S. HRG. 109–956

NOMINATIONS OF: EDWARD P. LAZEAR, RANDALL S. KROSZNER, AND KEVIN M. WARSH

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

ON

NOMINATIONS OF:

EDWARD P. LAZEAR, OF CALIFORNIA, TO BE CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS

RANDALL S. KROSZNER, OF NEW JERSEY, TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

KEVIN M. WARSH, OF NEW YORK, TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

FEBRUARY 14, 2006

Printed for the use of the Committee on Banking, Housing, and Urban Affairs

Available at: http://www.access.gpo.gov/congress/senate/senate05sh.html

U.S. GOVERNMENT PRINTING OFFICE

37–071 PDF WASHINGTON : 2007

For sale by the Superintendent of Documents, U.S. Government Printing Office
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C O N T E N T S

TUESDAY, FEBRUARY 14, 2006

NOMINEES

NOMINATIONS OF:

EDWARD P. LAZEAR, OF CALIFORNIA, TO BE CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS;

RANDALL S. KROSZNER, OF NEW JERSEY, AND KEVIN M. WARSH, OF NEW YORK, TO BE MEMBERS OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

TUESDAY, FEBRUARY 14, 2006

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 2:36 p.m., in room SD–538, Dirksen Senate Office Building, Senator Richard C. Shelby (Chairman of the Committee) presiding.

OPENING STATEMENT OF CHAIRMAN RICHARD C. SHELBY

Chairman SHELBY. The hearing will come to order. We are sorry about this morning, but as I said to you privately, the floor takes precedence over everything.

This afternoon, we will consider the nominations of three very distinguished individuals. Our first nominee is Dr. Edward Lazear, nominated by President Bush to be a Member of the Council of Economic Advisers. The Council of Economic Advisers, established by the Employment Act of 1946, provides the President with economic analysis and advice on the development and the implementation of domestic and international policy issues. Upon Senate confirmation, President Bush would designate Dr. Lazear to serve as Chairman of the CEA.

Dr. Lazear currently serves as Professor of Human Resources Management at Stanford University, and as the Morris Arnold Cox Senior Fellow at the Hoover Institution. Previously, Dr. Lazear taught at the University of Chicago's Graduate School of Business, and he has been a visiting professor at many universities and institutes around the world. Dr. Lazear received a Ph.D. in economics in 1974 from Harvard and has a B.A. and M.A. in economics in 1971 from UCLA.

Dr. Lazear also serves as a Research Associate at the National Bureau of Economic Research. Many people are also familiar with his work on the President's Advisory Panel on Tax Reform. Dr. Lazear is a Founding Editor of the *Journal of Labor Economics,* published by the University of Chicago. His 1996 book, *Personnel Economics,* was selected by MIT Press as an outstanding book and by Princeton as one of the 10 most important books in labor economics. Dr. Lazear is well-respected for his wide ranging research on employee incentives, promotions, compensations, and productivity in companies.

The Committee will also consider two nominees to serve as Members of the Board of Governors of the Federal Reserve System, Dr. Randall S. Kroszner of New Jersey and Mr. Kevin M. Warsh of New York.

This afternoon will be Dr. Kroszner's second nomination hearing before the Committee. In November 2001, this Committee considered his nomination to serve as a Member of the Council of Economic Advisers. He was confirmed by the Senate for this position and served at the CEA through July 2003.

He currently serves as Editor of the *Journal of Law and Economics,* on the Board of Directors of the National Association of Business Economists, as a Research Associate at the National Bureau of Economic Research, and as a Senior Fellow at the FDIC Center for Financial Research. He has also edited a number of academic journals, including the Journal of Financial Services Research, the Journal of Economics and Business and Economics and Governance. He has been a Visiting Scholar at the International Monetary Fund and the London School of Economics.

He has spent time as a Visiting Scholar at the Federal Reserve in Washington, DC, and at regional Federal Reserve Banks in New York, Kansas City, St. Louis, Minneapolis, and Chicago. He received his Ph.D. from the Economics Department of Harvard University and graduated magna cum laude in 1984.

Our second nominee to the Board of Governors is Mr. Kevin M. Warsh, who currently serves on the President's National Economic Committee. Mr. Warsh is also no stranger to this Committee. During his tenure on the NEC, Mr. Warsh directed policy on a wide array of financial issues, including the implementation of Sarbanes-Oxley, regulatory reform for Government Sponsored Enterprises and terrorism risk insurance.

Mr. Warsh worked closely with Members of this Committee and has earned our respect. Mr. Warsh is also Executive Secretary of the National Economic Council. Prior to coming to Washington, he was the Executive Director of the Mergers and Acquisitions Department of Morgan Stanley's Investment Banking Division. Mr. Warsh is a graduate of Stanford University, where he graduated with honors in economics. He received his J.D. from Harvard Law School, where he graduated cum laude.

We look forward to hearing your statements this afternoon and to an interesting discussion to follow. At this time, I will recognize Senator Bennett, and then, I will recognize Senator Schumer for any introduction he wants to make.

STATEMENT OF SENATOR ROBERT F. BENNETT

Senator BENNETT. Thank you, Mr. Chairman.

I will just withhold my prepared statement and ask questions at the appropriate time. I have met Dr. Lazear, who has been in the office, and I am very impressed, and he and I had a long conversation which I will not repeat here, but we are on the same page on a number of very important issues.

Chairman SHELBY. Senator Schumer is a Member of the Committee. We generally do not have him down there; he is up here, but——

Senator SCHUMER. Here I am.

Chairman SHELBY. Senator Schumer, for any introduction you want to have.

Senator SCHUMER. If you would like to nominate me to the Federal Reserve Board, maybe——

[Laughter.]

Chairman SHELBY. I did not go that far.

Senator SCHUMER. Exactly.

Senator BENNETT. Would that get you out of the Senate?

[Laughter.]

Senator SCHUMER. Silver lining to every cloud.

Chairman SHELBY. That would be a big cost, though.

STATEMENT OF SENATOR CHARLES E. SCHUMER

Senator SCHUMER. Thank you. Thank you, Mr. Chairman.

I would like to welcome all the nominees here today. I want to welcome Mr. Kroszner and I want to welcome Mr. Lazear, who was born in New York but who left awhile ago; and a special welcome to Mr. Warsh, a New Yorker.

I have said many times before this Committee to Mr. Warsh and to recent nominees in our meetings that our country is in need of economic leadership. Leadership, in my opinion, is, for the most part, nonideological and nonpartisan; true leaders that are committed to keeping America great by creating policy that will once again, for instance, get the United States to the top of rankings in areas like math education.

Right now, we are in 21st place, tied with Poland, Hungary, and Spain, according to the OECD. We will not stay the greatest country in the world if that continues to happen. Creating policy that will cut our budget deficit as opposed to creating a budget deficit larger than nondefense, nonsecurity, discretionary spending and creating sound trade policy that demands that our trading partners, like China, play by world economic rules to further avoid the widening trade gap.

All three of our nominees today, Mr. Chairman, have an opportunity, as a matter of fact a responsibility, to be the economic leaders that I am speaking of, and I will be watching all of them. And I am particularly pleased to be here to nominate one of those potential leaders. I am here today to introduce Kevin Warsh, who is nominated to be a Member of the Federal Reserve Board of Governors. Mr. Warsh is a lifelong New Yorker. He was born and raised in the capital region near Albany in the City of Loudonville, where he attended Shaker Senior High School, a high school I have had the occasion to visit.

