U.S. House of Representatives
Committee on Financial Services
Hearing: Examining the Link Between Fed Bank Supervision and Monetary Policy
March 17, 2010

Statement for the Record
Congressman Ron Paul

Mr. Chairman, we have been hearing much recently about the Senate's financial reform package. It is an issue with which the House will deal in the coming weeks. The most frightening thing about this legislation is that it gives the Federal Reserve more power over the economy, while still maintaining the secrecy behind its financial transactions.

The new bill creates a Consumer Financial Protection Bureau within the Federal Reserve System. The new bureaucracy would be funded by the Federal Reserve. The Fed would become the de facto systemic risk regulator, would gain the ability to regulate non-bank financial companies, and could even break up large companies deemed to be systemically risky. Given the opaque nature of everything the Fed has done over the past two and a half years to shore up a shaky economy and the repeated difficulty in obtaining a full, effective audit of the Federal Reserve System, I believe it to be unwise to grant any further sweeping powers to the Fed until issues of oversight are resolved.

The creation of a Consumer Financial Protection Agency is itself problematic. This agency would have such broad power to regulate companies outside those normally considered part of the financial system that even companies such as McDonald's or Starbucks would be subject to the CFPA's regulatory scope.

The most effective regulation is market regulation. CFPA approval of financial products will cause a further regulatory hurdle for American businesses, adding extra cost and causing companies to cut jobs. CFPA approval will not prevent any further financial crises, nor will it prevent fraud. The Fed's loose monetary policy caused the financial crisis, the SEC failed to detect Bernie Madoff, and the FDIC is nearly bankrupt. Yet the response after every failure is not to peel back the layers of arcane regulation but rather to give even more power to the same failed agencies and to create additional layers of bureaucracy. As Chairman Volcker mentioned in his written testimony, this economic crisis is:

> “only the latest of a string of financial disturbances that seem to have been growing in both intensity and frequency. Plainly, we should learn from this experience, drawing appropriate conclusions about the role and responsibilities of the Federal Reserve.”

Indeed, future crises will in fact become more severe if we continue down the path of more government regulation. Instead of repeating the same failed policies, we need to understand the cause of the crisis, the Fed's loose monetary policy, and work to ensure that its unelected bureaucrats do not imperil the health of the US economy.