



CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

CONGRESSMAN KEVIN BRADY

RANKING REPUBLICAN HOUSE MEMBER



NEWS RELEASE

For Immediate Release
May 5, 2009

**STATEMENT OF
CONGRESSMAN KEVIN BRADY**

Press Release #111-9
Contact: Christopher Frenze
(202) 225-3923

I am pleased to join in welcoming Chairman Bernanke before the Committee this morning.

The bursting of the credit and housing bubbles has thrown the economy into a severe recession, destroyed millions of jobs, and wiped out the savings of many Americans. Government policy mistakes, excessive leverage, and weak underwriting standards by financial institutions contributed to the current downturn.

The recently released minutes of the March 17-18 Federal Open Market Committee (FOMC) indicate that the Fed staff has reduced its projections for economic growth for the second half of 2009 and for 2010. This underscores the fact that economic reality is inconsistent with the relatively optimistic economic projections the Administration used in its budget and that understate its true cost. Deficit spending and federal debt are out of control. When is the Congress going to acknowledge that current fiscal trends are unsustainable?

Last week, the *Financial Times* reported that the IMF now estimates that U.S. losses on toxic assets will be \$1.9 trillion over the next five years. The recently adopted Congressional budget resolution ignored these costs entirely in setting budget policy for 2010. How expensive will the bank cleanup be, and will its costs be hidden from the taxpayers?

There is widespread agreement that a sustained economic recovery cannot occur without an effective bank cleanup in place. The Administration has put forth a financial rescue plan, but many of its components are very troubling. Serious problems with the Public-Private Investment Program (PPIP) were identified by Special Inspector General Neil Barofsky in testimony before this committee on April 23.

According to his quarterly report, "Many aspects of PPIP could make it inherently vulnerable to fraud, waste, and abuse." The vulnerabilities identified in his report include conflicts of interest, collusion, and money laundering. He also noted as problematic the enormous size of the program and the degree of leverage so "that the taxpayer risk is many times that of the private parties, thereby potentially skewing the economic incentives." Will the Treasury recognize these problems and move quickly to correct them?

The extraordinary actions taken by the Federal Reserve during the financial crisis have bewildered many of my constituents and left them wondering how the Federal Reserve's policies will affect their economic well-being. Small businesses in Texas report that they are having a tough time finding affordable credit because regulators are pressing banks to avoid risk. Has the pendulum swung too far in this direction?

To prevent a downward debt-deflation-default spiral, the Federal Reserve has expanded its balance sheet from \$946 billion in September 2008 to \$2.1 trillion last week. While this explosive growth does not pose an immediate inflationary danger, the Federal Reserve will need to begin contracting its balance sheet when the economy begins to recover. What is the Federal Reserve's exit strategy to wind down its emergency credit facilities and reduce excess bank reserves to prevent higher inflation? And have these extraordinary credit facilities diminished the Federal Reserve's autonomy in setting monetary policy?

Many experts have suggested that the Federal Reserve should become the systemic risk regulator for all U.S. financial institutions, not just banks and their holding companies. Is the Federal Reserve capable and ready to perform this function?

The decisions made during the current turmoil will affect financial institutions and markets for decades. Yet, there has been little discussion among policymakers about how the financial system should function after the crisis abates. What changes in laws or regulations should be made to optimize the future performance of our financial system? Should securitization and the shadow banking system play as large of a role in financial intermediation as they did prior to the crisis? What should be the role, if any, for Fannie Mae and Freddie Mac?

Mr. Chairman, I look forward to your testimony and answers to some of these important questions.

###