From Shaker, Mr. Warsh went on to Stanford University, where he graduated Phi Beta Kappa with a degree in public policy. Later, he studied economics and regulatory policy at Harvard Law School, where he focused his coursework on market economics and debt capital markets, taking classes at the Harvard Business School and the MIT Sloane School of Business.

I know that you are proud to be here to support Kevin Warsh—I am saying this to Jane, I want to welcome her, another New Yorker, whose family I am proud to know, and I know that Jane is proud to support Kevin, who decided shortly after September 11 to leave Wall Street and accept his calling to public service, a commitment he is now clearly stating he is willing to make for 14 years, which is a long time.

For the last 4 years, Mr. Warsh has served as the Special Assistant to the President for Economic Policy and Executive Secretary of the National Economic Council. His areas of expertise have ranged from domestic finance, banking, and securities regulatory policy to consumer protection. He has advised the President and senior administration officials on issues related to the U.S. economy, particularly fund flows and capital markets, securities, banking, and insurance issues, and he participated in meetings of the President's Working Group on Financial Markets.

Prior to working in Washington, Mr. Warsh had a distinguished career on Wall Street as a Member of the Mergers and Acquisitions Department at Morgan Stanley, where he ultimately served as Vice President and Executive Director.

So it is without question, Mr. Chairman, that Mr. Warsh is tremendously accomplished for a man his age, and for that reason, it is no surprise that he is already no stranger to the Federal Reserve. He spent a considerable amount of time over the past few years working with the System. He worked closely with Federal Reserve Governors, including Chairman Greenspan, on a host of economic issues and worked closely with Timothy Geithner, another gentleman I am proud to know, he is President of the New York Federal Reserve Bank, on broad issues facing the securities and banking industries.

In our conversations, Mr. Warsh has assured me he will continue to focus on consumer protection issues at the Fed, an area many do not always see the Fed having oversight of, but protecting the rights of consumers through increased and significant disclosure mechanisms is very important as well.

His significant finance experience as a banker and regulatory experience on the NEC will prove valuable, as the Fed carries out its responsibility beyond monetary policy, its responsibility beyond monetary policy, its responsibility to the supervision and regulation of bank and financial holding companies and State-chartered banks.

He is committed to strong capital standards, effective supervision, and meaningful market discipline of these institutions. He knows unequivocally that the Fed must be independent, nonideological, and nonpartisan, and for this reason, I am proud to support his nomination.

Chairman SHELBY. Thank you, Senator Schumer.

Senator Sarbanes, any opening statement?

STATEMENT OF SENATOR PAUL S. SARBANES

Senator SARBANES. I will take just a moment, Mr. Chairman.

I am pleased to join with you in welcoming the nominees before the Committee. The positions that we are considering today, one for the Council of Economic Advisers and two for the Board of Governors of the Federal Reserve System, are among the more significant economic positions in our national government.

Dr. Lazear has been nominated by the President to be a Member of the Council of Economic Advisers, and I understand the President under the Act has the authority to designate one of the Members of the Council as Chairman, and it is the intention that if Dr. Lazear is confirmed, he will be appointed as Chairman of the Council of Economic Advisers.

I have a longstanding interest in the CEA. I worked for Walter Heller when he was the Chairman, and I just want to quote into the record from the Employment Act of 1946 which established the Council of Economic Advisers: "The Council shall be composed of three Members, who shall be appointed by the President and with the advice and consent of the Senate, and each of whom shall be a person who, as a result of his training, experience, and attainments, is exceptionally qualified to analyze and interpret economic developments, to appraise programs and activities of the Government, and to formulate and recommend national economic policy to promote employment, production, and purchasing power under free competitive enterprise." That is quite a charge, I might say.

Dr. Lazear has been an academic economist for 30 years now. He has received a number of awards for his scholarly work. In addition to his work at Stanford, he has also been an adviser to a number of governments that have moved from command to market economies, and he recently served on the President's panel on Federal tax reform.

Our two nominees to be on the Federal Reserve System's Board of Governors, of course, in addition to having a vote on the Open Market Committee, which determines the Nation's monetary policy, the Fed plays a critical role in regulating and protecting the safety and soundness of our Nation's banking system and enforcing many of our consumer protection laws.

The two nominees are replacing Governors who, in my opinion, have served with great distinction. Dr. Kroszner's seat was previously held by Governor Gramlich, and Mr. Warsh's seat was previously held by Chairman Bernanke. Both of these nominees have worked in important roles as part of President Bush's economic team. Dr. Kroszner served on the President's Council of Economic Advisers for 2 years in addition to his career as an Economics Professor at the University of Chicago. Mr. Warsh is, of course, wellknown to the Committee, having worked in the White House as Special Assistant to the President for Economic Policy and as the Executive Secretary of the National Economic Council to the President for the past 3 years. Prior to this experience, he worked on Wall Street at Morgan Stanley.

Mr. Chairman, I look forward to hearing the witnesses.

Chairman SHELBY. Thank you. If you would stand and be sworn.

[Witnesses sworn.]

Dr. Lazear, we will start with you. All of your written statements will be made part of the record. If you have anyone you want to introduce your family you have here with you, you may proceed.

STATEMENT OF EDWARD P. LAZEAR, OF CALIFORNIA TO BE A MEMBER AND CHAIRMAN THE COUNCIL OF ECONOMIC ADVISERS

Mr. LAZEAR. Thank you. I would like to introduce my wife, Vicky, who is right behind me.

Chairman SHELBY. Thank you.

Mr. LAZEAR. Chairman Shelby, Ranking Member Sarbanes, and Members of the Committee, it is a great honor to be here today to be the President's nominee to be Chairman of the Council of Economic Advisers. The Council, which has been in existence for 60 years now, is charged with the task of advising the President on economic issues. Throughout its history, it has remained a body of experts and academicians who have taken it to be their duty to inform policymakers in an unbiased and professional manner.

One colleague recently told me that in Washington, when people want the correct answer on economics, they go to the Council of Economic Advisers. The best compliment that can be paid to the CEA is that the CEA "tells it like it is," so that the President and Congress, who are charged with the responsibility of weighing all factors, can make the best decisions possible.

I was going to give you a bit of my background, but the Senators have done such a great job of describing, and I think I will skip that and simply close by mentioning that before I left California to testify, my senior colleague, Secretary George Schultz, told me that the role of the Chairman of the Council of Economic Advisers is to be an economist, to be straight, and to bring economics to the table, leaving the politics to others. If confirmed, I will devote all of my energy to ensuring that policymakers have the best economic analysis possible.

Thank you, and I welcome your questions.

Chairman SHELBY. Mr. Kroszner.

STATEMENT OF RANDALL S. KROSZNER, OF NEW JERSEY TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. KROSZNER. Thank you very much. I would like to introduce my mother, Helen Kroszner, and my niece, Kimberly Kroszner.

Chairman SHELBY. Thank you.

Mr. KROSZNER. Chairman Shelby, Senator Sarbanes, Senator Bennett, and other Members of the Committee, I am pleased to have the opportunity to appear before you today as one of President Bush's nominees to serve on the Board of Governors of the Federal Reserve System. I am honored that the President has nominated me to serve on the Board. If I am confirmed by the Senate, I will work to the best of my abilities to fulfill the significant responsibilities of this office.

After studying economics as an undergraduate at Brown University, I earned a master's and Ph.D. degrees in economics from Harvard University. I then joined the Graduate School of Business at the University of Chicago, where I am a Professor of Economics and have been teaching money and banking since 1990. I will not go through the details of my background, because again, the Senators have done a terrific job of summarizing those background qualifications.

