucrats with even less accountability than was present in the current incarnation of the TARP. The beneficiaries of the Administration's plan are not the American people or the vast majority of small and medium sized companies and businesses that chose not to engage in the kind of risky financial activity that led to the financial market collapse. The more responsible individuals and institutions and, inevitably the taxpayers, will pay for the bailouts, but they will not benefit. The assumption will also be that smaller institutions are not

backed by an implicit guarantee and are not as safe. Indeed, just yesterday, in testimony before this Committee, Treasury Secretary Geithner declined repeated invitations to rule out future taxpayer-funded rescues of ‘systemically significant' firms. In response to my question about taking assistance to these firms off the table, Secretary Geithner compared such an action to ‘abolishing the fire station' which I took to mean he would not agree to stop the bailouts. And when asked repeatedly by Congressman Brad Sherman if the Secretary would accept even a trillion dollar limit on new bailout authority, Secretary Geithner finally said, ‘I would not.'

"By contrast, Republicans have offered a workable alternative to the bail-out status quo. In addition to curtailing the Fed's authority to bail out individual firms, Republicans support enhanced bankruptcy for failed non-bank financial institutions. By sending a clear, credible signal to the market place that failed non-bank financial firms will face bankruptcy and need to plan accordingly, the Republican plan restores market discipline, mitigates moral hazard, and protects taxpayers. Mr. Chairman, no institution should be ‘too big to fail.' Institutions can, do, and should fail, if their bad decisions render them insolvent and they cannot compete in the marketplace. To pretend otherwise is to weaken the foundation of our economic system. The better question is, will we have the courage to do the right thing and reject the Administration's efforts to move us to a system of gigantic but weak banks, kept on life support through repeated bailouts paid for by taxpayers and the rest of the financial system? That is the real question.

"Thanks to the distinguished former Chairman of the Federal Reserve for being with us today. I look forward to his insights and those of our other witnesses, and I yield back the balance of my time."