RSC Republican Study Committee

Financial Services Working Group

Congressman Scott Garrett (R-NJ), Chairman

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OBAMA'S NEW MOTTO FOR THE UNITED STATES:
"LESS FREE THAN WE USED TO BE"

"**The United States is losing ground to its major competitors in the global marketplace**...Driving it all were the federal government's interventionist responses to the financial and economic crises of the last two years, which have included politically influenced regulatory changes, protectionist trade restrictions, massive stimulus spending and bailouts of financial and automotive firms deemed "too big to fail." These policies have resulted in job losses, discouraged entrepreneurship, and saddled America with unprecedented government deficits." – *Wall Street Journal* editorial, included on the back page

THE OTHER SHOES TO DROP...

BERNANKE CONFIRMATION

Latest update, Per *The Hill*: "Senate Democrats will try to reach an agreement in the next two weeks to hold a vote on Ben Bernanke's confirmation to a second term as Federal Reserve chairman. Bernanke, whose term is up Jan. 31, will face a contentious confirmation vote for Fed chairman. Several senators, including Bernie Sanders (I-Vt.), Jim Bunning (R-Ky.) and Jim DeMint (R-S.C.), have placed holds on the vote."

THE OTHER [ECONOMIC] SHOE: FANNIE MAE AND FREDDIE MAC

Per WSJ: "Exempt [from the bank tax] are Fannie Mae and Freddie Mac, which operate outside of TARP but also surely did more than any other company to cause the housing boom and bust...In other words, the White House wants to tax more capital away from profit-making banks to offset the intentional losses that the politicians have ordered up at Fan and Fred."

FHA CHANGES

Federal Housing Administration (FHA) announced a set of policy changes to strengthen the FHA's capital reserves, fulfilling Rep. Garrett's request that the FHA find ways to more effectively manage its risk. Garrett introduced legislation, H.R. 3706, to require borrowers under FHA-insured mortgages make higher down payments in order to shield taxpayers from the risk that the FHA portfolio presents.

"Homeownership is a noble goal," Garrett said. "However, the benefits of promoting homeownership using government subsidies must be balanced against the potential risk of insuring less creditworthy borrowers and exposing the American taxpayer to that risk. As we have learned repeatedly throughout the mortgage crisis, the amount of equity a homeowner has in their home directly correlates to the credit risk associated to their mortgage."

OBAMA'S BANK TAX

Per *WSJ*: "If investors didn't get the message before, they've got it now: There will be no upside allowed. Anytime the sector starts to show signs of recovery, Washington can swoop in and grab the profits as a 'responsibility fee.'"

Bank Tax Talking Points

- Now is not the time to be talking about new taxes on the financial services industry.
- Every dollar levied in taxes would directly impact available dollars to lend. In fact, the money to be collected is capital being pulled out of the banking system that could support TEN TIMES the amount in new lending. That's because $1 in capital supports $10 or more in lending. So the tax will pull not $90 billion in lending capacity out of the banking system, but nearly $1 trillion in potential lending. Not the best way to stimulate the economy.
- While millions of Americans are unemployed, the Administration continues to attempt to score political points while proposing job-killing initiatives that will further cripple the economy by increasing fees passed on to consumers and small businesses, in addition to reducing consumer credit.
- One of the unintended consequences of this bad idea would be to exacerbate the worst credit crunch in a generation, while doing nothing about Washington's debilitating spending problem – which is the number one issue Americans are demanding we address.
- Additionally, if the intent of this tax is to assess those that most directly benefited from the extraordinary government interventions in the market, then it is somewhat perplexing that General Motors, Chrysler, Fannie Mae, and Freddie Mac have escaped inclusion in this plan. While most banks have paid back their TARP money with interest, the taxpayer may never get back the money given to the auto companies.
- This new tax could even have constitutional ramifications, as it would tax similar types of businesses differently and taxes one set of companies to replenish the TARP slush fund, so the democrats can go and spend the money on other pet projects funded through TARP.

The U.S. Isn't as Free as It Used to Be
Canada now boasts North America's freest economy.

THE WALL STREET JOURNAL.
WSJ.com

By TERRY MILLER

The United States is losing ground to its major competitors in the global marketplace, according to the 2010 Index of Economic Freedom released today by the Heritage Foundation and The Wall Street Journal. This year, of the world's 20 largest economies, the U.S. suffered the largest drop in overall economic freedom. Its score declined to 78 from 80.7 on the 0 to 100 Index scale.

The U.S. lost ground on many fronts. Scores declined in seven of the 10 categories of economic freedom. Losses were particularly significant in the areas of financial and monetary freedom and property rights. Driving it all were the federal government's interventionist responses to the financial and economic crises of the last two years, which have included politically influenced regulatory changes, protectionist trade restrictions, massive stimulus spending and bailouts of financial and automotive firms deemed "too big to fail." These policies have resulted in job losses, discouraged entrepreneurship, and saddled America with unprecedented government deficits.

In the world-wide rankings of economic freedom, the U.S. fell to eighth from sixth place. Canada now ranks higher and boasts North America's freest economy. More worrisome, for the first time in the Index's 16-year history, the U.S. has fallen out of the elite group of countries identified as "economically free" by the objective measures of the Index. Four Asia-Pacific economies now sit atop the global rankings. Hong Kong stands in first place for the 16th consecutive year, followed by Singapore, Australia and New Zealand. Every region of the world maintains at least one country among those deemed "free" or "mostly free" by the Index.

Columnist Mary O'Grady discusses the Heritage Foundation's Index of Economic Freedom for 2010.

