

Statement of Kevin M. Warsh
Nominee to the Board of Governors of the Federal Reserve System
before the
Committee on Banking, Housing, and Urban Affairs
United States Senate
February 14, 2006

Chairman Shelby, Senator Sarbanes, and Members of the Committee, I thank you for the opportunity to appear today and for the expeditious scheduling of this hearing.

I wish to express my sincere appreciation to President Bush for nominating me to serve as a Member of the Board of Governors of the Federal Reserve System.

I have served on the National Economic Council for the past four years, focusing on domestic finance, capital markets, banking, securities and insurance related issues. In that capacity, I have had the privilege of working closely and productively with Members and staff of this Committee. If confirmed, I look forward to continuing that cooperative relationship, along with Chairman Bernanke and the Board of Governors, in carrying out the important responsibilities that Congress has assigned to the Federal Reserve.

Market participants, policymakers and the American people rely on the credibility and sound judgment that flows from the Federal Reserve's independence. If confirmed, I will be devoted solely to the Federal Reserve's statutory mandate for monetary policy -- to preserve price stability and foster maximum sustainable growth in employment and output -- and will work to promote a secure, fair and efficient financial system.

The flexibility and resiliency of the U.S. capital markets are matched only by the remarkable innovation and adaptability of our Nation's workers. Both of these markets -- capital

and labor -- are a source of great strength to the American economy, and have proven in recent years equal to the task of cushioning external shocks to the economy.

The capital markets, from which I come, are the transmission mechanism for monetary policy. Under Chairman Greenspan's leadership, the Federal Reserve took meaningful steps during the past decade to describe and explain its policies with greater transparency. As a result, market volatility is lower, and our capital markets are deeper, broader, and more dynamic than ever before. Pools of free-flowing capital, in turn, are able to provide real-time, forward-looking information to help Federal Reserve officials make appropriate policy decisions. I hope and believe that my prior experience of nearly seven years at Morgan Stanley -- as an investment banker and mergers and acquisitions adviser -- would prove beneficial to the deliberations and communications of the Federal Reserve.

Over the course of the last generation, the Federal Reserve has compiled an enviable track record in achieving price stability and successfully anchoring long-term inflation expectations. This stability has contributed to low long-term interest rates and has promoted strong employment growth and significant productivity gains. The Federal Reserve must remain attuned, however, to the possibility of unexpected shocks.

The Federal Reserve's responsibilities extend, of course, beyond monetary policy. It is responsible for the supervision and regulation of bank and financial holding companies and state chartered banks that are members of the Federal Reserve System. Working with other financial regulators, the Federal Reserve should continue to promote three complementary pillars of prudential oversight: strong capital standards, effective supervision, and meaningful market discipline of these institutions. I am fully committed to these principles.

The Federal Reserve also maintains significant responsibility for promoting an efficient and effective financial system, including protection from systemic risks. As a staff participant on the President's Working Group on Financial Markets since 2002, I would hope to continue to contribute as a Member of the Board to its important work in the years to come. The Federal Reserve remains on the front lines in avoiding financial crises -- or mitigating their consequences -- should they occur. The American people have come to rely upon the Federal Reserve in times of significant financial distress, and it is a responsibility that I take seriously.

Finally, if confirmed, I will work to ensure that the Federal Reserve continues its important role in promoting financial literacy and fair dealing for consumers. The Federal Reserve's knowledge and credibility should continue to be brought to bear to help bring those on the fringes of the U.S. financial system into the mainstream.

In conclusion, the Federal Reserve System's decisions significantly impact America's families and businesses. I would take on the responsibility of joining the Board of Governors of the Federal Reserve System with humility, and would be honored if the Senate sought fit to confirm my nomination.

Thank you. I am happy to respond to your questions.