

Statement of Stanley Fischer
Nominee to be a Member and Vice Chairman of the Board of Governors of the Federal Reserve System
Before the Committee on Banking, Housing, and Urban Affairs
United States Senate
March 13, 2014

Chairman Johnson, Ranking Member Crapo, and Members of the Committee:

Thank you for this opportunity to appear before you. I am greatly honored to have been nominated by President Obama to serve as a member and Vice Chair of the Board of Governors of the Federal Reserve System and I look forward, if confirmed, to working with this Committee in the coming months and years.

In recent years the Federal Reserve has made significant progress toward achieving its Congressionally mandated goals of maximum employment and price stability. Nonetheless, normalcy has not been restored. At 6.7 percent, the unemployment rate remains too high, and the rate of inflation has been, and is expected to remain, somewhat below the Federal Reserve's target of 2 percent. At present, achievement of both maximum employment and price stability requires the continuation of an expansionary monetary policy – even though the degree of expansion is being gradually and cautiously cut back as the Fed reduces its monthly purchases of longer-term Treasury securities and agency mortgage-backed securities.

I would like to add that in their efforts to achieve aggregate goals, policymakers should never forget the human beings who are unemployed, nor the damage that high inflation wreaks on the economy and thus on the lives of so many people.

The financial collapse that intensified in the last months of 2008 and early 2009 threatened, in the view of some central bankers, including this one, to result in a recession even deeper than the Great Recession we experienced. The Federal Reserve's policies in dealing with the financial collapse were courageous and effective. Nonetheless, we must do everything we can to prevent the need for such extreme measures ever again. Among the lessons of the financial crisis are the necessity of dealing with the "too big to fail" problem, and the necessity of greatly strengthening the resilience of the entire financial system. The Dodd-Frank Act put in place a framework that should make it possible to advance these goals, and the United States has moved rapidly to put a series of important measures into effect. Among them are: the significant increase in capital requirements and the introduction of counter-cyclical capital buffers for banks; the sophisticated use of stress tests, the importance of which becomes ever clearer; enhanced resolution authority and the single point of entry in dealing with SIFIs; living wills; and the creation of the Financial Stability Oversight Council (FSOC). At the international level, the establishment of the Financial Stability Board (FSB), whose membership includes the

countries of the G20 and a few other financial centers, provides an important mechanism for strengthening international coordination of financial regulation.

While we have undoubtedly made important progress in strengthening the financial system, we must also recognize that maintenance of the robustness and stability of the financial system cannot be attained without strong regulation and supervision. Financial systems evolve, and while financial crises have many similarities, they are not identical. The Fed must remain ever-vigilant in supervising and regulating the financial institutions and markets for which it has been assigned responsibility, and it should be no less vigilant in its surveillance of the stability and resilience of the financial system as a whole.

The Great Recession has driven home the lesson that the Fed has not only to fulfill its dual mandate, but also to contribute its part to the maintenance of the stability of the financial system. Almost always, these goals are complementary. But each of them must be an explicit focus of Fed policy. In all the situations with which the Fed will have to contend in pursuing its goals, it will be called upon to make wise decisions, which draw on the experience and the analytic skills of the staff and of the members of the Federal Reserve Board and the Federal Open Market Committee. I hope that, if confirmed, I will be able to assist Chair Yellen and my future colleagues in making those critical decisions, and so to contribute to the well-being of the citizens of the United States.

Senators: Thank you for the opportunity to appear before you today and for considering my nomination. I would be pleased to respond to any questions.