

Statement of Carolyn Maloney
Joint Economic Committee Hearing
November 19, 2009
As prepared for delivery

Good morning. I want to welcome Secretary Geithner, and thank him for his testimony here today.

The severe breakdown in our financial system under the watch of the previous Administration triggered a cascade of events, including a freefall in household wealth, paralysis in consumer spending, frozen credit markets, and a tailspin in the labor market. A recession grew into a near depression.

By some measures, what happened to our economy was worse than what happened during the Great Depression. During the first year of the recession, household wealth plunged by 17 percent, more than 5 times the decline seen from 1928 to 1929. In addition, stock prices became even more volatile than they were at the heart of the Great Depression.

Treasury, the Federal Reserve and the FDIC, along with Congress took an extraordinary series of measures to preserve financial stability and restore the proper functioning of credit markets. These initiatives included recapitalizing banks and creating a series of new lending facilities at the Fed. They have clearly contributed to the recovery of the financial system. Interbank lending rates are back to normal after having spiked during the crisis and the S&P 500 is up by over 64 percent from its March 2009 low.

However, as Chairman Ben Bernanke noted earlier this week, constrained bank lending and a weak job market will prevent the recovery from being as robust as we would hope.

Treasury has taken actions recently to help spur lending and create jobs. Treasury will provide lower-cost capital to community banks that submit a plan to increase small business lending and increase lending to small businesses in the hardest-hit communities.

But, more needs to be done. As Professor Stiglitz testified at a JEC hearing this spring “Where there are perverse incentives, there are perverse outcomes – unless we constrain behavior.” The regulatory reform that we are considering will do just that – it will eliminate the incentives for banks to engage in the same risky behavior that led to the financial crisis.

The House Financial Services Committee under Chairman Frank’s leadership has already passed or marked up a number of bills related to financial regulatory reform. First, a systemic risk regulator will make sure that no firm is too big to fail. Second, firms will not be bailed out -- they will be taken over and shut down in an orderly way. Third, regulatory gaps will be plugged. Hedge funds and the over-the-counter derivatives market will not be allowed to grow unchecked

and threaten the viability of the financial system. Finally, we will stop fraudulent and predatory lending or banking practices by creating a Consumer Financial Protection Agency. This agency will help spur the demand for credit to the many Americans who are now nervous about the financial products available to them. Like the Credit Card Holder's Bill of Rights that I introduced and Congress passed, it will stop the most abusive practices of lenders of credit.

Although much more needs to be done to help American workers and small businesses, reforming the financial system is crucial step in this process. Restoring trust in our financial system will help revive the job market and jumpstart the flow of credit in the economy.

Secretary Geithner, we thank you for your testimony here today, and I look forward to hearing your thoughts on how financial regulatory reform will impact the economy as a whole, and help working Americans in particular.

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