As a Member of the President's Council of Economic Advisers from 2001 to 2003, I have had policy experience in a variety of areas, including banking and financial regulation, international financial crises, and macroeconomic forecasting. In this capacity, I witnessed firsthand the importance of having accurate and timely economic statistics in order to make sensible policy judgments and decisions. I spearheaded an initiative to improve the quality of government statistics and enhance the protection of confidential information reported to the Government, resulting in the Confidential Information Protection and Statistical Efficiency Act of 2002. After returning to the University, I was delighted to be appointed by the Secretary of Labor to the Federal Economics Statistics Advisory Committee, which meets regularly with the major official statistical agencies to discuss how to improve measurement of economic activity. If confirmed, I would be devoted to further enhancement of the quality of economic statistics.

Monetary policy is a fundamental responsibility of the Federal Reserve. Long-run price level stability is crucial to achieving maximum employment and overall economic stability. Under Chairman Greenspan and Chairman Volcker before him, the Federal Reserve has achieved much success in reducing and stabilizing inflation and inflation expectations. This success has helped to contribute to a tendency for the fluctuations in employment and output to be lower than in the past, and a reduction in the frequency and severity of recessions. If confirmed, I would look forward to working with Chairman Bernanke and other Members of the Federal Open Market Committee to continue to underscore the role that long-term price level stability has in achieving prosperity and maximum employment. I also applaud the increase under Chairman Greenspan in monetary policy transparency, which helps to reduce uncertainty for households, entrepreneurs, and investors, and thereby contributes to economic stability and growth.

The Federal Reserve also has a fundamental responsibility for protecting the stability of the country's banking and financial system. Much of my research and work with central banks has been devoted to analyzing banking and financial regulation as well as banking and financial crises. The safety and soundness of the U.S. banking and payment system is critical to achieving economic growth, maximum employment, and general economic stability, and the Federal Reserve works closely with other regulators to achieve this goal. The Federal Reserve also has an important role to play in responding to and mitigating the impact of financial crises and shocks. If confirmed, I will work vigorously to protect and promote the safety and soundness of the system.

The Federal Reserve has an additional important responsibility to consumers and users of the banking and financial system. Discriminatory or abusive lending practices should not be tolerated, and the privacy of individuals and their financial data must be protected.

The Federal Reserve is active in promoting financial literacy, and as an educator, I believe that financial literacy is fundamental to the proper functioning of the financial system. If confirmed, I will place a high priority on these responsibilities and look forward to being actively involved in promoting financial literacy.

Thank you once again for holding this hearing, and I look forward to your questions.

Chairman SHELBY. Mr. Warsh.

STATEMENT OF KEVIN M. WARSH, OF NEW YORK TO BE A MEMBER OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. WARSH. Chairman Shelby, Senator Sarbanes, Senator Bennett, thank you very much for allowing my colleagues and I to appear before the Committee, and before I get started, allow me to introduce my wife, Jane, and some dear friends who have joined us today.

First off, I wish to express my sincere appreciation to President Bush for nominating me to serve as a Member of the Board of Governors of the Federal Reserve System.

As the Members and staff on this Committee know, I have served on the National Economic Council for about the last 4 years, focusing on matters of domestic finance, capital markets, banking, securities, and insurance-related issues. In that capacity, I have had the privilege of working, Chairman Shelby, with you; Senator Sarbanes, with you and your staff as we have tackled many of these issues together. If confirmed, I look forward to continuing that productive close relationship going forward in carrying out the important responsibilities that this Committee and this Congress have assigned to the Federal Reserve.

Market participants, policymakers, and the American people have all come to rely on the good judgment that flows from the Federal Reserve's independence and credibility. If confirmed, I can assure this Committee I will be devoted solely to the Federal Reserve's statutory mandate for monetary policy; that is, to ensure price stability and to ensure maximum output in employment and growth and will work to promote a secure, fair, and efficient financial system.

The flexibility of our capital markets from which I come have really been tested in recent years, and they have been matched only by the resiliency of the American labor force. The Federal Reserve has been successful in chartering these waters but must remain attuned to any economic consequences that might arise.

Under Chairman Greenspan's leadership, the Federal Reserve has made significant progress in explaining its policies with greater transparency. As a result, market volatility is lower; our markets are deeper, broader, and more dynamic than ever before. Pools of free-flowing capital, in turn, have provided real-time, forward-looking information to help Federal Reserve officials make appropriate decisions. I hope that my prior experience on Wall Street, particularly my nearly 7 years at Morgan Stanley, would prove beneficial to the deliberations and communications of the Federal Reserve.

Over the course of the last generation, the Federal Reserve has compiled an enviable track record in achieving price stability and successfully anchoring long-term inflation expectations. This stability has contributed to low long-term interest rates and promoted strong employment growth and productivity gains.

The Federal Reserve's work, however, goes on. Its responsibilities, of course, extend beyond monetary policy to the supervision and regulation of bank and financial holding companies. In working with other financial regulators, the Federal Reserve should continue to promote three complementary pillars of prudential oversight to which Senator Schumer referred: Strong capital standards, effective regulatory discipline, and meaningful market discipline, and these are principles to which I am committed.

Finally, if confirmed, I would work to ensure that the Federal Reserve continues its important role in promoting literacy and fair dealing for consumers. The knowledge and credibility that the Federal Reserve brings to bear should help to bring people on the fringes of our financial system into the mainstream.

The Federal Reserve's decisions significantly impact America's families and businesses, and I would take on the responsibility of joining the Board of Governors of the Federal Reserve System with great humility and would be honored if the Senate saw fit to approve my nomination.

Thank you, and like my colleagues, I would be happy to respond to your questions.

Chairman SHELBY. Thank you, Mr. Warsh.

Dr. Lazear, you recently spent several months reviewing various aspects of the U.S. tax system and methods for reforming it to enhance economic growth. I am a strong proponent of a simplified tax structure, which would eliminate the inefficiencies of our current system and end the waste of vast resources currently dedicated to taking advantage of all the complexities that we have.

What three words would you use, if you could, to describe our current system?

Mr. LAZEAR. Three words? Chaotic, somewhat inflexible, and not necessarily conducive to economic growth.

Chairman SHELBY. What would be the benefits of moving to a more straightforward structure?

Mr. LAZEAR. Mr. Chairman, as you know, the President, in setting up the tax panel, instructed us to think about some of the things you mentioned; simplification in particular, but also growth and fairness.

Now, when we think about these different aspects of tax policy, we have to realize that sometimes, there are tradeoffs, and that is one of the things that confronted the tax panel.

When we thought about it, we came to the conclusion that the most important thing that we could do for the economy was to propose a tax system that would be not only simple but that would also focus on growth. And the reason is that if we think about the importance of economic growth, although simplification is extremely important, economic growth swamps it over any period of time.

So if we are thinking about a 10-year period or so, and we could raise the growth rate by even a quarter of a percent per year, we would have very significant effects on the economy.

Chairman SHELBY. What aspects of our tax structure would, in your judgment, be most in need of reform?

Mr. LAZEAR. There are a number of issues that come to my mind in terms of thinking about the tax system. As you know, I am sure, the tax panel recommended that we eliminate the AMT. The AMT is a tax structure that has really run amok. There was a good purpose for it initially. The idea was to make sure that every American citizen paid taxes if they were able to do so, and there were some people who were escaping that.

