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The Way Forward – Building political support and implementing effective responses to the global economic crisis

Session IV - Building greater transparency and accountability of financial systems
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Remarks by Representative Gregory Meeks, Chair of the House Sub-Committee on International Monetary Policy and Trade, United States Congress

It is truly an honor to join you here today for this key forum, facilitating the dialogue and exchange of ideas among parliamentarians from around the world. The global financial crisis we are all living through, and working incredibly hard to recover from, has taught us some important lessons about the critical importance of global regulatory coordination and dialogue, and the importance of pulling one another up to higher standards.

I will begin by stating the obvious: the world is in the early stages of recovering from a global economic crisis. This crisis originated in America's housing market, quickly spread to our broader credit markets, and spread around the world like lighting, nearly bringing down global capital markets. It is difficult to overstate how close we came to a true global economic meltdown, of a magnitude not seen since the Great Depression. It is our belief that the worst of the crisis was averted by rapid action domestically in all the major economies, and rapid and effective global coordination among the world's major economies, giving just consideration to increasingly important and relevant developing countries. It is no accident that, following the crisis, we now speak only of the G20, and no longer of the G7 or G8. It is also our belief that, as the crisis originated in America, and brought to light fundamental fractures and imbalances in our financial markets, reform must begin here. But, while that reform must begin here in America, it must be part of a broader coordinated global financial reform effort, focused primarily on the dangers of systemic risks.

Therefore, as you likely already know, the United States is moving rapidly to push through a package of reforms that would fundamentally restructure our financial system. With the leadership of the Obama administration, we have made significant progress in drafting and approving the key pillars of what will become a new, better, more stable, yet still competitive, innovative and dynamic financial system.

Curbing moral hazard and systemic risk entails making capital markets more transparent and more accountable for the risks they take. Doing so will happen in two distinct phases in every country. The first will be to reform domestic capital markets, in accordance with the nature and structure of the market in question, and how each country lived through the crisis. The second phase entails global coordination to establish new global standards on financial oversight to manage international systemic risks.

Those who know me well are tired of hearing me say that it is an irreversible reality that we now operate in a globally integrated financial system. American financial firms remain among the leading global institutions, and the American market remains the most competitive, most innovative, and most attractive globally. But the financial crisis has taught us that poor, inadequate or fragmented regulation can lead to systemic risks that spill across borders faster than anyone could have imagined. This is also an irreversible reality with which we must contend. I firmly believe that we must remain an open and competitive market for global financial firms. Yet we must ensure that, as we do the responsible thing in identifying, monitoring and mitigating systemic risks, we do not trigger a regulatory race to the bottom.

In hindsight, we found that, in an effort to move in lockstep with the rest of the world, and out of fear that setting higher regulatory standards than other nations would trigger regulatory flight, sending our best, largest and most prominent financial firms abroad, we were ill-prepared for the financial crisis that struck us with such force. Fear of the consequences of responsible action meant that, when the financial crisis struck, our regulatory framework was well below potential. Yet the threat of regulatory flight and an international race to the bottom in terms of systemic risk regulation remains real. So it is on us, parliamentarians, through forums such as this one, and our heads of state, through G20 negotiations, and our key financial regulators, through Basel, the Financial Stability Board and others, to pull the global regulatory standard up, not down, by moving ahead and setting a responsible and courageous example at home, then sharing best practices and promoting cooperation through international dialogue and negotiations.

This is exactly what we are trying to do here in America. The global financial crisis was triggered by the subprime market crash here, and quickly spread throughout our financial system and around the world. This was so because of the exceptional interconnectedness of the global financial system, imbalances in international trade and capital market, as well as excess liquidity in credit markets fuelling the growth of leverage around the world.

We are taking the courageous first step of reforming the American financial system, and holding those who operate in our market to far higher standards than currently exist anywhere else in the world. In doing so, we seek to ensure a world free of the extreme financial volatility that creates great wealth quickly for a few, and devastates and destroys wealth for so many, in the blink of an eye, the world over.

The approach we've taken in the US is to create a framework of greater transparency and accountability in capital markets, while still fostering growth, competition, innovation, and evolution of financial market. We do this by ensuring that sufficient capital backs all transactions, and that those who take risks are in a position to bear the full costs of those risks, to themselves and the rest of society alike. This is done through drastic reforms of derivative markets, higher and more rigorous capital requirements for financial institutions, the establishment of comprehensive regulatory oversight, eliminating major gaps in oversight of the so-called shadow banking system, and a new resolution and liquidation framework able to manage the wind-down of any financial firm, regardless of nature, size or interconnectedness, and paid for by the industry itself, and not the state or taxpayers. These reforms, we believe, will allow financial markets to continue to operate in a dynamic way, spurring continued innovation, yet allowing for failure and creating a level of accountability that has not existed in a very long time. What's more, we also believe that taking this approach allows us to implement a regulatory framework that will stand the test of time, evolve with the industry and ever-evolving financial instruments, and effectively manage the next financial crisis, which is certain to not look like that last one we are beginning to emerge from.

I look forward to discussing these issues with my fellow panelists here today, and look forward to a dialogue with our fellow international parliamentarians in the audience.