Knowing your interest in economic issues, I wanted to share my thoughts on one of the core issues of the current debate in the Senate over how best to reform our nation's financial regulatory system. The collapse in the financial markets jeopardized the livelihoods of middle-income families and small businesses--the lifeblood of the American economy--in Northern California and across the country. I strongly believe Congress must ensure that taxpayers are never again forced to rescue large financial firms that have put our entire economy in jeopardy.

That is why I believe the central component of financial reform must be ending the "too big to fail" policy, cutting the tie between Wall Street and Washington, and restoring accountability for big financial firms. Private firms should be allowed to succeed or fail without the help of government, and if they do fail, they should face the orderly bankruptcy process so no taxpayer money is lost. That is what the Republican alternative I voted for would require. The threat of failure without backstop is the surest way to restore market discipline and guarantee that large financial institutions act responsibly.

Americans agree on the need to end bailouts. Unfortunately, Senate Democrats are pushing legislation that would institutionalize a permanent bailout authority, virtually guaranteeing that the "too big to fail" Wall Street firms will only grow bigger, continue their risky investment behavior, and leave taxpayers holding the bag again.

While proponents claim the bills currently being debated would end bailouts, the details reveal that nothing could be further from the truth. For example, the Senate legislation would expand the Federal Reserve's authority to make large emergency loans to struggling institutions, allowing the Fed to offer more ad hoc bailouts like those of Bear Stearns, Fannie Mae and Freddie Mac in 2008. The majority party's proposals would also broaden the authority of the Federal Deposit Insurance Cooperation (FDIC), created in 1933 to protect Americans' bank deposits, to insure the debt of large bank holding companies like Goldman Sachs. This backdoor assistance would send a clear message to the market that large Wall Street firms are too big to fail and if they get into trouble, federal regulators will step in with taxpayer money to bail them out.

The majority's legislation would also give the FDIC the authority to wind down failing non-bank financial firms. While this might seem to be a step in the right direction, the FDIC's actions would be empowered by a $50 billion fund. As a result, the creditors of any company managed under this process have a chance to be bailed out by the FDIC, unlike in bankruptcy where creditors and shareholders must bear the loss of failed firms. This provision of the Senate bill would simply encourage creditors to lend more cheaply to these big, government-favored institutions since there is less risk involved for them, providing the big firms with a significant competitive advantage over smaller ones.

If this sounds familiar, it should. Fannie and Freddie, the giant entities designed to bolster mortgage lending, also got cheap credit because they had this implicit backing by the federal government. Under this arrangement, their portfolios grew to over $5 trillion in mortgages and mortgage backed securities. Combined, these two firms received the largest and most expensive bailout, which will end up costing taxpayers at least $389 billion.

Simply put, I believe the House and Senate Democrats' regulatory reform proposals are moving in the wrong direction. The government should not have the authority to bail out creditors or pick winners or losers in the market. Allowing it to do so creates perverse incentives that will put our entire economy at risk yet again. As the legislative process continues to unfold in the coming weeks, I will be working to ensure Congress fights for taxpayers and protects our future economy by removing the recipe for more bailouts that is currently central to Democrat proposals.