So the AMT targeted certain individuals, but over time, because of some quirks in the code, the AMT actually ended up going after individuals who it was not intended to go after.

Chairman SHELBY. Unintended consequences, perhaps?

Mr. LAZEAR. Absolutely, Mr. Chairman.

Chairman SHELBY. Mr. Kroszner and Mr. Warsh, the new Fed Chairman, Dr. Bernanke, is a well-known proponent of inflation targeting. He talks of price stability, which you both alluded to. What are your views, both of you, on inflation targeting? Do you believe an inflation targeting regime is consistent with the Fed's other goals, those of long-term sustainable growth and full employment? We will start with you.

Mr. KROSZNER. Thank you very much, Mr. Chairman. The credibility of the Fed is crucial. It is really what contains expectations about inflation, and that has a large effect on interest rates and ultimately on economic activity.

The Fed very clearly has a dual mandate from Congress to pursue low and stable prices as well as maximum employment. There are different monetary policy approaches for the Federal Reserve to achieve this, and one is the way that Chairman Bernanke has proposed, some variation of an inflation targeting regime. There are many different approaches that fall under the rubric of inflation targeting.

I think the key behind it is trying to provide clarity and transparency about monetary policymaking and monetary policy processes, because I think what the Fed should be doing is not increasing volatility but trying to reduce volatility, trying to make it clear what the Fed is going to do, and that is the best way for individuals, for entrepreneurs, for households, and investors to make good decisions.

So it is one possible way to increase transparency. I have an openness to different kinds of approaches, but the key is to have a policy and approach that reduces uncertainty, reduces volatility, provides a good backdrop for individuals and investors to make decisions and for the Fed to maintain its dual mandate of pursuing low and stable prices, at the same time maximizing employment.

Chairman SHELBY. Mr. Warsh.

Mr. WARSH. Chairman Shelby, I, too, strongly share the Federal Reserve's dual mandate, and in that context, I think the questions about inflation targeting really are ripe for discussion. I think a discussion that Chairman Bernanke has suggested that if confirmed, we would be party to, because it is likely to be an ongoing deliberation.

I think the transparency that has come to the Fed—really over the course of the last 10 or 12 years—has been incremental in nature, and I think it has been able to provide guidance to the capital markets that are keenly focused on the Federal Reserve's moves and its actions.

Inflation targeting may well be the next step—if we mean or suggest a numerical range which is further reinforcing the types of estimates that the markets expect of the Federal Reserve and that range is really an objective guided by market facts and does not in any way restrict the ability of Governors or of the Chairman to make policy judgments.

Because at the end of the day, at the FOMC, there will be imperfect information, and I think it is essential that inflation targeting, if it is thought of really as an objective, another data point for the markets, the markets might well see that as additional clarity and provide some incremental benefit going forward. I think that is a deliberation we look forward to participating in.

Chairman SHELBY. Mr. Warsh, I want to ask you a question about the Basel II capital requirements. The Federal Reserve, as you well know, is presently in the process of implementing the Basel II Capital Accord, which will establish new capital requirements for our largest banks. Due to the vital role capital requirements play in protecting the safety and soundness of the U.S. banking system, I believe it is important that there be no surprises in the implementation of Basel II, especially unanticipated reductions in capital requirements.

Last year, this Committee held a hearing at which several witnesses expressed concerns that the adoption of Basel II would result in the lowering of capital requirements. In addition, last year, the fourth Quantitative Impact Study unexpectedly showed that Basel II would result in substantially lower capital requirements.

What steps need to be taken to make sure that Federal banking regulators, Congress, and the public at large are confident that the implementation of Basel II will not adversely impact the safety and soundness of the U.S. banking system?

Mr. WARSH. Thank you for that question, Chairman Shelby. I share the view of the importance of getting these capital standards right. The Basel II process, upon which this Committee has really spent a lot of time and attention, has been much debated among our various banking regulators, and I would say that there has been a meaningful and open dialogue between and among them and with this Committee.

The QIS–IV results that you reference were a surprise. I think that the "doctrine of no surprises" should be the rule of thumb going forward. My understanding is that the Federal Reserve, working with the other bank regulators, have decided to go forward sometime this spring with a new proposed rulemaking to try to address some of the unexpected results of the QIS–IV results.

Chairman SHELBY. Including capital?

Mr. WARSH. Including capital, absolutely, Senator, and I think what you rightly do is point out that the capital standards are very important. The risk-based capital standards are very important, but so, too, are the rest of the tools in the supervisor's toolkit.

So as we proceed in the Basel II process, I think it is very important that the leverage ratio, another important measure of capital, be maintained; that the rest of the prompt corrective action authority be maintained, and our regulators are going to evaluate these standards during a lengthy process over the course of the next several years.

One of the things that I think would be very helpful, which the regulators are keen to adopt, I believe, is as the Basel II standards are practiced, to really make sure there is a parallel run of Basel

I and Basel II to ensure that these capital standards stay robust, because at the end of the day, as bank regulators and as the Committee of oversight, there are really few things as important as the safety and supervision of these underlying entities.

Chairman SHELBY. Do you know of any bank, any financial institution, that has been well-capitalized, well-managed, and well-regulated that has gone under?

Mr. WARSH. I do not, Senator, but I think the most important thing you point out is that these capital standards must remain robust, and they must taken into account risks that were hard to envision when Basel I and other capital standards were put in place.

Chairman SHELBY. Thank you.

Senator Sarbanes.

Senator SARBANES. Mr. Chairman, I have a number of questions, but why do I not just follow-up on the Basel II inquiry first?

Chairman SHELBY. Go ahead.

Senator SARBANES. And this is obviously directed to Mr. Kroszner and Mr. Warsh. As I understand it, the Federal bank regulatory agencies have indicated that even if the Basel II risk-based capital agreement is implemented, the minimum leverage capital ratio will be preserved as a critical feature of the U.S. bank capital regulation. Is that your understanding, and do you agree with that?

Mr. KROSZNER. Yes, that is my understanding, Senator.

Senator SARBANES. And do you agree with it?

Mr. KROSZNER. I certainly do agree with it.

Senator SARBANES. Mr. Warsh.

Mr. WARSH. Yes, I concur, Senator Sarbanes, and I think it is an extremely important supplement to the Basel II Accord.

Senator SARBANES. Now, this latest QIS–IV study showed a much larger reduction in capital than the study that had previously been cited to the Committee at our hearings. It showed an aggregate capital reduction of 15.5 percent, a median capital reduction for the participating institutions of 26 percent; one participating institution had a capital reduction of nearly 50 percent.

Now, even though the QIS–IV resulted in capital reductions that apparently all the bank regulators viewed as acceptable, the decision was made to go forward this year with a proposed regulation utilizing the same formula that produced the QIS results. Is that your understanding?

Mr. KROSZNER. I am not familiar with the specifics of what the Federal Reserve has gone forward with, but I certainly do know that I was concerned about the reductions in capital that were suggested by the QIS–IV. I know that there are others in the regulatory community who are concerned about that and are continuing to take comment and working to make sure that we do not have significant reductions in capital if we were to go forward with this regulation.

Senator SARBANES. Mr. Warsh.

Mr. WARSH. Yes; I am again also not specifically familiar with the changes that are being contemplated in anticipation of the next proposed rulemaking. My understanding, Senator, is that the comments and the results from the QIS–IV process, particularly when you have cases of individual institutions that have very different capital even though they have very substantially similar assets, is something which ought to be considered, and hopefully will be considered, in the context of this rulemaking.

