The following column on financial market reform co-authored by Congressman Bachus, Ranking Member on the Financial Services Committee, and Congressman Lamar Smith of Texas, Ranking Member on the Judiciary Committee, appeared in the Washington Times on September 16, 2009.

The anniversary of Lehman Brothers Holdings Inc.'s collapse presents a good opportunity to reflect on the past year's financial crisis and look for ways to prevent future failures. The financial tumult that began in 2007 destroyed trillions of dollars in household wealth and prompted government interventions that cost American taxpayers billions of dollars. While a policy of "deregulation" is often identified as a central cause of the financial crisis, it was in truth misguided government regulations over a period of decades that did more to destabilize our financial system than any other single factor.

In the remaining months before adjournment, Congress will consider ways to fix and modernize our financial infrastructure. Although the administration's health care overhaul has monopolized the public's -- and Congress' -- attention, we cannot neglect the proposed changes to the financial regulatory regime because they will directly affect our nation's future prosperity.

During the last 18 months, the federal government has rescued large and interconnected financial institutions like Fannie Mae, Freddie Mac and American International Group Inc. from collapse. Meanwhile, the American people have grown increasingly alarmed that their government is rewarding corporate failure with taxpayer dollars. Common-sense reforms will ensure that taxpayers never again pay the bill when financial firms fail.

However, the administration's plan adds new layers of bureaucracy to a system that is already too complex. It entrusts the Federal Reserve Board with the responsibility for identifying and containing systemic risk. But expanding the Federal Reserve's regulatory purview can only distract it from its primary mission of conducting our nation's monetary policy, while at the same time promoting a false sense of security among market participants that risk has somehow been magically removed from the financial system.

The administration's plan establishes a new consumer-protection overseer, separate from the risk regulator. This separate agency would result in consumer protection occurring in a vacuum, with potentially inadequate consideration given to the costs, efficacy or impact of the consumer-protection agency's edicts on the safety and soundness of regulated financial institutions.

Proving that memories in Washington are short, this division of regulatory responsibilities is an identical supervisory structure to Fannie Mae's and Freddie Mac's before they collapsed as a result of inadequate oversight. The failure of these companies cost American taxpayers tens of billions of dollars and counting.

Most significantly, the administration's plan would perpetuate the notion that some institutions are "too big to fail," guaranteeing future billion-dollar taxpayer bailouts of ailing financial behemoths.

By contrast, the Republicans' proposal focuses on the causes of the financial meltdown and addresses them with common-sense solutions. Our plan reduces systemic risk by ensuring that the costs of failure are borne by business, clients and creditors, not American taxpayers. By explicitly prohibiting government bailouts, our plan signals to market participants that they must protect their own interests rather than look to the government to save them. Without this bailout ban, big institutions will continue to take big risks, expecting American taxpayers to foot the bill when those risks don't pay off.

Unlike the administration's plan, the Republican proposal brings regulators within a unified structure, plugging gaps in institutional oversight and marrying oversight with consumer-protection functions. The new consolidated agency promotes innovation and consumer choice, but also ensures consistent enforcement of the rules, while allowing the Federal Reserve to focus on its monetary policy mission.

And rather than grant the federal government the authority to spend unlimited amounts of taxpayer and borrowed cash to prop up large firms -- as the administration proposes -- the Republican plan enhances the bankruptcy code to allow the courts, in concert with the financial regulators, to resolve insolvent institutions. It makes clear that creditors and counterparties of failed financial firms will have their claims transparently adjudicated by impartial arbiters according to well-settled legal precedents, not by government employees and politicians meeting behind closed doors. We can only strengthen the financial system if companies are again allowed to reap the rewards of their successes and required to bear the responsibilities of their failures.

Congress, too, must not ignore the failures of the past. Sound financial regulation can prevent future crises. Any serious proposal for reforming the financial regulatory structure must seek to restore market discipline, punish rather than reward failures, and protect taxpayers from having to pay the price for bad business decisions on Wall Street and misguided policies from Washington. The administration's plan simply repeats the mistakes of the past. The Republican proposal provides common-sense reforms by prohibiting bailouts, encouraging innovation, and protecting consumers from dangerous financial products and unscrupulous business practices.