# The Polar Letter

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## Bunning Statement To The Senate Banking Committee On The Federal Reserve Monetary Policy Report

**Senate Banking Committee Tuesday, July 15, 2008**

***By: Senator Jim Bunning*** [*Listen to Audio Clip*]
As Prepared For Delivery:

Thank you, Mr. Chairman. I know we have a lot of ground to cover today, but I want to say a few things on the topic of this hearing and of the next.

First, on monetary policy, I am deeply concerned about what the Fed has done in the last year and in the last decade. Chairman Greenspan's easy money the late nineties and then following the tech bust inflated the housing bubble and created the mess we are in today. Chairman Bernanke's easy money in the last year has undermined the dollar and sent oil to new record highs every few days, and almost doubling since the rate cuts started. Inflation is here and it is hurting average Americans.

Second, the Fed is asking for more power. But the Fed has proven they can not be trusted with the power they have. They get it wrong, do not use it, or stretch it further than it was ever supposed to go. As I said a moment ago, their monetary policy is a leading cause of the mess we are in. As regulators, it took them until yesterday to use power we gave them in 1994 to regulate all mortgage lenders. And they stretched their authority to buy 29 billion dollars of Bear Stearns assets so J.P. Morgan could buy Bear at a steep discount.

Now the Fed wants to be the systemic risk regulator. But the Fed is the systemic risk. Giving the Fed more power is like giving the neighborhood kid who broke your window playing baseball in the street a bigger bat and thinking that will fix the problem. I am not going to go along with that and will use all my powers as a Senator to stop any new powers going to the Fed. Instead, we should give them less to do so they can do it right, either by taking away their monetary policy responsibility or by requiring them to focus only on inflation.

Third and finally, since I expect we will try to get right to questions in the next hearing, let me say a few words about the G.S.E. bailout plan. When I picked up my newspaper yesterday, I thought I woke up in France. But no, it turns out socialism is alive and well in America. The Treasury Secretary is asking for a blank check to buy as much Fannie and Freddie debt or equity as he wants. The Fed's purchase of Bear Stearns' assets was amateur socialism compared to this.

And for this unprecedented intervention in the markets what assurances do we get that it will not happen again? None. We are in the process of passing a stronger regulator for the G.S.E.s, and that is important, but it allows them to continue in the current form. If they really do fail, should we let them go back to what they were doing before?

I will close with this question Mr. Chairman. Given what the Fed and Treasury did with Bear Stearns, and given what we are talking about here today, I have to wonder what the next government intervention in private enterprise will be. More importantly, where does it stop?

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While there are those who would consider Senator Bunning a right wing radical or something similar, we do not, but rather we believe he is “a great American.”

Today’s testimony was most interesting with Cox, Bernake, and Paulson being questioned by the Senate Banking Committee. In our opinion these gentlemen are scared. A short while ago SEC Chairman Cox stated, “I am comfortable with the capital levels of all of the major investment banks, including Bear Stearns.” A few short days later Bear Stearns failed! Today General Motors Chairman Wagoner stated (as a part of his announcement concerning a major restructuring and dividend elimination) “General Motors has sufficient capital for operations through 2009.” Hmm….."it would appear that the Goldilocks era has finally ended”

**MARKETS**

While we believe that a short term rally may occur in the U.S. equity markets, we do not believe this will represent an investment opportunity, but rather merely a trading opportunity for those portfolios suitable for such activity. Our positions on the U.S.debt and equity markets remain unchanged. In some portfolios we may add to gold and silver positions in some portfolios.

Our firm maintains numerous alternative investment products; please contact us concerning your particular situation.

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