Senator SARBANES. If we run an impact study, and it gives us these kinds of results, we should not just be continuing along the path, should we? Should we not be pulling back and reexamining what is out there if it is producing these kinds of results in an impact study? Do either of you think that the results of the impact study are acceptable results?

Mr. WARSH. Senator, in my view, I think those results proved to be a surprise that, again, having similar assets with different capital——

Senator SARBANES. It is not satisfactory.

Mr. WARSH. I do not think it is satisfactory if a company that has similar assets ends up holding very different capital, and my understanding is that safeguards are being built into the Basel II process going forward to address just your concerns.

Senator SARBANES. If they had similar capital but at much lower levels, would that be acceptable to you?

Mr. WARSH. It strikes me, Senator, as though the most important thing is that the modern risk management techniques be taken into consideration so that the Basel II standard matches that underlying risk but, again, not to the detriment of the other parts of the supervisor's toolbox that I mentioned before, such as the leverage ratio.

Senator SARBANES. Mr. Kroszner.

Mr. KROSZNER. It is very important not to allow capital to get too low. I think we saw that in the United States with the savings and loan crisis. I have done a lot of research that conforms with what many others had found, that low capital led to bad choices by the savings and loan industry, an inefficient banking and financial system, and a large cost to taxpayers.

I can assure you, Senator, that I would not support any regulatory moves that would subject the taxpayer to excess risk or undue risk. And certainly, capital is an important protection in that system.

Senator SARBANES. Let us examine this phrase "too low." When Vice Chairman Ferguson of the Fed was before us, and this was one of the issues that we looked into, that the Chairman focused some attention on, and the question was raised that Basel II was going to lower some capital standards. Chairman Ferguson said, "I would not jump to conclusions yet that it is going to lower capital overall in the industry. I think it will create greater dispersion of capital because there will be those banks that need to have higher regulatory minimum capital, and there will be some that will need to have lower regulatory minimum capital. When this Basel Committee got started in this process, the goal was to keep capital at about the same level as it is now, and thus far, first indications from early quantitative study," this was before this QIS–IV that we referred to, "suggest that indeed if it lowers capital, it will be a very small amount, maybe 6 percent or so." Do you agree with the Ferguson statement that the goal of Basel II was to keep capital at about the same level as it is now?

Mr. KROSZNER. Senator, I was not privy to the discussions that led to the initiation of Basel II. My understanding was that there is general dissatisfaction with the ability of Basel I to take into account the more complex risks that have developed since Basel I was first implemented. So, I cannot comment directly on the initial motivation, but I do think it is important to ensure that capital is sufficient when we have new and more complex risks.

Senator SARBANES. What does that mean in relation to the current level of capital? Are you open to substantially reducing the current levels of capital?

Mr. KROSZNER. As I had said before, Senator, it is very important to maintain the minimum leverage ratio, and so, I would not, regardless of what processes we have in Basel II, I would certainly not want to reduce that at all. So that being part of the initial capital level from Basel I, I certainly would not want any reduction of that.

Senator SARBANES. Of course, the purpose of Basel I was to increase the amount of capital in the banking system, was it not?

Mr. KROSZNER. Again, I do not know what the particulars were for that motivation. Certainly, we have seen a large increase in the average amount of capital in the U.S. banking system over the last decade or so.

Senator SARBANES. Mr. Warsh.

Mr. WARSH. I, too, Senator, look forward to getting our hands on the data, seeing on a bank-by-bank basis what the QIS results would suggest and to make sure that the risk inherent in each of these banking institutions demands a degree of capital that is appropriate. And it strikes me that this is the overwhelming goal of Basel II, which is to make sure that the capital is more than sufficient to make sure that the safety and soundness is strong and to make sure that the safety net exists. And beyond that, it is hard for me to judge based on the data that we have seen at this point.

I would only note that I think it is important going forward that there be a parallel run of the new proposed standards with the old standards, so to the extent there are surprises, that they would come to the attention not only of the Federal Reserve but also, of course, to other people such as Members of this Committee that are looking at the issue.

Senator SARBANES. Now, the Fed has taken the lead in negotiating this internationally, but it is my understanding that any decision on how the United States acts has to be a shared decision by all the bank regulators. Is that your understanding?

Mr. KROSZNER. Again, Senator, I am not sure of the specifics of how things work with respect to the law and regulation. Certainly, I think it would be very important to have agreement among the regulators on something so important as capital, and certainly, I would strive for that.

Mr. WARSH. And Senator Sarbanes, I do think we would be well-served by having our four regulators on an issue of this level of importance speak at the end of the day with one voice.

The only other note that I would make, Senator Sarbanes, is that U.S. financial institutions are exceptionally well-capitalized generally and are able to provide their products and services on an international basis. And their capitalization is a focus not only of the bank regulators but also of the marketplace and of their customers domestically and overseas, which should provide another important check on their capital levels.

Senator SARBANES. I have used a lot of time. I will come back. Thank you, Mr. Chairman.

Chairman SHELBY. Thank you. We will have another round.

Dr. Lazear, productivity for the fourth quarter of 2005 declined 0.2 percent in the business sector and 0.6 percent in the nonfarm business sector. The productivity declines were unexpected by a lot of the market watchers. What is your assessment of these numbers? Do they represent a one-time aberration, or do they signal something else? And given your extensive background in labor economics, what advice would you be giving us, and what advice would you be giving to the President, maybe, would be better on long-term growth prospects in the economy?

Mr. LAZEAR. Thank you, Chairman Shelby. That is obviously an extremely important issue.

Labor productivity is a key determinant of wages. If we look over even the very short-run, we know there is an extremely close relationship between wages and productivity, so we want to make sure that productivity continues to grow. In the fourth quarter, productivity was down, and that was a reflection of the fact that GDP did not grow at the rate that we had expected.

Most view that as an aberration and a result primarily of three factors: First, Federal spending was down in the fourth quarter; second, there was a drop in auto sales, which was really a reflection of the fact auto sales in the third quarter had been accelerated; and third, the hurricanes had an enormous impact on petroleum.

Those are not expected to continue into the future, so most who have been looking at the fourth quarter view that as a blip rather than a trend and expect a continued strong economy.

Chairman SHELBY. Dr. Kroszner and Mr. Warsh, housing markets: The possibility of a housing bubble has been circulating in the popular press for a long time. Households have used interest rates-only loans and more exotic adjustable rate mortgages to make homes affordable while at the same time increasing household vulnerability to financial risk.

What effect would a slowdown in the housing sector, we have already seen some of it but a real slowdown, have for our overall economy, and how do you believe the Federal Reserve should respond?

Mr. KROSZNER. Thank you very much, Senator.

Certainly, the former Chairman of the Federal Reserve, Chairman Greenspan, had suggested that there may be some markets that have some froth associated with them, particularly some localized housing markets. I do not think it is the role of the Federal Reserve to be second guessing asset prices or asset price movements, but as you point out, Mr. Chairman, it is extremely important for the Federal Reserve to think about how to respond to such changes and to such movements.

So first, of utmost importance is making sure that the safety and soundness of the banking system is not at risk, and so, ensuring that there are proper standards for lending, making sure that the banks and other financial institutions who are lending into the housing market fully understand those risks and appropriately capitalize against them is of first order importance. I believe the Federal Reserve has been monitoring that issue, and obviously, that is something that needs attention to ensure that the safety and soundness of the banking system and that lending in the mortgage market is not subject to difficulties.

