Statement of Senator Tim Johnson
Senate Committee on Banking, Housing and Urban Affairs
"The Emergency Economic Stabilization Act: One Year Later"
September 24, 2009

When the Emergency Economic Stabilization Act came through Congress last fall, there was a clear and immediate threat facing our economy. Legislators were faced with a stark and sobering choice about whether to throw hundreds of billions of taxpayer dollars at Wall Street or the possibility of seeing the economy deteriorate further than it already had. I am deeply thankful that we have emerged from that time, and our economy, while still fragile, appears to be rebounding. Even though I could not support the bailout last fall, I am grateful that TARP has been successful by at least one metric: we have not plunged into a second Great Depression.

However, that does not mean that TARP should not have been crafted much more carefully from the outset. I thought the legislation sent financial institutions the message that the government will step in and save them from their own bad decisions. Many of these troubled firms were deemed "too big to fail," and thus we bailed them out with tens of billions of dollars in taxpayer funds. I also felt that the legislation did not go far enough to improve regulation or create accountability and transparency for those institutions receiving funds. I opposed the bailout and thought we should direct our focus toward ensuring this kind of collapse is not allowed to recur in the future.

Since passage of the legislation a year ago, President Obama's Treasury Department has required the largest financial institutions receiving funds to provide many more details about how those funds are to be used. Large banks must file reports outlining the amount and type of lending that TARP funds go towards. Additionally, the recommendations of the TARP Inspector General and the Congressional Oversight Panel have brought more accountability and transparency to the TARP program.

Today, a year later, larger banks have stabilized, liquidity has improved in the financial system, and banks are returning TARP funds plus interest; yet unemployment is near 10 percent, smaller banks are facing new troubles, and it remains difficult to get credit in many circumstances. Perhaps most importantly, we still have a "too-big-to fail" problem. Those large firms that shook our nation's economy to its knees are even larger, and we haven't done enough to eliminate the need for future bailouts.

While changes to TARP have improved the performance of the program, and certainly helped improve the economy, we still need to refashion our financial regulatory system so that we are never in a situation like we were last year. We still have no way to unwind troubled "too-big-to-fail institutions" so that we don't have to provide taxpayer funded bailouts. The FDIC has a mechanism for unwinding failed depository institutions and it works very well but it does not apply to large, interconnected non-bank financial companies. One thing we can do is establish a system of resolution for these types of firms to unwind them an orderly manner without having to prop them up and bail them out with taxpayer funds. If we only do one hing this year, we must pass legislation to give the federal government alternatives to bailing out troubled banks.

I look forward to hearing from the Treasury, the I.G., the GAO and the Congressional Oversight Panel today about our economy one year after the passage of the Emergency Economic Stabilization Act. I commend President Obama's Treasury Department, the TARP Inspector General and the Congressional Oversight Panel for bringing more accountability and transparency to the TARP program. There have certainly been successes and failures for the TARP program, and we have certainly made strides forward in our economic recovery, but we still have a lot of work left to do.