Chairman Sarbanes, Senator Gramm, and members of the Committee, I am pleased to appear before you today as President Bush's nominee to serve on the Board of Governors of the Federal Reserve System. I am honored that the President has nominated me to serve a full term as a member of the Board.

As a Governor, I am particularly mindful that the policy decisions of the Federal Reserve influence the economic well-being of all Americans. It has been my privilege to serve our fellow citizens in this capacity since 1997, giving this role my undivided attention, and I hope to be able to continue in that service.

During my tenure we have faced a rapidly changing environment in many of our areas of responsibility, and I would like to review briefly some of those developments and our responses to them.

Congress has given the Federal Reserve three monetary policy objectives: maximum employment, stable prices and moderate long-term interest rates. We have viewed these objectives as congruent with a goal of maximum sustainable growth, which can occur only in the context of long-run price stability. Fostering financial conditions in which Americans can realize the full productive potential of our economy has presented a number of challenges in recent years. The most important developments have been a step-up in the advance of technology--both in terms of the production of new goods and the more effective harnessing of past innovations--and a rapid accumulation of physical capital. These developments have made workers increasingly more productive. But faster productivity growth fed back on the demand for goods and services in ways that complicated the calibration of monetary policy. Faster growth in productivity and the reactions of businesses and households to this acceleration of productivity have combined with other forces--particularly those associated with the growing interconnectedness of the global economy--to require substantial adjustments in the Federal Reserve's policy interest rate in recent years. But those adjustments in our policy instrument have been in the service of our objective of promoting maximum sustainable growth.

Making monetary policy has been only part of the challenge. During my tenure at the Federal Reserve we have also worked diligently to communicate to the public what we are doing with policy and why. Transparency in policy making is a key part of the democratic process, as well as being helpful in fostering efficient decision making in the private sector. Becoming more transparent has been a goal of the central bank in recent years, keeping in mind that we must balance the need to be open and accountable with the need to maintain an effective process of decision making by the Federal Open Market Committee. Transparency requires that we periodically review our procedures, as we did in 1999, to ensure that they...
appropriately balance these considerations. I do not know what future changes, if any, might be called for in how we communicate, but I am confident that the Federal Reserve will continue to look for ways to communicate clearly our policies and our supporting rationales.

While macroeconomic conditions are of overriding importance, the role of the Federal Reserve is broader than monetary policy. Financial stability is an essential precondition for maintaining a strong economy, and the Federal Reserve has important supervisory and regulatory responsibilities for our nation's banking system. The Federal Reserve, and other regulators, must continue to foster a competitive environment that will benefit the users of financial services, while also promoting safety and soundness. I believe that we must achieve these goals with a minimum of regulatory burden and without leaving the impression that any institution is too big to fail. To minimize regulatory burden and achieve our other objectives, we should encourage what to my mind are the best regulators, namely market discipline and management accountability. Of late, our challenge has been to meet these goals as we implement the financial modernization law. In my opinion, Congress wisely removed several antiquated barriers to a modern financial structure in the United States, and now we need to design regulatory and supervisory policies that reflect the will of Congress and deal effectively with a changing financial services industry.

Technology and deregulation, forces for change that I have just mentioned, have encouraged consolidation in the financial sector. With central bank and treasury officials from twelve other major industrial economies, I have reviewed the likely effect of the global trend toward consolidation and its implication for central banks and regulators. Because financial systems will continue to consolidate, as the forces that motivate that evolution are unabated, the regulatory community needs to monitor developments closely. But our study also found that existing policies appear adequate to allow regulators to maintain safe and sound financial industries now and in the intermediate term and for monetary policy to work through many of the same mechanisms as in the past.

More than the structure of the financial services industry has changed of late. That sector has found uses for consumer information and created an array of financial products and services unimaginable even a few years ago. These developments, in turn, raise some new concerns, and have re-ignited some existing ones, among consumers and legislators. Congress grappled with one of these issues, privacy, in the financial modernization law. Concerns about abusive lending practices have also re-emerged of late. In all areas, but particularly in areas as sensitive as these, regulators should faithfully administer consumer protection laws as written. Any necessary regulations should adequately inform consumers and protect them against abusive practices while also not discouraging legitimate extensions of credit, especially to those who might previously have been denied access to such credit. Financial literacy will certainly play an important role in avoiding the growth of abusive or deceptive financial practices and in allowing consumers to protect their interests. I believe that legislation, careful regulation and education are all components of the response to these emerging consumer concerns. I also hope, however, that businesses recognize that it is in their long-term interest to maintain the confidence of consumers by avoiding deceptive and abusive practices and by respecting the privacy of their customers.

Finally, our payment system affects every consumer and business. This system too has been, and will continue to be, changed greatly by emerging technologies. From the time of its very founding, the Federal Reserve has had the responsibility to foster an efficient, safe and accessible payment system. During much of 1998 and 1999, our primary objective in this
regard was to help banks and other participants in the payment system maintain smooth operations as the century date change passed. Domestically, we achieved this goal by working directly with the banking sector. Internationally, I was privileged to work through multilateral groups to raise the awareness of the international regulatory community of the nature of the Y2K challenge. Now, we can take a longer-term perspective and consider how we might facilitate innovation in the payment system.

As an overseer and regulator, the Federal Reserve needs to approach payment system innovations with an open mind and a willingness to adapt. In a dynamic economy, markets need to play a key role in guiding the development of infrastructure. This means that innovation and competition will be central to the future development of the payment system—as they are in other areas of the economy. Regulators should strive to remove barriers to innovations when we can do so without sacrificing important public policies. We should take every opportunity to foster competition and maintain the integrity of the payment system, but public policy should not be built on a single vision or prediction of the future. Ultimately, consumers and businesses as well as service providers will determine the range of payment services that best meet their needs.

Mr. Chairman and members of the Committee, during my years on the Board of Governors, I have done my best to contribute positively to all aspects of the Federal Reserve's many responsibilities. I look forward to the opportunity to continue to work with you and serve the nation as a member of the Board of Governors. Thank you for your attention and for considering my nomination. I would be pleased to respond to questions.