Second, I think the important thing is as there are any changes in asset prices to just be fully aware of them and be very careful to respond to any changes that would affect household wealth, that would affect consumption, that would affect overall economic growth. And so, again, being very aware of what is going on and then thinking about what the appropriate monetary policy responses would be to that are key.

Mr. WARSH. Chairman Shelby, I share the view that the housing price run-up in recent years is part of what has contributed to a strong consumer demand that has impacted GDP. If you look at the underlying fundamentals for housing over large parts of the country, however, with a low interest rate, low inflation environment, it should not surprise us that housing prices have been on the up slope.

When you look at what the impact would be on Federal Reserve monetary policy in particular, we would look at the outputs, what are the results of that, and what are the results if, for example, home equity withdrawals were to dissipate here early in 2006.

One thing that the regulators did some months ago was to provide some increased coordination of regulatory guidance—with respect particularly to nontraditional mortgages—to make sure that the underlying banks and financial institutions are safe and sound and, at least as important, to make sure that they are providing these sorts of nontraditional products to people that are fully qualified for those products. The purpose, of course, is to try to mitigate any dislocations and any troubles that might impact consumer demand.

Chairman SHELBY. Thank you.

Dr. Lazear, the Social Security system clearly faces challenges in its future financing that will prove difficult to resolve the longer we wait. The Medicare program probably faces a more significant financial problem.

As a key economic adviser to the President, if you are confirmed, and you will be, how would you recommend that the Administration approach these problems? That is, is there a set of guiding principles that should be kept in mind as the Administration proposes various reform options, because we know what the entitlement are slated to do to the budget.

Mr. LAZEAR. Mr. Chairman, as you point out, entitlements are growing and continuing to grow, and they are becoming a larger and larger part of the total budget. So if we do not succeed in getting entitlements under control, we will not be able to get the budget under control. So everything having to do with deficits and everything else that is of concern to us today are related to the issue that you raise.

There are a number of possibilities for constraining the growth of entitlements and expenditures and doing so in a way that does not create harm to the typical American. I think that a number of things can be done in terms of solvency of the system. I think that we need to think about removing regulatory risk from the structure by getting the money back into the private sector. I think there are a number of ways suggested by the President and that your Committee, the Senate, and Congress in general has thought about, and those would be the lines along which I would go.

Chairman SHELBY. Thank you.

The Fed is a bank regulator, which you both will be part of. Much of the attention surrounding the Federal Reserve has to do with implementation of monetary policy. However, we all know that some of the duties of the Fed is bank regulation, and that also poses unique challenges. The largest and the most sophisticated banks develop, and market, complex financial products.

Do you believe the current structure of financial regulation under the Fed and the other regulators is adequate to the task of overseeing the increasingly complex institutions and the products that they bring forth? In other words, it has to be one of the challenges to you as regulators at the Fed.

Mr. WARSH. Chairman Shelby, I think that the question is particularly valid today, as we have seen an increase in sophistication of products, and we have seen the capital markets, in effect, providing credit that a generation or two ago was really coming from commercial banks on their own balance sheet.

Chairman SHELBY. Right.

Mr. WARSH. I think the challenges remain more robust and real today than perhaps they have been in some time. My understanding and knowledge of our existing regulatory structure, however, does not suggest to me that it should be scrapped; that is, our regulatory structure has built into it a degree of competition between the States and the Federal regulators and between and among Federal regulators, including the bank regulators and the SEC.

So, I think it is incumbent upon us, if confirmed, as regulators to continue to reach out so that as a Government, we better understand these products, we are better able to ensure we understand who is taking that risk and who are the counterparties to that risk.

But I think our existing system, including such mechanisms as the President's Working Group on Financial Markets, is a very effective way for regulators to share this information and try to come to some broad policy prescriptions as these challenges move forward.

Mr. KROSZNER. I would agree with that greater complexity of financial products in the financial markets present greater difficulties for the regulators to assess the risks, who is bearing those risks, and what the extent of the risks are.

I think the regulators do have the tools to be able to approach those, to be able to understand those, but it is very important to have a coordinated approach amongst the different regulators so that there is a good sharing of information, that there is a good working relationship among them. The President's Working Group is one such example, to make sure that we are aware, that the regulators are aware of the risks both to the individual institutions, to individual borrowers as well as to counterparties; who those counterparties are, who is bearing that risk, and if something goes wrong with one of those counterparties, if they cannot pay, what is the consequence for the rest of the system? Is that just limited to the two parties who are associated with one particular contract, or will that have a broader systemwide effect?

And obviously, that is something that the regulators need to be aware of, and my understanding is that the regulators are looking at many of these issues and broadly have the tools in principle to be able to deal with them.

Chairman SHELBY. How important is it for the Fed as a regulator, now, to work with the other regulators?

Mr. KROSZNER. I think it is certainly important to work with the other regulators. In our discussion of Basel II earlier, we had discussed how important it was to have an agreement on something as important as capital. And so, I think it is very important that the regulators try to coordinate and have similar views.

Will it always be the case that the regulators have the same views? No; we have a system that has different regulators, and we will have some differences of opinion. And I think some differences of opinion are not a bad thing, and having fora where there are people with differences to try to work them out is very valuable.

Chairman SHELBY. Senator Sarbanes.

Oh, excuse me, Senator?

STATEMENT OF SENATOR THOMAS R. CARPER

Senator CARPER. Thank you, Mr. Chairman.

To our guests, welcome. Thank you for joining us today. I am looking for an email that I just read from someone who knows you, Mr. Warsh, and who had some very nice things to say about you. I do not often read this thing in public. Is your wife here with you today?

Mr. WARSH. She is, behind me.

Senator CARPER. Mrs. Warsh, this is a valentine to your husband.

[Laughter.]

Mr. WARSH. This is just where she wanted to spend Valentine's Day.

Senator CARPER. This comes from someone who previously served at a senior level for one of our senior colleagues on the Democratic side, and here is what he said: "I do not ordinarily have much nice to say about President Bush's nominees, but I have had the opportunity to work with Kevin Warsh on a number of issues in the past few years, and he is really a rarity. Even when we have disagreed on the policy at issue, I have on every occasion found Kevin to be a remarkably balanced, even-handed, thoughtful, and astute person. I have always been struck how someone that smart, brilliant, actually, could also be so gracious. Kevin also has a terrific quality that is increasingly rare in Washington. He is a great listener and is always in learning mode. And every time I have met with him, I have come away smarter."

Now, I would just like to ask you for the record, how did you end up to be the person who is described in this email?

[Laughter.]

Mr. WARSH. Well, Senator, thank you for reading the email. When I came to Washington 4 years ago, I must admit I did not understand much of Banking Committee issues from the Government's perspective. Having been in the capital markets, on Wall Street for nearly 7 years before, I came to these issues with some of that background and really arrived here seeking a whole lot of knowledge and seeking to make sure I understood how work got done effectively and efficiently here.

So, I suspect it is at least in part because I came here knowing so little about this process and have had the opportunity to work with this Committee among others, and it has really been a very productive relationship during this period.

Senator CARPER. My follow-up question is why do you suppose I received an email like this about you but not about the two colleagues sitting next to you?

Mr. KROSZNER. I think my mother does not use email very well.

[Laughter.]

Senator CARPER. I do not think his mother was ever on the Senate staff, so I think her hands and his are clean in all of this.

Actually, the person who sent this, I know him pretty well. For him to say these things about you is really high praise, and I understand Senator Schumer did as well.

