



CONGRESS OF THE UNITED STATES
JOINT ECONOMIC COMMITTEE

Congressman Jim Saxton
Ranking Republican Member

PRESS RELEASE

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**OPENING STATEMENT OF
CONGRESSMAN JIM SAXTON**
Ranking Republican Member

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THE ECONOMIC OUTLOOK

I would like to join in welcoming Chairman Bernanke before the Joint Economic Committee this morning. Given the recent financial turmoil, his testimony comes at a critical juncture in economic policy.

The main cause of the financial turmoil is the collapse of the housing bubble inflated by various government policies over many years. Government policies supported by many in Congress encouraged the expansion of subprime and other risky mortgages that fueled the housing bubble. Strong Congressional support of Fannie Mae and Freddie Mac depended on their investment in high risk mortgages for their own investment portfolios.

In exchange, both Fannie Mae and Freddie Mac showered their Congressional patrons with generous campaign contributions that seriously corrupted the political process. Despite warnings for many years that both Fannie and Freddie were excessively leveraged to a degree that was dangerous, they continued to inflate the housing bubble undeterred by their accounting scandals. Now the country will have to pay a very high price for lending policies highly influenced by political, not economic, objectives. Given their financial problems created by a politicization of decision making, Fannie and Freddie have essentially been taken over by the federal government.

In another startling development, over the last several weeks a distinct investment banking industry, established by the provisions of the well-intended Glass-Steagall Act, has essentially ceased to exist. The independent investment banking business model proved unable to withstand the stress of the financial market instability wracking the entire financial structure. These investment banks were highly leveraged and relied on short-term funds to finance longer term investments.

Unfortunately, many of these investments were mortgage backed securities whose value had plunged over the last year. The fact that the investment banking industry, created by government regulation, has proven unsound is a reminder that government policies do not always provide effective solutions, but can in fact create further problems. As a result, many investors are rightly concerned about the safety of their savings and investments.

Some action by government is now needed to recapitalize the banks and other financial institutions either by injections of equity or removal of toxic investments. In this financial meltdown there is plenty of blame to go around, but ultimately the American people expect action to deal with the crisis. One good place to start would be guaranteeing the safety of transactions accounts to assure savers and small businesses that their basic financial needs can be met without disruption.

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