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The Financial Services Committees "Views and Estimates for 2005"

The Committee on Financial Services' "Views and Estimates for Fiscal Year 2005" begins by expressing concerns about the long-term threat that record level of deficit spending poses to the American economy, and pledging to support efforts to reduce the deficit. Yet in the rest of the document the committee advocates increasing spending on both foreign and domestic welfare. The committee also advocates new regulations that will retard economic growth, as well as violate the Constitution and infringe on individual liberty.

This document claims that "investor confidence" was boosted by the Sarbanes-Oxley Act, which imposed new federal regulations on capital markets, including mandating new duties for board members and dictating how companies must structure their boards of directors. One of Sarbanes-Oxley's most onerous provisions makes every member of a company's board of directors, as well as the company's chief executive officer, criminally liable if they fail to catch accounting errors.

As investigative reporter John Berleau detailed in his Insight magazine article ("Sarbanes-Oxley is a Business Disaster"), the new mandates in Sarbanes-Oxley have caused directorship, accounting, audit, and legal fees to double. In addition, the cost of directors' liability insurance has almost doubled since Sarbanes-Oxley became law. Not surprisingly, the impact of these new costs hit small businesses especially hard--the traditional engine of job creation in America.

The costs of compliance with Sarbanes-Oxley divert capital away from activities that create jobs. Yet the committee is actually considering imposing Sarbanes-Oxley-like regulations on the mutual funds industry! Instead of expanding the regulatory state, the committee should examine the economic effects of Sarbanes-Oxley and at least pass legislation exempting small businesses from the law's requirements.

The committee's 'Views and Estimates" gives an unqualified endorsement to increased taxpayer support for the Financial Crimes Enforcement Network (FINCEN), while ignoring the growing erosion of our financial privacy under the PATRIOT Act and similar legislation. In fact, the committee ignores the recent stealth expansion of the FBI’s power to seize records of dealers in precious metals, jewelers, and pawnshops without a warrant issued by an independent judge. Instead of serving as cheerleaders for the financial police state, the committee should act to curtail the federal government’s ability to monitor the financial affairs of law-abiding Americans.

While the committee’s “Views and Estimates” devote considerable space to discussing Government Sponsored Enterprises (GSEs), it makes no mention of the billions of dollars in subsidies Congress has given to GSEs. These subsidies distort the market, create a short-term boom in housing, and endanger the economy by allowing GSEs to attract capital they could not attract under pure market conditions.

Like all artificially created bubbles, the boom in housing prices cannot last forever. When housing prices fall, the financial losses suffered by the mortgage debt holders will be greater than they would have been had the government not actively encouraged over-investment in housing.

Government subsidies helped Fannie and Freddie triple their debt to more than $2.2 trillion from 1995 to 2002. Fannie and Freddie’s combined debt soon could surpass the privately held debt of the entire federal government. A taxpayer bailout of the GSEs would dwarf the savings-and-loan bailout of the early nineties and could run up the national debt to unmanageable levels.

However, according to the Committee on Financial Services, the problem with GSEs is not taxpayer subsidizes but a lack of proper regulation! Therefore, the only GSE reform recommended by this document is to create a new regulator to oversee GSEs. In fact, new regulators, or new regulations, will not do anything to correct the market distortions caused by government support of GSEs.

Instead of reorganizing the deck chairs of the GSEs’ looming fiscal Titanic, the Committee should pass HR 3071, the Free Housing Market Enhancement Act. This act repeals government subsidies for the housing-related GSEs--Fannie Mae, Freddie Mac, and the National Home Loan Bank Board.

The committee’s inconsistency regarding deficit reduction is shown by its support for increased spending for almost every foreign aid program under its jurisdiction. Of course, Congress has neither constitutional nor moral authority to take money from the American people and send it overseas. Furthermore, foreign aid rarely helps improve the standard of living for citizens of “beneficiary” countries. Instead, the aid all too often enriches corrupt politicians and helps stave off pressure for real reform. Furthermore, certain proposals the committee embraces smack of economic imperialism, suggesting that a country whose economic and other policies please American politicians and bureaucrats will be rewarded with money stolen from the American taxpayer.

The committee also expresses unqualified support for programs such as the Export-Import Bank (Ex-Im) that use taxpayer dollars to subsidize large multinational corporations. Ex-Im exists to subsidize large corporations that are quite capable of paying the costs of their own export programs! Ex-Im also provides taxpayer funding for export programs that would never obtain funding in the private market. As Austrian economists Ludwig Von Mises and F.A. Hayek demonstrated, one of the purposes of the market is to determine the highest value uses of resources. Thus, the failure of a project to receive funding through the free market means the resources that could have gone to that project have a higher-valued use. Government programs that take funds from the private sector and use them to fund projects that cannot obtain market funding reduce economic efficiency and decrease living standards. Yet, Ex-Im actually brags about its support for projects rejected by the market!

Rather than embracing an agenda of expanded statism, I hope my colleagues will work to reduce government interference in the market that only benefits the politically powerful. For example, the committee could take a major step toward ending corporate welfare by holding hearings and a mark-up on my legislation to withdraw the United States from the Bretton Woods Agreement and end taxpayer support for the International Monetary Fund. If the committee is not going to defund programs such as Ex-Im, it should at least act on legislation Mr. Sanders will introduce denying corporate welfare to industries that move a substantial portion of their workforce overseas. It is obscene to force working Americans to subsidize their foreign competitors.

Finally, the committee’s views support expanding the domestic welfare state in the area of housing, despite the fact that federal subsidies distort the housing market by taking capital that could be better used elsewhere and applying it to housing at the direction of politicians and bureaucrats. Housing subsidies also violate the constitutional prohibitions against redistributionism. The federal government has no constitutional authority to abuse its taxing power to fund programs that reshape the housing market to the liking of politicians and bureaucrats.

Perhaps the most disappointing omission from the committee's "Views and Estimates" is the failure to address monetary policy. This is especially so given the recent decline in the value of the dollar caused by the Federal Reserve's continuing boom and bust monetary policy.

It is long past time for Congress to examine seriously the need to reform the fiat currency system. The committee also should examine how Federal Reserve policies encourage excessive public and private sector debt, and the threat that debt poses to the long-term health of the American economy. Additionally, the committee should examine how the American government and economy would be affected if the dollar lost its privileged status as the world's reserve currency. After all, the main reason the United States government is able to run such large deficits without suffering hyperinflation is the willingness of foreign investors to hold US debt instruments. If, or when, the dollar's weakness causes foreigners to become reluctant to invest in US debt instruments, the results could be cataclysmic for our economy.

In conclusion, the "Views and Estimates" report presented by the committee claims to endorse fiscal responsibility, yet also supports expanding international, corporate, and domestic spending. The report also endorses increasing the power of the federal police state. Perhaps most disturbingly, this document ignores the looming economic problems created by the Federal Reserve's inflationary monetary polices and the resulting increase in private and public sector debt. I therefore urge my colleagues to reject this document and instead embrace an agenda of ending corporate welfare, protecting financial privacy, and reforming the fiat money system that is the root cause of America's economic instability.