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Statement of Carolyn Maloney, Chair
Joint Economic Committee Hearing
February 26, 2009

Good morning. I want to welcome former Chairman Volcker and our other witnesses and thank you all for your testimony today. Chairman Volcker, when it comes to understanding the economy and financial markets, you are in a league with only one player.

Over the past two days, we have heard rather sobering testimony from Fed Chairman Bernanke that, even under the best of circumstances, our economy remains perhaps a year away from making a full recovery. The problems plaguing the real economy and the financial system are intertwined, so it is critical that we act as swiftly as possible.

At the core of the ongoing liquidity crisis is the decline in home prices. Home prices continued their free-fall at the fastest pace on record in December. Since the beginning of this crisis, Congress has been working on keeping families in their homes. We are now working closely with the new Administration to reverse the deepening decline in home prices. Today, the House will consider H.R. 1106, the Helping Families Save Their Homes Act, which is designed to spur loan modifications and avoid bankruptcy for homeowners.

Strong indications are that this downturn could be the worst in the post-World War II period. The current recession, which began in December 2007, has caused massive job loss and a precipitous decline in economic growth. Congress recently passed the nearly $800 billion American Recovery and Reinvestment Act (ARRA), which provides fiscal stimulus in the form of aid to state governments, infrastructure spending, increased unemployment insurance and food stamps, and tax breaks to middle class workers and families. This package is designed to stem the real human costs and our economic losses by creating millions of jobs, helping families in need, and investing for the future.

The concern is that effects of our recovery package may be blunted if the financial crisis lasts too long. The Federal Reserve has taken extraordinary steps to maintain the operation of our financial and credit markets, but clearly, we need a comprehensive plan to return to well-functioning markets. In his address to Congress Tuesday night, the President pledged to work with Congress to adopt new “rules of the road” – a reformed financial regulatory structure to prevent future crises and hold financial executives accountable.

Our entire regulatory system is in serious need of renovation. It failed to properly identify risky mortgage-related assets. It did not recognize that these risks were being concentrated in highly-leveraged and important financial institutions. And it failed to anticipate the dangers posed to the financial system as a whole by these concentrations of risk. It also failed to provide mechanisms for dealing with the failure of important non-depository financial firms.

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These shortcomings must be addressed. Regulators must obtain better information, better measures of systemic vulnerability, and the authority necessary to head off threats to financial stability. It is obviously too costly to leave the regulatory system as it is.

As winter turns to spring, my hope is that these efforts will break the downward spiral of our economy and bring about a thaw in credit markets, but even more may need to be done.

I look forward to our witnesses views on reviving our economy and restoring our financial markets.

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