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FLOOR STATEMENT ON

THE TROUBLED ASSETS RELIEF PROGRAM

by Representative Paul D. Ryan

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The Emergency Economic Stabilization Act of 2008, passed last October, not only granted the Treasury the authority to use $350 billion in public funds to prevent a collapse of the financial system, but it also greatly expanded the Federal Reserve policy toolkit in addressing the crisis through a somewhat obscure, but important, provision of the legislation. The bill authorized the Fed to begin paying interest on the reserves that commercial banks hold with the central bank. This ability has essentially allowed the Fed to establish a floor for the federal funds rate, the main lever of its economy-wide monetary policy stance, even while it greatly expands the provision of liquidity to various segments of the financial markets to address the crisis. To this end, the Fed has been increasing the asset side of its balance sheet through a variety of lending facilities and asset purchases. The scope of its lending has also been amplified by frequently invoking emergency powers under the Federal Reserve Act's "unusual and exigent circumstances" clause, which it has used to justify lending to important, non-depository financial institutions.

The Fed has made it clear that it will continue to expand its balance sheet to make sure that credit is available to consumers and small businesses, and the integrity of the overall financial system is preserved. In recent months, for instance, the Fed has established new and innovative lending facilities intended to boost the flow of funding to the commercial paper market and key asset-backed security markets; it has committed itself to purchasing billions of mortgage-backed securities in order to keep mortgage rates low for the health of the housing market; and it has continued to play a key role in providing assistance to systemically important financial institutions. These actions on the part of the central bank have, in fact, come very close to replicating the original intent of the Troubled Assets Relief Program [TARP]. In addition, these actions – along with the deployment of the initial $350 billion of TARP funding – have shown signs of being effective: the economy is still in a precarious state, but a systemic, and catastrophic, collapse of our financial and credit markets has been avoided.

My fear is that the second $350 billion in TARP funding will go far beyond the original mission of preserving overall financial market stability, and instead will be used to fund a heavy-handed, neo-industrial policy. Various industries have already marshaled their lobbyists for a claim on these public dollars; and with our Federal budget deficit expected to reach historic levels this year, we cannot risk more public funds to be squandered.

In light of the Fed's vastly expanded policy options for addressing key sources of market turmoil going forward and their relative effectiveness, combined with the very real risk that more TARP funding will be used for an industrial policy, I am voting against the release of the second half of the TARP funds. Although I am concerned about the Fed moving into new and expanded policy territory, that concern is tempered by the fact that the Fed is relatively insulated from politics and lobbyists and is more singularly focused on the stability and health of the financial system, which was my foremost reason for approving the original TARP funding last October.