

Bachus Supports The No More Bailouts Act

WASHINGTON -Congressman Spencer Bachus, the top Republican on the Financial Services Committee, made the following statement today during consideration of the Republican substitute to the Democrats' so-called "Financial Stability Improvement Act." The No More Bailouts Act ends all taxpayer funded bailouts and brings needed reforms to the Federal Reserve.

"This substitute represents the only financial industry reform proposal that has been discussed over the past year that does what Members on both sides of the aisle are demanding: End the bailouts!

"There is nothing in either the Administration's proposal or the bill we are considering today that prevents regulators from bailing out large financial institutions, including their creditors, counterparties, or shareholders. Chairman Frank and Secretary Geithner disagree over whether the resolution authority established in this bill should be funded by assessments on financial companies before a company deemed "systemically significant" by the government becomes insolvent, or after the fact. But the reality is that both approaches continue to enshrine in law a misguided "too big to fail" doctrine that skews market incentives and leads inevitably to taxpayer-funded bail-outs.

"The only effective way to eliminate the moral hazard created by a "too big to fail" policy that led to the bailouts of AIG, Fannie Mae, Freddie Mac, Citigroup, Bank of America, General Motors, and Chrysler, and put the taxpayers on the hook for hundreds of billions of dollars that will never be recovered, is to create a new chapter of the bankruptcy code to resolve insolvent large non-bank financial institutions. That is what this substitute does.

"We do not think that a system, where government gets to pick winners and losers based on ambiguous objectives determined by expedient political circumstances should trump a bankruptcy system that has already proven more than capable of resolving and liquidating large, complex financial institutions.

"The Republican substitute is clearly a more serious approach than the underlying bill, in which the proponents can't even figure out who is going to pay- and when-to fund a bailout authority administered for the benefit of a handful of large financial institutions. Unlike the underlying bill, this substitute is based on the principles that (1) the government must stop rewarding failure and picking winners and losers; (2) taxpayers must never again asked to pick up the tab for bad bets on Wall Street; and (3) market discipline must be restored so that financial firms will no longer expect the government to rescue them from the consequences of imprudent business decisions.

"Utilizing an enhanced bankruptcy system that makes clear that the government will not step in to bail out a failing institution will encourage creditors to be more vigilant in assessing the creditworthiness and business practices of the parties to whom they are extending credit. In other words, the consequences of failing to perform proper due diligence will be apparent to all market participants - your investment and the investments that you manage will be wiped out.

"To make clear that the government will no longer step in to bail out a failing institution or its creditors, which would remove the kind of uncertainty and confusion that roiled the markets last September, the amendment limits the Federal Reserve's authority under Section 13(3) of the Federal Reserve Act to intervene on behalf of individual institutions. In addition, rather than establishing the Federal Reserve as the systemic risk regulator, and identifying in advance those firms that are too big to fail, the amendment creates a Market Stability and Capital Adequacy Board which would meet on a regular basis and report to Congress and the relevant functional regulators any identified risks that could endanger the stability and soundness of the system so that policymakers and regulators could act to contain the risks.

"Mr. Chairman, the Committee Print and the Republican Substitute take two very different approaches to addressing our financial crisis. The Committee print expands government control over the economy and exposes the taxpayer to greater liabilities than ever before. In contrast, the Republican substitute will put an end to the bailouts by ensuring that responsibility for maintaining the stability of the financial system is placed with the individual market participants who have the self-interest and the expertise to take the necessary action to protect themselves, their investors, and their creditors from the risks that are endemic to the financial system.

"I urge my colleagues to support of the Republican Substitute and reject the bailouts once and for all."