May I ask a question of Mr. Lazear, if I may. Talk to us about savings rate. You may have already talked a bit at some length, but I am going to ask you to revisit it. How do we go about fostering savings, not from people whose incomes are in the top 2, 3, 4, 5, percent in this country; the Administration seems always interested in expanding IRA's or expanding health savings accounts to give upper income people an opportunity to participate more.

I worry not so much about the more affluent people saving. I worry about less affluent people saving, and I would welcome your thoughts in that regard.

Mr. LAZEAR. Thank you, Senator.

One of the things that came up when I was on the tax panel was thinking very carefully about saving. As you mentioned, the savings rate is low, and it is not only low across the board; but it is also low particularly for low-income individuals.

We thought hard about that, and a number of the suggestions that we came up with try to address saving not only among the rich but also among middle and low-income individuals. One of the things that we came up with that I would support was saving at the level of the family, so there would be tax advantages for individuals even at the low end.

Some of these would take the form of credits, refundable credits to low-income individuals. One took the form of a credit up to $500, that would be 25 percent of the savings for low-income individuals, and we were trying to encourage individuals to save. We had also suggested a saving-at-work plan that would allow individuals to take some of their current income and save it tax-free. And although taxes are not the only consideration, obviously, we thought that these would be steps in the right direction. So, I would support those.

Senator CARPER. And I thank you very much for that. A follow-up question, if I may.

I was reading in the paper today, I think we have actually finally calculated the trade deficit from this past year. I think it came in at about $725 billion. I think the trade deficit just for the month of January alone is probably greater than the trade deficits that we have had in most years that we have been alive.

And just talk to us just a little bit of a primer about how, when we run a large trade deficit like this, how does it get financed? Who provides the money for us? How do we go about continuing on this path. Is it sustainable? What do we need to do?

Mr. LAZEAR. Well, as you mentioned, Senator, the trade deficit is large. It has been large for a long period of time.

Senator CARPER. Not at this rate. Even in the last 3, 4, 5 years, it has more than doubled, I believe. It was already big then.

Mr. LAZEAR. Yes, it has gone up. It has gone up steadily. We have been running a trade deficit for quite awhile, but as you point out, it has gone up in recent years.

On the other side of the trade deficit, of course, is the capital account surplus. And so, there are always two interpretations of a trade deficit. One is that we are buying more goods than we are selling, but on the other hand, the capital account surplus means that the United States is such an attractive market for investment opportunity that individuals from abroad are investing in the United States and doing so at a record rate.

Senator CARPER. Can you give us an example of the kinds of investments you are referring to?

Mr. LAZEAR. Okay; there are a number of investments. Obviously, Government investment is one, and we do see significant investment in Government securities in the United States, primarily to——

Senator CARPER. To help us finance our deficit?

Mr. LAZEAR. It does help us finance our deficit, because the United States has to get these funds from somewhere, and as you pointed out earlier, unfortunately, we are not saving currently at the level that we should be. So in order to have very high levels of investment without high interest rates, which is key in terms of spurring the private economy to economic growth, we have to make sure that we do have funds from abroad.

So when we look at the trade deficit, it is a double-edged sword. As you point out, it is not something that we want to have persist over time, for very long periods of time. On the other hand, we would like to see a soft landing. If, for some reason, the trade deficit immediately reversed or went to zero, that would also mean that our source of funds from abroad would go to zero, and that would not be a very good thing for the economy.

So we want to make sure that things happen in moderation, that things occur at a gradual pace, and I would look forward to advising policies that would make that kind of——

Senator CARPER. In an article I was reading yesterday, one of the suggestions, instead of continuing to watch imports grow more rapidly than more exports, we should try the opposite. And how might we go about doing that?

Mr. LAZEAR. One of the things that actually did happen very recently was that the percentage increase in exports actually exceeded the percentage increase in imports for the first time, I think, in 15 years. What we need to see happen, of course, is that——

Senator CARPER. For what period of time? I am sorry.

Mr. LAZEAR. It was just the last quarter of last year.

What we need to see happen, though, over a prolonged period of time is for other countries to make sure they open up their markets to us. Ninety-five percent of the consumers in the world lie outside the United States. One in five jobs in the United States is associated with export trade, and it is extremely important that we make sure that we have opportunities to compete abroad.

As you know, the productivity of the American worker is higher than the productivity of any worker in the world. If we are on a level playing field, the American worker can compete anywhere. So, I would work hard to make sure that we have opportunities abroad to have our goods and services compete on a fair basis.

Senator CARPER. You will have no quarrel with me or I suspect with any of us on that.

But I have heard through several people who have led the Federal Reserve and people who have sat in the chair that you are about to take and raising this question about rising trade deficits, Federal budget deficits, the willingness of the rest of the world to lend us money, and this is just not sustainable. And for us to continue along this path and not figure out how to get out of it, we are on a—I call it—the road to destruction.

We have an opportunity to do something about it I think later this week, maybe the following week. We watched the loss of manufacturing jobs, and they are exiting our country at a rapid clip, and one of the reasons why I think they are leaving is because—there are a lot of reasons: Energy costs are one of the reasons, especially natural gas, but another reason deals with our civil justice system, and particularly, this week, we are taking up the issue of asbestos litigation reform to see if there is a way to come up with a system that is fair to people that have been injured, to make sure that the people who pay for their injuries and their impairment and breathing is the defendants and the insurance companies, in this case, but to try to make sure that we have a system at the end of the day that increases the likelihood that the claims that are paid will end up actually in the pockets of people who have been hurt and frankly not in the pockets of people who may have been exposed to asbestos or who will never be exposed to asbestos.

I will close with this. My colleagues, I asked somebody the other day, I said do you think some of our policies in this country are contributing to the loss of manufacturing jobs, and he said we could not hasten their departure any more if we were taking a stick and chasing them out of this country, and there is an opportunity to do a number of things to stop chasing them out of this country, and we have a chance to make a little progress on it this week, and I hope to pursue some of the other things that you have suggested here.

Thank you. Thanks, Mr. Chairman.

Chairman SHELBY. Senator Sarbanes.

Senator SARBANES. Thank you very much, Mr. Chairman.

Just to follow-up on what Senator Carper has been asking about, this is the U.S. trade deficit. Now, you said, Mr. Lazear, that it was worsening at a continuing pace or something of that sort. This seems to be at a fast accelerating pace. I mean, $725 billion, this is by far the worst we have ever experienced. The trade deficit with China last year was $200 billion, the largest we have ever had with any one country.

What are we to make of this? I mean, the current account deficit now exceeds 6 percent of our GDP. Do you regard this as a problem for our economy?

Mr. LAZEAR. Yes, Senator, I think it is a problem if it is sustained into the long-run.

It is certainly the case that we can have at any period in time trade deficits or trade surpluses, but over the long haul, it has to be the case that these trade deficits are going to be reversed, because countries are not going to be willing to continue to give us goods in return for our capital forever.

So there is no question; I certainly agree with your premise that over time, this has to be reversed. Just to follow-up on your point, and that is that if we look at manufacturing jobs and the concern that they might be related to this, manufacturing productivity in the United States, as you know, is very high and has grown more rapidly, actually, than productivity in any other sector. Manufacturing productivity was up over 4 percent last year.

That is a very good sign for the American worker, because it means, again, that we do have the opportunity to compete with anyone as long as we are given a fair access to their market, and I think that would be the way to help erase some of the deficits that you are concerned about.

Senator SARBANES. Mr. Kroszner, do you agree that this is a problem?

