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The Honorable Jack Reed
728 Hart Senate Office Building
Washington, DC 20510

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Dear Senator Reed:

A vibrant economy requires real regulation and reform of our nation's financial sector. Over a year has passed since the financial shenanigans of the past nearly sank our economy and still nothing has changed. We desperately need reform to prevent another financial collapse and to help bring our economy back to health. I'm writing today to urge you to do what you can to push the Senate to establish a consumer finance protection agency with the teeth necessary to protect consumers, and to establish rules for trading derivatives so they will not be a risk to the rest of us in the future.

During the Great Depression, leading economists of the day argued about why there were no longer good investment opportunities. Joseph Schumpeter, the famous Austrian economist, wrote that the modern welfare state had sapped the entrepreneurial drive of our people. Other equally prominent economists had equally absurd explanations: it was the closing of the American frontier, the inevitable revolution of a 53-year business cycle, or the over-mechanization of factories.

John Maynard Keynes cut through that fog and pointed out that there were no good investment opportunities simply because people weren't buying things. To restore the world's economy, he wrote, it was necessary to create new demand for goods. His insights led us out of that Depression, and have successfully guided economic policy for decades since.

But over the last quarter century, what has happened? For the vast bulk of the American people, it has become more difficult to get by. People at the top of the heap are doing fine, but average real wages for most groups have declined. Worse, the pressures on most families have risen, too. Health insurance costs are up, electricity costs are up, and bank fees, credit card scams and unconscionable lending practices have combined to drive millions of Americans into debt. The result is lots of people with less money to spend when what we need is the exact opposite.

Prominent economists today argue about setting interest rates and whether the stimulus package is big enough, but those arguments miss an important fact: The credit practices that brought us the foreclosure crisis also prevent the recovery. Families who went over the brink may have triggered the collapse, but families near the brink aren't going to spend enough to get the economy moving again, either.

This is why it's not only important to support measures like the stimulus package and jobs bill, but also your efforts to rein in the banks and other financial service providers via a strong and independent Consumer Financial Protection Agency. A decent CFPA will make financial products easier to understand and help consumers stay out of trouble. This will help them, of course, but it will also help our whole economy. It's also important that financial regulation does not prevent states from enacting tougher measures for business in their states. We don't want a patchwork of different laws across the nation, but we *must* make sure consumers are protected.

The other obvious point about financial regulation is that we have to find some way to prevent incidents like the financial meltdown of last year. The only way to do that is to regulate the trading in over-the-counter derivatives. The opaque nature of these instruments contributed both to the collapse as well as to the slow recovery. They were originally invented to be a tool for spreading risk, which is not a bad goal. However, in the unregulated frontier environment where they were traded, they became a tool for hiding risk instead. This is unacceptable if we want to have working financial markets. Markets routinely fail when information isn't available to buyers and sellers, a point for which George Akerlof received a Nobel Prize in economics in 2001.

For reasons that have nothing to do with speculative profits, governments, people and businesses need to borrow. We need working financial markets to have a working economy. In addition, our state government depends on those markets to finance our investments and invest our funds. We cannot afford to let this crucial market function be distorted for nothing but the profit of a small number of big banks. Financial derivatives must be traded on regulated exchanges, and those exchanges must be free of taint—they must not be owned by the very entities doing the trading. The New York Stock Exchange is an independent non-profit for exactly this reason. We have seen all too often that foxes can't be trusted to guard henhouses, and I can't imagine why anyone would think that an exchange owned by Goldman Sachs would be a tool of effective regulation. As with the consumer finance issues, the real question before us when we think about financial regulation is can we learn from our mistakes?

In order to have an economy that serves *all* the people of our country, we need financial reform. Today.

Yours sincerely,

Tom Sgouros