OPENING STATEMENT OF CONGRESSMAN PAUL E. KANJORSKI

COMMITTEE ON FINANCIAL SERVICES

HEARING ON SYSTEMIC RISK AND THE FINANCIAL MARKETS

JULY 10, 2008

Good morning. Mr. Chairman, this hearing comes at a critical juncture, as the economy reels from a widespread, far-reaching financial crisis that continues to wreak havoc on everything from the housing market to student loans. While we remain focused on the many current economic difficulties average Americans face, we must simultaneously look to the future to determine how to prevent or at least mitigate future crises.

Financial innovation and the proliferation of complex and exotic financial instruments are probably inevitable under our capitalist system. But we must develop innovative regulatory and oversight responses to keep pace as these market transactions evolve.

One such proposal worth considering is the Systemic Risk Reduction Act of 2008, put forth by the Financial Services Roundtable. This bill seeks to make regulation more efficient by closing gaps in our regulatory structure and by promoting consolidation and cooperation among regulatory agencies. Their proposal includes a provision of particular interest to me. Namely, it proposes establishing a bureau, similar in concept to the Office of Insurance Information, which passed the Capital Markets subcommittee yesterday. Without a federal repository to collect and analyze information on insurance issues, we cannot fully understand and control systemic risk.

The Roundtable proposal would also expand the authority of the Federal Reserve so that investment banks who borrow from the Fed's discount window and various facilities do not get a free pass. No one else can borrow money without conditions, and the American people do not expect that investment banks be allowed to do so.

Chairman Bernanke spoke two days ago and raised many of these issues and offered ideas for consideration, noting that the "financial turmoil since August underscores the need to find ways to make the financial system more resilient and more stable." I wholeheartedly agree. He further stated that the Fed's powers and its responsibilities should be commensurate. It is the job of Congress to strike that proper balance.

While many concur that the Federal Reserve's move to bail out Bear Stearns in March of this year was necessary to prevent a financial meltdown, most also agree that we should be concerned about setting precedents with broad ramifications down the road. Taxpayers cannot be asked to bail out financial institutions, and we should look for ways to prevent such dire situations from arising in the future.

Another area germane to today's discussion is speculation. Specifically, we must determine to what extent speculation in commodities futures has hurt American consumers by artificially inflating the price of oil, energy, and other goods. I appreciate the ongoing debate on speculation – with economists, traders, pundits, and politicians staking out various positions on the issue. To the extent that we can glean further insight from our panelists today, that would be of tremendous help. For if it is true that speculators bear blame, then Congressional action in the form of increased oversight and enhanced authority is warranted.

Relatedly, I am very interested in consolidating the regulation of our securities and commodities markets. While the CFTC currently has jurisdiction and has done commendable work, the Treasury's recommendation to merge the SEC and CFTC seems the sensible course of action for the Congress. We need a unified practical regulatory system. The merger of these two entities would help us achieve that goal.

That issue aside, consumers have taken a beating, and it is time for the Congress to speak up for them. The price of gas is simply unbelievable. Americans having to choose between running errands and eating dinner is not acceptable. Moreover, the decision to heat one's home should not be left to wealthy players in the futures market.

Having referred to complex financial instruments earlier, I should note that I am currently finalizing a request to the Government Accountability Office that it begin a study on structured financial products. This study will examine a number of issues, including what exactly these instruments are; the degree of transparency and market regulation surrounding them; the degree of oversight of their issuance and trading; which regulators do what; whether and how regulators monitor compliance; and how we should improve regulation in this sector of our financial system.

To the panelists, I very much appreciate your being here today. I look forward to your testimony. Bipartisan, carefully thought-out solutions to managing and possibly preventing systemic risk can and must be found and implemented.

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