

Opening Statement

Committee on Financial Services

Hearing on

“An Examination of the Extraordinary Efforts by the Federal Reserve Bank to Provide Liquidity in the Current Financial Crisis”

February 10, 2009

The Honorable Tom Price [Georgia-6th District]

Lately, it seems as though every few weeks we see the creation of a new Federal Reserve lending facility. In an attempt to take on the troubled market head first, the Fed seems to have morphed its role as the manager of monetary policy into the more activist role – lender of first resort.

The Fed has exposed itself to an unprecedented amount of risk in these facilities by increasing its balance sheet and expanding its definition of acceptable collateral. In fact, the Fed has doubled its balance sheet since August, going from less than \$1 trillion to approximately \$2 trillion in the span of 5 months.

The Fed has taken extraordinary action to prevent large institutions from failing, but in the wake of these actions, we must consider the effects on our market based system. We are politicizing our economy by allowing the government to designate certain institutions as “too big to fail.” In a political economy, where we currently find ourselves, the government picks winners and losers, decides who is propped up and who fails. In this political economy, losses are socialized while profits are privatized. This is NOT the type of economy that has allowed America to become the leader of the world and it is not the type of economy the American people want.

While I firmly believe the Fed’s ability to respond to the market is crucial, it is equally crucial that Congress and the American public have a solid understanding of why the Fed takes certain actions and why these actions are absolutely necessary to stabilize the economy.

Ultimately, it is imperative that we examine any way in which government intervention in the market is keeping private capital on the sidelines. As long as the government is picking winners and losers, deciding who gets rescued and who fails, private investors will make the decision that makes the most financial sense to them. They will hold onto their funds or invest them elsewhere. How can we expect private capital to participate when their investment may be diluted, or their competition may be propped up by the government?

My constituents want to know what the exit strategy for all this government intervention looks like. My concern, however, is that in the wake of the administration’s announcement this morning, we are moving in the wrong direction. With more taxpayer dollars on the line and more risk being assumed by the government, we need the justification for why “more” is going to work, when everything we have done to this point has not. When will we allow the wonders and responsiveness of our market economy to work, to guide our way forward for the betterment of all?