

## **DISSENTING VIEWS ON BUDGET RECONCILIATION**

We are very disappointed by the partisan, non-substantive approach taken by the Republican majority to the important issue of deficit reduction.

The Republicans have simply used the reconciliation vehicle as a means of achieving what they have been unable to do through the regular legislative process, namely repeal the section of the Financial Reform bill – urged on us by Bush administration appointees after their experience with the crisis of 2008 – that provide for a way to deal with large financial institutions that have become too indebted to exist. The legislation that was adopted requires that such institutions be put out of existence, with the shareholders wiped out and the officers and directors abolished. The law then mandates that the government – as recommended, we note, by Secretary of the Treasury Paulson – be given the authority to make some payments if necessary to prevent contagion from the unpaid debts of this now defunct institution, but also mandates the Secretary of the Treasury to recover any expenditure so made from large financial institutions. Because of the very specific timeframe Congress has imposed on the CBO, they were required to rule that there would be a \$22 billion shortfall, again not because there would not be reimbursement, but because the reimbursement would lag the expenditure as a result of the way the law is written. Thus, CBO estimates that \$22 billion would be owed to the government at the end of the ten year period. It should be noted again that this is not an argument by CBO that the federal government would lose money. It is simply an assertion that at the end of an arbitrary ten year period, money that would eventually be repaid would be owed.

The Democratic response to this scoring quirk was to simply move up the period within which institutions with \$50 billion dollars or more would have to pay in the funding. Since CBO estimated that the cost of this would be \$30 billion -- \$22 billion in reimbursements and an \$8 billion tax reduction in consequence for the paying financial institutions -- we proposed that \$30 billion be collected over a ten year period. The Republicans, expressing great sympathy for the banks which they believe, apparently, to be overtaxed, and thinking that these banks should not have to contribute to paying the cost of the financial crisis they caused, voted this down on a party line vote. Instead they responded by voting to repeal the entire orderly liquidation authority, which would put us back where we were in 2008, when the failure of Lehman Brothers triggered a crisis.

In other words, rather than assess financial institutions at \$50 billion dollars in assets and more, a total of \$3 billion a year collectively to provide some backup in case we needed to respond to a potential crisis, the Republicans repealed the entire mechanism that had been set up -- and we note again, in response to the requests of Treasury Secretary Paulson, Federal Reserve Chairman Bernanke, and FDIC Chairman Bair -- all three of them Bush appointees.

The Republicans further used reconciliation for their ideological purposes by singling out the Consumer Financial Protection Bureau of all banking regulatory agencies to be subject to appropriations, rather than to have its own revenue stream guaranteed. When Democrats argue that if this was to be the model, it should apply also to the Federal Reserve System and the Comptroller of the Currency, the Republicans, with great inconsistency, voted us down. That is, of all the federal regulatory agencies that are not subject to the appropriations process,

only the Consumer Financial Protection Bureau was singled out for this treatment, and the Republicans did so noting that if they had their way, they would thus be able to reduce the funding for this important consumer agency by billions of dollars over a ten year period. In addition to refusing to apply this principle to the Comptroller of the Currency or the Federal Reserve, the Republicans also neglected to apply it to the Federal Housing Financing Administration, which governs Fannie Mae and Freddie Mac, and when the Republicans were asked why they were not doing that, the result was an embarrassed silence.

Finally, the Republicans seek once again to repeal the HAMP Program which has resulted in the prevention of hundreds of thousands of foreclosures. This is in line with the Republican philosophy that the federal government should do nothing to deal with the crisis in housing, that is not only a terrible problem for individuals, but has a negative effect on the economy as a whole.

The last part of the reconciliation was the adoption in the bill of the bipartisan flood insurance bill that has been worked on equally by Democrats and Republicans and we are supportive of this provision.

Dissenting Views on Budget Reconciliation

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