Elizabeth Warren
Speech before the Financial Services Roundtable
"Putting Our Financial House in Order"
September 26, 2013

Thank you, Tim Pawlenty and Scott Talbott, for inviting me to speak, and thank you, Robert, for that kind introduction.

I first spoke before the Roundtable three years ago. At the time, we were coming off a bruising fight over Dodd-Frank and I was just starting to set up the Consumer Financial Protection Bureau. When Richard Davis introduced me, he said that in the interest of safety, all knives had been removed from the tables. It was a joke—or at least I hope it was. But everyone was so gracious that it emboldened me to come back to continue our conversation.

Exactly five years ago, it seemed like we were hurtling toward another Great Depression. We managed to avoid that grim fate, but our economy still suffered a staggering body-blow. A recent report by the Federal Reserve Bank of Dallas estimated that the financial crisis cost us upward of 14 **trillion** dollars. That's $120,000 for every American household—more than two years' worth of income for the average family. Billions of dollars in retirement savings disappeared, and millions of workers lost their jobs.

As a nation, we have since taken some important steps to aid in our recovery: the 2009 stimulus and the passage of Dodd-Frank, to name two early examples. But if we ask ourselves honestly whether Congress has done all it can to get our financial house back in order, the answer is no.

We can debate what Washington has done right and wrong since the crisis. But there is no debating that there is still room for improvement. So the critical question is: what should Washington do now?

Let's start with three ideas that we can probably agree on.

There needs to be more certainty about financial rules and regulations. As you can surely attest, regulatory uncertainty delays investments and other important business decisions. Rules need to be issued more quickly and drafted more simply. I know that markets are complicated and that some solutions can't be straight-forward, but a 600-page rule—riddled with exceptions, carve-outs, subparagraph (iii)'s to subsection (g)'s—doesn't help the regulators trying to enforce the rule or the businesses trying to comply with it.

As you all know, I strongly support Dodd-Frank and, if I could have, I would have voted for it twice. But I'm deeply concerned by the fact that regulators have missed 60% of their statutory deadlines, and that the rules they have issued have too often been incredibly complex.

Congress is obligated by law to monitor the work of our regulatory agencies, and one takeaway from the Dodd-Frank experience is that Congress needs to take this job seriously. When regulators fail to meet their deadlines and Congress stands by, then the failure belongs to Congress too.

Reforming Government Sponsored Enterprises is another important issue. Fannie and Freddie should be significantly reformed, *but* any future housing finance system should preserve access to 30-year fixed mortgages and include a limited but real government guarantee. I think most of us can agree that is the starting point, and, while it is a difficult problem, we need to stabilize the housing finance system.

And there are other lower-profile but necessary tasks we need to work on too, like re-authorizing the Terrorism Risk Insurance Act so that the owners of stadiums and skyscrapers can get insurance that would otherwise be unavailable privately. This is a role that government and only government can play, and we should all be able to agree on how important it is.

Those are three easy ones—regulatory certainty, housing finance reform, and terrorism insurance. But, as you all know, I've been working on some more contentious issues as well.

There is strong evidence that we're still living with Too Big to Fail. The four largest banks are now 30 percent larger than they were five years ago. In 2001, the five largest banks held less than a third of all banking assets in the country. A decade later, they hold more than *half* of all banking assets—more than at any time in our nation's history.

Too Big to Fail creates some real problems. Everyone competes for capital—big banks, little banks, big corporations, small corporations. When Too Big to Fail artificially lowers borrowing costs for a handful of the largest financial institutions, that's a real problem. It means the rates are proportionately higher for everyone else—and that means Too Big to Fail creates distortions throughout the market. Too Big to Fail also creates a significant moral hazard problem because, whether we admit it or not, insurance policies affect decision-making. And Too Big to Fail institutions have complex balance sheets that make it harder for investors and regulators to figure out just how much risk the institutions are really taking on.

That's why I recently partnered with several of my colleagues to offer up one potential solution to the Too Big to Fail problem: the 21st Century Glass-Steagall Act. I think a new version of Glass-Steagall would bring more stability to our economy. There may be different views on **how** to end Too Big to Fail, but it should be clear that no is willing to defend Too Big to Fail and almost everyone—from Ben Bernanke and Jack Lew to the Financial Stability Board of the G-20 and the editorial board of the Wall Street Journal—admit that Too Big to Fail still exists and needs to be fixed. So the question faces us: How much longer should Congress wait for regulators to put an end to Too Big to Fail? Another three months? Another three years? Until another big crash? Treasury Secretary Lew recently said that if Too Big to Fail is still a problem at the end of the year, it might be time to consider other options. I agree—and I note we're coming upon that time fast.

