Opening Statement of Sen. Charles E. Schumer
Chairman, Joint Economic Committee
April 2, 2008 - Hearing on the Economic Outlook with
Federal Reserve Board Chairman, Ben Bernanke

Well, Chairman Bernanke, we want to thank you for joining us today in what will be your third appearance at the Joint Economic Committee during this term of Congress.

And of course you're here to talk about the economy. Not just housing, not just the financial markets, and not just the regulation of those markets. The economic news continues to be alarming – whether it's employment, inflation, housing, financial industry turmoil, or consumer confidence.

Last month you looked into the precipice of financial meltdown and acted. It is hard to disagree with the need to take quick and dramatic action to spare our financial system of the risk of the kind of meltdown we saw in the Great Depression. Those who in retrospect say they wouldn't have acted, in my judgment, are showing an unfortunate degree of intellectual arrogance and maybe even some disingenuousness. To look into the abyss of imminent financial collapse as a potential and do nothing is irresponsible.

Your actions to rescue Bear Stearns provided some much needed breathing room to the financial markets -- for now. **But there are many legitimate, looming, and unanswered questions about the before and the after. What happened both before and after the Bear Stearns action.**

On the before -- as early as last summer, there were warning signs that Bear Stearns was in trouble when two of Bear's hedge funds – funds that were heavily invested in subprime mortgages were forced to declare bankruptcy. At that time, were the members of the Fed concerned about the long term viability of Bear Stearns? Did you receive any consultation from other agencies like the SEC? If you were concerned, did you take any actions behind the scenes to help shore up Bear's tenuous position? And if not, at what point did you know that Bear Stearns was in serious jeopardy? What action did you take at that point? Could earlier, more aggressive action by the Fed, by the SEC, or some other agency have saved Bear?

And the after -- in the wake of the Bear Stearns' debacle, a number of concerns have been raised about the precedent that the Fed's actions set for other Wall Street firms. In order to avoid a similar future situation, what actions has the Fed taken to deal with a possible similar situation? Do you now have established criteria for when intervention is appropriate? To avoid a future Bear Stearns' situation, do you expect the Fed and the SEC to be more proactive in protecting investors from a potential Bear-like situation?

Now, maybe if we had a single financial regulator, this wouldn't have happened. Imagine how much better off we would have been if a strong regulator who could have called in Bear Stearns far earlier and forced them to take steps that would have prevented the disaster we confronted two weeks ago how much better off we would be.

And there are serious questions about housing as well and many people juxtapose the action that was taken in regard to Bear and then not taken with regard to housing. What is the justice of helping Bear Stearns and not millions of homeowners? A single homeowner going under does not pose systemic risk as Bear did, but millions of homeowners going under do. I worry that as quickly as the Federal government moved to save Bear Stearns from complete failure, it has moved at a snail's pace, if at all, to save homeowners from foreclosures. The administration was all for government action in the case of Bear Stearns, but what about government action to help homeowners? Yes Bear Stearns was in trouble, but millions of homeowners are also in trouble. Yes Bear Stearns needed government intervention, but what about government intervention for homeowners?

I'm hopeful that this week the Senate will redouble its efforts to respond to the housing crisis by passing much-needed legislation. And while I know that you don't take positions on specific legislation, no Fed Chairman does and the Fed Chairman shouldn't in my opinion, **I hope that you will privately use your influence to convince those in the Administration that this modest effort is needed to bolster homeowners and the economy.** We will hopefully get bipartisan support for the Foreclosure Prevention Act, which, among other things, would:

- Add $200 million in pre-foreclosure counseling funds which could help 500,000 families keep their homes; and strengthen the housing markets and the economy, and
- Provide $4 billion in Community Development Block Grant funds for the purchase and rehab of foreclosed properties so that property values, particularly those in certain areas afflicted by foreclosure don't decline even more precipitously than they have already

Beyond the immediate response demanded for the housing crisis, it is now also crystal clear that we must rethink the regulatory framework that governs our financial system. Over the past decade, consolidation has become the norm in the financial industry. There are no longer distinct commercial banks, investment banks, broker-dealers, traders, insurers. Instead, there are a large number of financial institutions offering a constellation of financial products surrounded by many smaller institutions – such as hedge funds and private equity funds – with their own specialties. It's as though we have a handful of large financial Jupiters that are becoming more and more similar encircled by numerous small asteroids.

The U.S. financial regulatory system is still based on the crisis we responded to in the 20's and 30's, not on the 21st century financial institutions we have now. We want entrepreneurial vigor in our system and over-regulation can stifle that; but we also need robust regulation, particularly to guard against systemic risks.

I said this week that Secretary Paulson's blueprint is a good foundation for updating the regulation of U.S. markets. But, it leaves much to be desired and most importantly doesn't address the housing and economic crisis we face right now. If we focus only on consolidation of regulatory bodies -- and also don't adopt a careful, but more pro-regulation, approach -- then we will have approached this modernizing task with a pre-Bear Stearns mindset. I believe that there are six principles that we should follow as we re-regulate:

First, we must focus on controlling systemic risk.

Second, we need to look closely at unifying and simplifying our regulatory structure, perhaps moving towards a single regulator.

Third, we must figure out how to regulate the currently unregulated parts of financial markets, especially opaque and complex financial instruments that now put the entire system at risk.

Fourth, we must recognize that a global financial world requires global solutions.

Fifth, we must have greater transparency.

And sixth, the laissez-faire view that predominates in this administration, far greater than it did under Ronald Reagan or George Bush Sr.'s has to change. Regulators ought to regulate.

I hope that you'll use your position to jawbone this administration to get behind the housing relief effort before Congress this week. They have not committed to it. **Addressing the housing crisis head-on will do as much to instill confidence in the markets as lowering interest rates or bolstering regulatory oversight of wayward mortgage lenders and financial institutions.** We need to do all of it. Thank you Mr. Chairman.