United States Senate
Committee on Banking, Housing, and Urban Affairs
Christopher J. Dodd (D-CT), Chairman

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OPENING STATEMENT OF CHAIRMAN CHRISTOPHER DODD
HEARING ON NOMINEES FOR SEC, CEA AND FED

Remarks as Prepared:

This morning, we meet to consider five distinguished individuals who President-elect Obama has designated for nomination to the Securities and Exchange Commission, to the Federal Reserve and to the President's Council of Economic Advisers – positions critical to restoring confidence in our financial system and to stabilizing our underlying economy. I want to thank each nominee for appearing before this Committee today.

Almost every day we hear more troubling economic news, including the loss of more than half a million jobs in December; that some 9,000 homes are entering into foreclosure each day; or the prospect of another small business facing bankruptcy because of a combination of falling sales and a lack of access to adequate credit. And so you arrive as nominees before the Committee at a critical moment.

On the first panel we will hear from the Chairman-designate for the U.S. Securities and Exchange Commission. The securities markets consist of trillions of dollars worth of stocks, options, municipal bonds, corporation bonds, mortgage-backed and asset-backed securities and other securities.

Half of American families are invested directly or indirectly in the securities markets. They invest for retirement or for college tuition. Many small businesses rely on the securities markets to raise capital to expand their businesses and make payroll. And the role these markets play in the world's capital markets is critical.

Given the correlation of the health of the securities markets to our nation's economic stability, the SEC is an extremely important institution. It oversees sales of securities, markets, mutual funds, investment advisers, credit rating agencies, and accounting principles. It coordinates with securities regulators throughout the fifty states.

But perhaps most important, it protects investors. As former Chairman William Douglas said, the SEC is supposed to be "the investor's advocate" – responsible for ensuring that a family or a small business investing its hard-earned money can trust that the cops are on the beat, and doing their job well.

But as we all know, the securities markets are in turmoil. Mortgage-backed securities markets have cratered and, literally billions of dollars have been lost. Major investment banks who contributed mightily to our financial problems have now been forced to either become bank holding companies or fail altogether.

The charities and investors who entrusted their money in Bernard L. Madoff Investments LLC lost billions of dollars in a massive Ponzi scheme that went undetected by the examiners of the SEC and of FINRA – not for years, but for decades.

In the last eight months, stocks have plummeted. Since last May, the Dow Jones and Nasdaq averages are down by about 40%, damaging the retirement savings and pension funds of millions of Americans, pounding endowments for universities and non-profits, and endangering critical financing for small businesses and entrepreneurs.

Quite simply, these failures have undermined our economy.

And understandably, there has been an erosion of confidence in the regulators. People have questioned the SEC's ability to spot problems or prevent them from occurring in the first place. After years of misleading sales pitches and credit ratings that proved to be wildly optimistic, many have completely lost faith in mortgage-backed securities.

As Columbia University's John Coffee has said, "it is time to find a tough cop for the Wall Street beat" – someone who will restore confidence not only in the integrity of the market, but also in its regulators.

There are a host of specific issues the Commission must examine in the coming weeks and months – from accounting and securitizations to credit default swaps, credit rating agencies, and short selling, to the Madoff fraud, on which the Committee will be scheduling a hearing January 27th.

And it is absolutely critical that the Chairman and the Commissioners make an extraordinary effort to pursue these issues fairly and independently – free from political considerations and from the industries which formerly employed them. That is always true – but particularly so today.

The Committee also considers the nomination of one of the Federal Reserve Board of Governors, which is among the most important positions that we consider in this Committee.

In establishing the Federal Reserve, the Congress created a system in which each Fed Governor's seat has a fixed fourteen-year term. Governors at the Fed enjoy the third longest term given to any appointee in the Federal Government, behind only the lifetime appointment awarded judges and the 15-year term given to the Comptroller General. As such, a nominee to the Federal Reserve Board of Governors requires careful deliberation and thoughtful consideration.

The seven Fed Governors are the only individuals appointed by the President and confirmed by the Senate who have a voice in our nation's monetary policy. Entrusted to fulfill the Fed's dual mandate of promoting maximum employment and achieving price stability, they play a critical role in creating the conditions necessary for our economy to grow and for every American to have the opportunity to share in our prosperity.

While the role of the Fed is critical in setting monetary policy, it also serves as a regulator of the safety and soundness of our largest lending institutions and, very significantly, as a regulator and enforcer of laws passed by the Congress to protect consumers. These aspects are no less important than the Fed's monetary policy responsibilities.

Chairman Bernanke has, in my opinion, been very forthright and active in identifying that the problems in the housing market are at the root of our current economic crisis – and I thank him for his continued calls for concrete action, such as his speech earlier this week.

However, not all the Federal Reserve Governors have been as helpful. Indeed, when I asked Governor Duke at a hearing in October what the Fed was doing to comply with the law and prevent foreclosures on mortgages that the Fed effectively owns through the Bear Stearns bailout, it took her three months to respond, and then only half-heartedly.

It is my hope that Mr. Tarullo will both be more responsive but also, if confirmed, help steer the Fed on a better course, so critical during these tough economic times.

On the second panel, we will also have the nominees who will, if confirmed, comprise the President's Council of Economic Advisors. These men and women will be responsible for providing the President and the Administration with facts, economic projections and recommendations that will guide Administration policy and thinking. That job has never been more critical than it is today, given the severe recession that we are battling and the unprecedented crisis that has gripped our nation's credit and financial markets.

The good news is that help is on the way. The President-elect has laid out a bold plan to revive our economy by cutting taxes for middle-class Americans and investing in our nation's infrastructure, which is something that I, along with many of my colleagues on this Committee, have long advocated.

The President-elect has also stated that he will make fundamental changes to the administration of the TARP program, and take it in a sharply new direction. That is why I am supporting the release of the second tranche of TARP funds. Although I have been extremely disappointed in the way that Secretary Paulson has implemented the TARP program, given the fragile state of our financial system, halting this program would, in my view, be irresponsible.

I am sure that we will have an opportunity to discuss these and other issues with the distinguished CEA nominees on our second panel and I or others will introduce them individually at that time.

But this is a critical moment for our country. If we are to reestablish confidence in our financial system, we must do so by looking out for the best interests of the American people and their families, small businesses, and others caught by the credit crunch. I know each of our nominees share these priorities and, if confirmed, I look forward to working with each of you.