

Statement of Senator Jim Bunning

March 19, 2009

Thank you, Mr. Chairman.

This is a very important hearing, and I hope our witnesses will give us some useful answers. A.I.G. has been in the news a lot this week, but it is not the only problem in our financial system. Other firms, including some regulated by our witnesses, have failed or been bailed out.

We all want to make any changes we can that will prevent this from happening again. But before we jump to any conclusions about what needs to be done to prevent similar problems in the future, we need to consider whether any new regulations will really add to stability or just create a false sense of security.

For example, I am not convinced that if the Fed had clear power to oversee all of A.I.G. they would have noticed the problems or done anything about it. They clearly did not do a good enough job in regulating their holding companies, as we discussed at the Securities Subcommittee hearing yesterday. Their poor performance should throw cold water on the idea of giving them even more responsibility.

Finally, I want to say a few words about the idea of a risk regulator. While the idea sounds good, there are several questions that must be answered to make such a plan work. First, we have to figure out what risk is and how to measure it. This crisis itself is evidence that measuring risk is not as easy as it sounds. Second, we need to consider what to do about that risk. In other words, what powers would that regulator have, and how do you deal with international companies? Third, how do we keep the regulator from always being a step behind the markets? Do we really believe the regulator will be able to recruit the talent needed to see and understand risk in an ever-changing financial system on government salaries? Finally, will the regulator continue the expectation of government rescue whenever things go bad?

We should at least consider if we can accomplish the goal of a more stable system by making sure the parties to financial deals bear the consequences of their actions and thus act more responsibly in the first place.

Thank you, Mr. Chairman.