Witness: Alice Rivlin, Senior Fellow, Brookings Institution
Hearing: Systemic Risk: Are Some Institutions Too Big To Fail? And, If So, What Should We Do About It?
Date: July 21, 2009
Link: http://www.house.gov/apps/list/hearing/financialsvcs_dem/rivlin_testimony.pdf

Summary
Rivlin believes several factors contributed to the financial crisis and that each reveals a different solution to mitigating systemic risk.

Oversight of Systemic Risk
Rivlin believes that one factor that contributed to the financial crisis was the lack of an oversight authority to identify systemic risk.

- She believes that a Macro System Stabilizer should be created with the authority to identify and remedy risks to the financial system.
- Rivlin believes that this authority should lie with the Fed.
- Rivlin agrees with the proposal to reduce perverse incentives by requiring loan originators to keep a percentage of the risk of default.

Monetary Policy
Rivlin believes that the inability of monetary policy to effectively combat asset bubbles could also have contributed to the financial crisis.

- She believes that monetary policy should be bolstered by the authority to change leverage ratios when the risk of a bubble is elevated.
- She also believes that derivatives, hedge funds, and the securitization process should be subject to leverage constraints.

Failure of Large Interconnected Firms
Rivlin believes that the failure of large interconnected firms contributed to the financial crisis.

- Rivlin does not agree with the proposal to identify Tier 1 Holding Companies as "too big to fail."
- She is also against making the Fed the consolidated regulator of all Tier 1 firms.
- She believes that there should be higher capital requirements for large, interconnected firms.
- She urges Congress to consider placing responsibility for regulating large interconnected institutions in the hands of a new regulator similar to the FSA in the UK.