

Statement of Peter Diamond
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
July 15, 2010

Chairman Dodd, Senator Shelby, and Members of the Committee, I am honored to have been nominated by President Obama to be a member of the Board of Governors of the Federal Reserve System and grateful to this Committee for scheduling this hearing.

If I am confirmed by the Senate, I will work to the best of my abilities to fulfill the responsibilities of this office. Those responsibilities have always been significant. The experience of the recent financial crisis and the financial reform legislation have underlined the multiple jobs the Fed has in working to fulfill the dual mandate of high employment and price stability. The Fed will have major work to do to implement the tasks that the legislation is placing at the Fed. I would be honored and pleased to be part of the process of responding to this challenge.

I studied both mathematics and economics as an undergraduate at Yale University. I received my Ph. D. in economics from the Massachusetts Institute of Technology (MIT) in June 1963. Since then I have been a faculty member, first at the University of California, Berkeley, and, since 1966, at MIT. Throughout this period I have taught and done research in economics. My primary focus in both teaching and research has been economic theory, particularly general equilibrium theory, macroeconomics, search theory, and public finance. Within public finance, my primary focus has been on taxes, pensions, and social insurance, particularly Social Security. I have done both theoretical analyses and policy analyses. I have also done research in other areas, including, behavioral economics, and law and economics. I took classes at Harvard Law School as part of my preparation for doing research in law and economics – I believe in being well-grounded in a subject

when doing research or policy analysis. In addition to microeconomics, macroeconomics, and public finance, I have also taught money and banking, and law and economics.

Being a member of two economics departments with great collegial interactions, I have gained a wide knowledge of a variety of economics topics, as well as detailed knowledge in my areas of expertise. As a consequence, I have considerable awareness of the development of economic analyses of monetary policy and its impacts on both inflation and employment as well as studies of the determinants of financial crises.

A central theme in my research career has been how the economy deals with risks, both risks at the individual level and risks that affect the entire economy. In all of my central research areas, I have thought about and written about the risks in the economy and how markets and government can combine to make the economy function better for individuals. If confirmed, this background should be very helpful at the Federal Reserve as part of the process of addressing our heightened awareness of the dangers of systemic risks. My background in behavioral economics and law and economics give me high awareness of the issues involved in consumer protection and increasing financial literacy.

If confirmed, I would welcome the opportunity to help address the important issues that have been raised by the financial crisis, as well as the longstanding issues and concerns that the Federal Reserve faces, bringing my research experience and expertise to bear on these difficult and important issues.