Those are some of the things I think Congress should be working on. But I want to turn to one more thought about putting our financial house in order: what *shouldn't* Congress do? This is perhaps a more pressing question because Congress is on the verge of doing serious harm.

Congress is in the midst of an escalating fight about whether our country will increase the debt ceiling or default on our debt. You've heard it over and over in the news, but the enormity is still hard to comprehend: we are actually in a heated battle over whether the United States of America should *voluntarily* default on its debt.

I understand that there are different views in Washington about the role of government and the appropriate level of spending. I'm eager to have a healthy debate on those issues. But I find it deeply shocking that instead of having *that* debate, we are having a debate about whether to pay off the debts we've already incurred. Many institutions represented in this room have, at different points in history, pleaded with foreign countries and even state and municipal governments not to default on their debt. Many of you have reminded governments that if they default, the costs of borrowing will go up and they will pay the price for a long time. But now here we are, in 2013, and it's the U.S. Treasury we are worrying about.

As many of you remember, the 2011 debt ceiling fiasco was a disaster for our economic recovery. Both the GAO and the Bipartisan Policy Center found that the resulting downgrade of America's credit rating made it **more** expensive to borrow and exacerbated the very problem that debt ceiling hardliners were concerned about.[1] It shook consumer confidence, which meant less consumer spending, fewer jobs, and a slower economy.

We cannot make the same mistake again. America must pay its debts. Refusing to raise the debt ceiling shows a complete disregard for the economic well-being of every American. It's politics at its worst—cynical and destructive.

And, let me bring this home: this whole mess is already costing you money, and it could well cost you a lot more. If the government's borrowing costs go up, **your** costs will go up. And if consumer confidence drops, **your** customers will spend less. The debt ceiling isn't a Washington problem; it is an American problem.

You protect your interests every day in Washington. Ending this destructive notion of politics by hostage-taking is in your interests. And preventing an actual default—a self-inflicted wound that could cause a spike in interest rates and a freeze in our credit markets—is clearly in your interests.

I know that many of you have already spoken out, and I'm grateful for that. But please keep at it. For those of you who haven't, please start now. Speak up publicly and write op-eds and give interviews. One conversation won't get this done. Think of it this way: it took years of effort – press conferences and op-eds and town halls and hearings – for the debt ceiling hardliners to raise this issue in the public consciousness, and now almost half of the country thinks that Congress should not raise the debt ceiling. It will take that kind of effort to reverse the tide.

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[1] Bipartisan Policy Center, *Debt Limit Analysis*, at 29-30 (Sept. 2013), *at* http://bipartisanpolicy.org/library/staff-paper/debt-limit.

And while we are working on the default disaster, it's time to have a grown up conversation about the budget too. It appears that Congress is moving forward with a budget that maintains the across-the-board spending cuts from the sequester. This is another self-inflicted wound.

According to the nonpartisan Congressional Budget Office, repealing the sequestration cuts would add 900,000 new jobs by the end of 2014.[2] Yet we are on the verge of locking in these senseless cuts—cuts that already have reduced unemployment benefits by over 10 percent, kicked thousands of preschoolers out of Head Start, reduced access to Meals on Wheels, and weakened the military to the point that the Secretary of Defense says that readiness is "seriously degraded."

The idiot sequester is your issue too, and you can't stand sideways on this either. The sequester affects **your** businesses and **your** customers.

I know this is an unpleasant fight and that none of us can just snap our fingers and put an end to it. But that's no excuse for shrinking back. You can't just say, "Congress needs to fix this" and focus on other things because if you don't pitch in to fix this mess, then our risk of failure increases.

In the months and years ahead, I'm going to keep talking about what I believe in. And there will certainly be times when we will disagree. But I welcome the opportunity to join together whenever we have common ground – to fight alongside you for policies that we all agree would strengthen our economy. And I welcome the opportunity to fight alongside you against anyone who would take the American economy hostage to try to score political points.

When I spoke here three years ago, I emphasized the importance of transparency in the consumer finance marketplace. And despite all the dysfunction in Washington, the consumer agency has made real progress toward that end. It has met every statutory deadline in Dodd-Frank, and it has developed some real solutions with broad support. Sure, there was some political drama over Rich Cordray's nomination, and nobody is ever completely happy with any rule, but we've seen what it means for interested parties with different perspectives to get together to tackle tough issues and solve problems.

My takeaway is that it is still possible for people in Washington to put their heads together and come up with commonsense solutions to real problems. That's what our country needs. That's what I came here to do. That's what I hope you will do too.

Thank you.

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[2] Letter from Congressional Budget Office to The Honorable Chris Van Hollen (July 25, 2013), *available at* https://www.cbo.gov/sites/default/files/cbofiles/attachments/44445-SpendReductions_1.pdf.