ONE HUNDRED TWELFTH CONGRESS

Congress of the United States

House of Representatives

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Opening Statement
Ranking Member Elijah E. Cummings

Subcommittee on TARP, Financial Services, and Bailouts of Public and Private Programs
Hearing on "What the Euro Crisis Means for Taxpayers and the U.S. Economy, Part II"

December 16, 2011

Mr. Chairman, thank you for calling the hearings yesterday and today on the financial crisis in Europe and its potential effects on the United States.

At yesterday's hearing, we heard that Europe faces two problems. One is a long term budgetary problem that will require scaling back expenditures. The other is the much more imminent threat that a major European country might default on its debt. It appears that European officials are paying close attention to the long term problem at the expense of aggravating the acute crisis.

Yesterday, Desmond Lachman, an economist and policy expert with the American Enterprise Institute, testified as follows:

> There is the very real risk that continuing to apply substantial fiscal tightening will lead to a **very deep economic recession.** A deep recession would make it very difficult for countries to reduce their budget deficits and would undermine their political willingness to remain within the Euro.

In 2008, when our own country faced a financial crisis, the Federal Reserve took action to prevent an immediate financial panic by acting as a lender of last resort. It did not insist that Congress first agree on how to slash the federal deficit, cut the federal workforce, cut Medicare, and cut Social Security. Although the actions taken in 2008 were not without controversy, the immediate financial crisis had to be averted. Long term measures were left for the long term.

Unfortunately, and perhaps dangerously, the European Central Bank is balking at functioning as lender of last resort. My concern is that this failure to act now could result in a deep recession in Europe or the insolvency of a major European bank, which could put our own economic recovery at risk.

Of course, our own recovery is not complete by any measure. It is true that, after unprecedented assistance from the American taxpayers, corporate profits have returned to their highest levels in years, executives are making record salaries, and the richest Americans are continuing to see their income and wealth grow exponentially. Main Street, however, is struggling. The unemployment rate continues to hover at 9%, mortgage servicers continue to foreclose on millions of American families, and banks have yet to be held accountable for the abuses that caused this crisis.

For these reasons, I am glad that William Dudley, the President of the Federal Reserve Bank of New York, is testifying today. Last month, he gave a speech at West Point in which he called on Congress and the Administration to continue near-term fiscal support to underpin economic activity and long-term fiscal consolidation to ensure debt sustainability.

He also explained that addressing the housing crisis is essential to restoring the strength of our economy. Specifically, he called for "borrowers who are 'underwater' on their loans but continue to make their monthly payments to earn accelerated principal reduction over time." He also called for more effective refinancing programs to "eliminate frictions and lower costs to refinancing for all borrowers with prime conforming loans." His message is directed to us in Congress, and we should pay close attention to it.

Examining the European financial crisis is a very important endeavor. It is a real threat to European countries and to the United States, and I commend the Chairman for holding these hearings. It is my hope, however, that our Committee will also focus on efforts to help Main Street USA and the millions of middle-class American families and workers who were the true victims of the financial crisis we faced here at home.

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