

*Statement of Daniel K. Tarullo
Federal Reserve Board Designee
Senate Committee on Banking, Housing and Urban Affairs
Nomination Hearing, January 15, 2009*

Thank you, Mr. Chairman, Senator Shelby, and other members of the Committee. I am honored by President-elect Obama's designation of me as his intended nominee for the Board of Governors of the Federal Reserve System. I am also mindful of the enormous responsibility that would come with this position.

We are all aware that our country faces greater financial and economic challenges than at any time since the Depression. The Federal Reserve has a critical role to play in responding to these challenges. As the nation's central bank, it must pursue its dual mandate of promoting maximum employment and stable prices in an unusually trying macroeconomic environment.

As a bank regulator, the Board must use its existing authority to provide both effective supervision and robust enforcement. Going forward, it must join with other parts of our government to help revamp the financial regulatory system. In particular, we need sensible changes that will contain potential sources of systemic risk in twenty-first century financial markets, and thus diminish the likelihood and severity of future financial crises.

Over the last decade, I have devoted considerable time to thinking and writing about banking regulation and international financial regulation, including the management of international financial crises. In the last few years, I have focused on capital regulation.

This work has reinforced my views on the importance of adequate capital buffers for ensuring the safety and soundness of financial institutions. This study of capital has, I believe, provided a good foundation for participation in the Board's regulatory functions and, more generally, in the process for reforming financial regulation.

Prior to returning to an academic position, I was directly involved, as Assistant to the President for International Economic Policy, in responding to the international financial crisis of the late 1990s. Each financial dislocation has its own unique features, of course, and the severity of current problems far outstrips the impact on the United States of that earlier episode. Thus experience with one crisis cannot provide the answers for dealing with the present situation. Still, such experience does help prepare one to consider options and make decisions in times of great uncertainty and stress.

If confirmed by the Senate, I will draw upon both my government and academic backgrounds in serving on the Board of Governors. I have the highest respect for the tradition of independence associated with our country's central bank. At the same time, I understand that, although so much of the Fed's work is necessarily grounded in complex economic analyses and highly technical rules, the ultimate purpose of this work is to create the conditions under which Americans can make good lives for themselves.

Let me close by thanking the Committee for expeditiously scheduling this hearing. I hope to work with each of you in the months and years ahead. I would be pleased to answer any questions you may have for me.