

Statement of Jeremy C. Stein
Nominee to be a Member of the Board of Governors of the Federal Reserve System
Before the Committee on Banking, Housing, and Urban Affairs
United States Senate
March 20, 2012

Chairman Johnson, Senator Shelby, and Members of the Committee, thank you very much for giving me the opportunity to appear before you today. I am honored to have been nominated by President Obama to be a member of the Board of Governors of the Federal Reserve. It's an important job at a challenging time for both the U.S. economy and the global financial system, and I am eager to contribute to our meeting these challenges.

I have spent most of my career as an academic economist, with a few breaks for government service. I graduated from Princeton University in 1983, got my PhD from MIT in 1986, and have since been on the faculties at both MIT and Harvard—most recently, since 2000, as a professor in Harvard's economics department. In between, I served on the task force appointed by President Reagan to investigate the 1987 stock market crash. I also spent a year as a senior staff economist on President George H.W. Bush's Council of Economic Advisors. And for six months in 2009, I was an advisor to NEC Director Summers and Treasury Secretary Geithner, helping to formulate a policy response to the crisis that was then engulfing our financial system.

As an academic, my research and teaching have been focused on financial markets, and for many years I have been especially interested in the interplay between monetary policy and financial institutions—trying to understand the real-world details of how monetary policy filters through the banking system to ultimately impact borrowers and lenders. Other topics that I have worked

on that are of relevance to a position at the Fed include: the role of small banks in small-business lending; the housing market; risk management in financial firms; and financial regulation.

In the last few years, my research and teaching have been heavily influenced by my experiences working at the NEC and Treasury in 2009. For example, I developed and taught a new course on the financial crisis, which has given me a chance to step back and reflect on the many policy decisions taken during this eventful period, the mistakes made, and the lessons learned.

This reflection has reinforced one of my core beliefs as an economist: the need to be humble and honest about the limitations of our understanding. I am a big believer in the value of economic theory, but the role of theory should be to help organize the jumble of evidence before us in such a way that when new facts come in, we can most clearly see how and why we've had it wrong in the past, and adjust our thinking accordingly. Too often in economics, theories have been used in a rigid fashion, making us less, not more open to learning from what happens in the real world. This is when things have gone badly off the rails for economists, and for those who rely on us for policy advice.

The Federal Reserve's mission remains as it was before the onset of the financial crisis: to deliver on its dual mandate of price stability and maximum employment, and to help safeguard the stability of the financial system. But to pursue this mission in a dramatically altered economic environment, the Fed has shown a laudable ability to adapt and evolve—in terms of the tools it has used to conduct its monetary and lender-of-last-resort policies, and the substantially enhanced degree of transparency that it now offers to the outside world. I am fully

committed both to the mission of the Fed itself, and to this spirit of pragmatic, open and non-ideological engagement with the unknown challenges that surely lie ahead.

Thank you again for the opportunity to testify before you today. I would be delighted to answer any questions you might have. Thank you.