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House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

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Opening Statement of Rep. Henry A. Waxman
Chairman, Committee on Oversight and Government Reform
The Financial Crisis and the Role of Federal Regulators
October 23, 2008

Today is our fourth hearing into the ongoing financial crisis.

Our previous three hearings focused on the private sector. Our first hearing examined the bankruptcy of Lehman Brothers. We learned that this investment bank failed after it made highly leveraged investments that plummeted in value.

Our second hearing examined the fall of AIG. We learned that this huge insurance company was brought to the brink of bankruptcy by speculation in unregulated derivatives called credit default swaps.

Our third hearing, which we held yesterday, examined the role of credit rating agencies. We learned that these firms sacrificed their rating standards — and their credibility — for short-term gains in sales volumes.

Each of these case studies is different. But they share common themes. In each case, corporate excess and greed enriched company executives at enormous cost to shareholders and our economy.

And in each case, these abuses could have been prevented if federal regulators had paid more attention and intervened with responsible regulations.

This brings us to today's hearing. Our focus today is the actions — and inaction — of federal regulators.

For too long, the prevailing attitude in Washington has been that the market always knows best. The Federal Reserve had the authority to stop the irresponsible lending practices that fueled the subprime mortgage market. But its long-time Chairman, Alan Greenspan, rejected pleas that he intervene.

The SEC had the authority to insist on tighter standards for credit rating agencies. But it did nothing despite urgings from Congress.

The Treasury Department could have led the charge for responsible oversight of financial derivatives. Instead, it joined the opposition.

The list of regulatory mistakes and misjudgments is long, and the cost to taxpayers and our economy is staggering. The SEC relaxed leverage standards on Wall Street. The Offices of Thrift Supervision and the Comptroller of the Currency preempted state efforts to protect homebuyers from predatory lending. And the Justice Department slashed its efforts to prosecute white collar fraud.

Congress is not exempt from responsibility. We passed legislation in 2000 that exempted financial derivatives from regulation. And we took too long — until earlier this year — to pass legislation strengthening oversight of Fannie Mae and Freddie Mac.

Over and over again, ideology trumped governance. Our regulators became enablers rather than enforcers. Their trust in the wisdom of the markets was infinite. The mantra became: government regulation is wrong and the market is infallible.

Our focus today is financial regulation. But this deregulatory philosophy spread across government. It explains why lead got into our children's toys and why evacuees from Hurricane Katrina were housed in trailers filled with formaldehyde.

Today we will ask our witnesses hard questions about the regulatory decisions they made and failed to make. But I want them to know that I value their public service and their cooperation with the Committee.

Our Committee has stayed busy in recent weeks as we have held hearing after hearing on the financial crisis. I want all members to know how much I appreciate their involvement in these hearings. It is not easy to travel to Washington when Congress is out of session, especially with an election looming. But the issues we are examining are of immense importance to our nation. I am proud of the work we are doing and especially the contributions of the members of this Committee.