

WASHINGTON – Congressman Spencer Bachus (AL-6), Ranking Member on the House Financial Services Committee, delivered the following statement today at a hearing reviewing actions the Federal Reserve has taken in response to conditions in the financial markets and economy. Federal Reserve Chairman Ben Bernanke testified at the hearing.

When historians look back at the financial crisis and ensuing economic upheaval of the last half of the first decade of the 21st century, what will the story line be? I submit it will be that while the public was focused on a tax rebate program, \$700 billion TARP, and the \$1 trillion economic stimulus package, a much larger drama was unfolding below the surface. While the public was distracted by these high profile activities, other programs some five times larger than those debated and discussed in open forums were being enacted by a select group of unelected federal regulators who were making commitments of trillions of dollars backed by taxpayer guarantees and loans. Perhaps much like the analogy of an iceberg, only the tip of which is visible, the public and its elected representatives are left merely to speculate as to the nature and composition of these complex financial transactions entered into out of public view.

Using an obscure and seldom accessed provision of the Federal Reserve Act of 1913, the Federal Reserve and Treasury made unprecedented interventions into the financial markets. Not only has there been no disclosure, oversight, or accountability, but there has also been an active resistance on the part of these officials to explain their actions. At this time, because we know almost nothing about these transactions, we can only guess as to their ultimate success or failure. In future years I am sure those that write of these days will be intrigued and captivated by the question “How could such an unprecedented action have occurred without the consent of the governed?”

In many of the transactions that have been undertaken so far we have been told we could not be given many of the details because it was proprietary information of the companies involved. We have been left to guess as to the terms, conditions, size, results expected, consequences, criteria for eligibility, or even the identity of all the parties. What is unknown pales in comparison to what is known.

Perhaps of all the troubling aspects of these iceberg transactions, I am troubled most by what appears above the surface to be a total lack of guiding principles in entering these arrangements. This perception is only heightened by a series of ad hoc decisions and policy reversals which give an indication that there is in fact no detailed plan to navigate us through what we all agree are troubled times.

Let me close by suggesting a missing but essential guiding principle which I believe in a democracy should be a requirement in any agreement or transaction involving the government. The principle is simple. In the event that our governing officials come to the conclusion that a commitment of public funds is necessary, if a commitment of taxpayer funds can not be disclosed because of the circumstances involved, it cannot and should not be made. If a private party to a transaction not involving national security is unwilling to enter into an agreement open to public scrutiny and examination, the agreement should not be made.