2010 Index of Economic Freedom

1. Hong Kong	40. Barbados	76. Uganda	113. Brazil	150. Belarus
2. Singapore	41. Mexico	77. Namibia	114. Indonesia	151. Equatorial Guinea
3. Australia	42. Kuwait	78. Cape Verde	115. Benin	152. Central African Republic
4. New Zealand	43. Oman	79. Belize	116. Gabon	153. Guyana
5. Ireland	44. Israel	80. Kyrgyz Republic	117. Pakistan	154. Angola
6. Switzerland	45. Peru	81. Paraguay	118. The Gambia	155. Lesotho
7. Canada	46. United Arab Emirates	82. Kazakhstan	119. Senegal	156. Seychelles
8. United States	47. The Bahamas	83. Guatemala	120. Sri Lanka	157. Sierra Leone
9. Denmark	48. Malta	84. Samoa	121. Yemen	158. Uzbekistan
10. Chile	49. St. Vincent and the Grenadines	85. Fiji	122. Malawi	159. Chad
11. United Kingdom	50. Latvia	86. Dominican Republic	123. Côte d'Ivorie	160. Burundi
12. Mauritius	51. Hungary	87. Ghana	124. India	161. Togo
13. Bahrain	52. Jordan	88. Mongolia	125. Moldova	162. Ukraine
14. Luxembourg	53. Albania	89. Lebanon	126. Papua New Guinea	163. Liberia
15. The Netherlands	54. Costa Rica	90. Burkina Faso	127. Tonga	164. Timor-Leste
16. Estonia	55. Trinidad and Tobago	91. Morocco	128. Tajikistan	165. Comoros
17. Finland	56. Macedonia	92. Croatia	129. Niger	166. Kiribati
18. Iceland	57. Jamaica	93. Rwanda	130. Nepal	167. Guinea - Bissau
19. Japan	58. Colombia	94. Egypt	131. Suriname	168. Iran
20. Macau	59. Malaysia	95. Tunisia	132. Cameroon	169. Republic of Congo
21. Sweden	60. Panama	96. Azerbaijan	133. Mauritania	170. Solomon Islands
22. Austria	61. Slovenia	97. Tanzania	134. Guinea	171. Turkmenistan
23. Germany	62. Portugal	98. Nicaragua	135. Argentina	172. Democratic Republic of Congo
24. Cyprus	63. Romania	99. Honduras	136. Ethiopia	173. Libya
25. Saint Lucia	64. France	100. Zambia	137. Bangladesh	174. Venezuela
26. Georgia	65. Saudi Arabia	101. Kenya	138. Laos	175. Burma
27. Taiwan	66. Thailand	102. Swaziland	139. Djibouti	176. Eritrea
28. Botswana	67. Turkey	103. Bhutan	140. People's Republic of China	177. Cuba
29. Lithuania	68. Montenegro	104. Serbia	141. Haiti	178. Zimbabwe
30. Belgium	69. Madagascar	105. Algeria	142. Micronesia	179. North Korea
31. Republic of Korea	70. Dominica	106. Nigeria	143. Russia	**NOT RANKED**
32. El Salvador	71. Poland	107. Cambodia	144. Vietnam	Afghanistan
33. Uruguay	72. South Africa	108. Vanuatu	145. Syria	Iraq
34. Czech Republic	73. Greece	109. The Philippines	146. Bolivia	Liechtenstein
35. Slovakia	74. Italy	110. Bosnia and Herzegovina	147. Ecuador	Sudan
36. Spain	75. Bulgaria	111. Mozambique	148. Maldives	
37. Norway		112. Mali	149. Sao Tome and Principe	
38. Armenia				
39. Qatar				

Some countries, notably Britain and China, have followed America's poor example and curtailed economic freedom. But many others—such as Poland, South Korea, Mexico, Japan, Germany and even France—have maintained or expanded economic freedom despite the global crisis. Ignoring the pressures of recession, these enlightened nations have continued to liberalize their economies, granting their entrepreneurs and consumers greater freedom. As a result, the average Index score dropped only 0.1 point in 2010. Eighty-one countries out of the 179 ranked recorded higher scores than in 2009.

These trends are important because study after study shows a strong correlation between economic freedom and prosperity. Citizens of economically freer countries enjoy much higher per-capita incomes on average than those who live in less free economies. Economic freedom also has positive impacts on overall quality of life, political and social conditions, and even on protection of the environment. Perhaps of most significance in these hard times, Index data indicate that freer economies do a much better job of reducing poverty than more highly regulated economies.
[miller] Associated Press

The public sector can't match the vitality of the private sector in promoting growth. Governments, even those that promise change, are primarily agents of the status quo. They tend to reflect the views and needs of those already holding political or economic power. Even democratic nations have their vested interests. Real change, however, can happen when those outside the mainstream have the freedom to try new things: new production processes, new technologies and new methods of organizing workers and capital.

It is common these days to dismiss as simpletons or ideologues those who speak in favor of the free market or capitalism. An honest assessment shows otherwise. Economic freedom, as represented in the Index of Economic Freedom, is a philosophy that rejects economic dogma, championing instead the diversity that follows when entrepreneurs are free to choose their own paths to prosperity.

The abiding lesson of the last few years is that the battle for liberty requires perpetual vigilance. President Obama professes desire to foster prosperity, environmental protection, poverty reduction and better health care. How ironic, then, that his economic proposals so consistently ignore or even undermine the one system—free enterprise capitalism—that has proven best able to achieve those goals.

Now America's once high-flying economy is barely crawling forward. Americans deserve better, and they can do better—as soon as they reverse course and start regaining the economic freedom that made America the most prosperous country in the world.

Mr. Miller is director of the Center for International Trade and Economics at the Heritage Foundation. He is co-editor, with Kim R. Holmes, of the "2010 Index of Economic Freedom" (471 pages, $24.95), available at heritage.org/index.

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