Mr. KROSZNER. Certainly, the rate of growth of the deficit could not be sustained forever. And so, exactly as Professor Lazear had said, ultimately, there will have to be some balancing. We have been experiencing much greater demand growth in the United States than in the rest of the world. This is really a reflection of that, that we are buying a lot more than the rest of the world is buying from us.

Something that would be very valuable is to pursue policies that generated prosperity around the world, increased demand abroad, increased demand at home and also increased savings at home.

Senator SARBANES. Now, Mr. Kroszner, you gave a speech in December in which you said, "the economy continues to post a solid and consistent performance, no matter what Mother Nature nor nattering nabobs of negativism may throw at it."

Interesting turn of phrase, I might say. It is not original, though.

[Laughter.]

Mr. KROSZNER. I claim no originality for it, Senator.

Senator SARBANES. No, I think there was an official from my State who was the originator.

[Laughter.]

Mr. KROSZNER. I believe you are correct, Senator.

Senator SARBANES. Paul Volcker wrote an editorial in the *Washington Post.* He said the following about our economy: "Under the placid surface, there are disturbing trends: Huge imbalances, disequilibria, risks; call them what you will. Altogether, the circumstances seem to me as dangerous and intractable as any I can remember, and I can remember quite a lot."

Warren Buffett recently said "Right now, the rest of the world owns $3 trillion more of us than we own of them. In my view, it will create political turmoil at some point. Pretty soon, I think there will be a big adjustment."

And Robert Rubin, writing in *The Wall Street Journal,* said "Virtually all mainstream economists take the view that sustained long-term deficits will crowd out private investment, increase interest rates, reduce productivity, and reduce growth. The far greater danger is that these various imbalances could at some point lead to fear of fiscal disarray and concern about our currency, causing sharply higher interest rates in our bond markets and the risk of a sharp exchange rate decline."

Do you consider Volcker, Buffett, and Rubin, to be nattering nabobs of negativism?

[Laughter.]

Mr. KROSZNER. Senator, there certainly are a number of risks and challenges out there in the economy, and I would certainly not want to minimize that. The reference there to the nattering nabobs of negativism was, in terms of the speech, focusing more precisely on consumer confidence numbers, and at the time the speech was given, consumer confidence numbers were relatively low. There were a number of challenges to them, but consumers continued to spend.

And so, that was the particular focus of that comment. But obviously, there are a lot of challenges, a lot of risks both domestically and internationally. And as I had said in my opening statement, it is extremely important for the Federal Reserve to be monitoring the sources of those risks, to be ensuring that there is sufficient capital in the banking system so that if there is a change in the asset markets that the banking system is sound, that credit will continue to flow, and that it is very important to think about where the potential risks may lie.

Senator SARBANES. Mr. Kroszner and Mr. Warsh, what do you understand the mandate of the Federal Reserve to be?

Mr. WARSH. Senator Sarbanes, I take the Federal Reserve's mandate to be both price stability and achieving sustainable growth in employment and outputs, along with, of course, a third mandate to try to do that consistent with moderate long-term interest rates. That mandate, as it has come to be known, the dual mandate, is a mandate that I strongly believe in and support.

Senator SARBANES. Mr. Kroszner.

Mr. KROSZNER. I certainly also agree that the dual mandate is extremely important. It is very clear in the law that we are to pursue both low and stable prices and maximum employment.

Senator SARBANES. Where did that mandate come from?

Mr. KROSZNER. My understanding is that is part of the Federal Reserve Act and the amendments to the Federal Reserve Act over time.

Mr. WARSH. I concur; that is a judgment that Congress made for the Federal Reserve.

Senator SARBANES. Do you believe the mandate could be changed without changing the law?

Mr. KROSZNER. Senator, I think the law speaks clearly so that the mandate is set in law, and my understanding, although not a lawyer, my understanding is that the Federal Reserve must follow the mandate from this Act.

Senator SARBANES. Mr. Warsh.

Mr. WARSH. I concur, Senator Sarbanes.

Chairman SHELBY. Senator Reed.

STATEMENT OF SENATOR JACK REED

Senator REED. Thank you very much, Mr. Chairman, Senator Sarbanes. Gentlemen, welcome.

Let me ask a question to all of you that concerns me, even though I understand that you have different obligations and duties in your prospective jobs. One of the most troublesome aspects of the present economy is that people are working harder, but they are not seeing any significant increase in their wages.

Family income seems to be flattening out or even going down. And I think we all feel that one of the fundamental values or benefits of the free market system is that it is able to give people who work sufficient wages to not only get by but to also save, to provide for their families in a very meaningful way.

And when that is not working, something might be wrong with the economy, even if the stock market is doing well, and even if capital transfers are doing well, and all these other measures are doing well. So, I would begin with Mr. Warsh and Mr. Kroszner, understanding from the Federal Reserve's perspective, you will have a different one from Mr. Lazear. But Mr. Warsh, what do you think we can do? What can the Fed do to try to get at this issue?

Mr. WARSH. Senator Reed, the Federal Reserve's role, obviously, is different from the role that Chairman-Designee Lazear would have. But I think the Federal Reserve must remain attuned to these issues, because included in the Federal Reserve's economic forecasts are forecasts for what is the state of the U.S. consumer, what is the consumer's ability to contribute to the GDP growth that we have seen in recent years.

And with respect to wages, I would make two points: First, historically, when we have seen massive ramp-ups in productivity, as we saw in the late 1990's and have really seen over the course of the last 5 years, we have typically seen wage growth ultimately catch up to those productivity gains. I think, Senator, you are making the valid point, which is we have seen the productivity, but we have not yet seen the full benefit of those wage gains accrue to this point. But those lines have crossed historically, and I would be surprised if that ultimate path is not repeated here.

Senator REED. Not to interrupt, but the last take on productivity, it seems to be dipping downwards, I think, the last numbers I have seen, which might be a transitory event, but if we have not caught up, and it is dipping down, then, we are really in trouble under your analysis.

Mr. WARSH. Senator Reed, I share your view. I think there is likely to have been a good bit of noise in that fourth quarter data. I think when the fourth quarter data is restated, we are likely to see that improve. And more importantly, as we look to 2006 and 2007, again from the Federal Reserve's perspective, trying to evaluate the economy, I think we are going to continue to see productivity growth that is robust.

If you look at the period, for example, from 1973 to 1995, productivity here in the United States was growing rather smartly at about 1.5 percent. If we looked at productivity growth rates from 1995 to 2001, they nearly doubled. What that doubling means effectively is that our standards of living are able to double that much more quickly, and the productivity growth over the last 5 years is up yet again.

I think it is extremely difficult for policymakers to rely on those sorts of productivity gains which may well have been outsized in years past with any high degree of certainty.

The only point I am trying to make was that the wage growth that we would have expected has probably been delayed by many of the things that have impacted the economy in recent years, including the war on terrorism, including the market consequence of some of the corporate scandals. I would expect wage growth to increase.

The second point I would make, Senator Reed, is when you look at labor wages as to corporate costs, those costs have been increasing over the last 5 years. But when we look at take-home wages to median workers, they have not increased at that same rate.

So what explains that difference? I think part of that difference is that many of the costs of labor in corporations, large and small, have gone in to fund health care, with costs which have grown much faster than inflation, much faster even than productivity. So while the worker is costing more to the company, that worker does not feel richer when he or she gets his or her paycheck.

So, I think the health care cost challenges, which are before this Congress, continue to explain part of the differential which you reference.

Senator REED. Mr. Kroszner, please.

Mr. KROSZNER. Yes, thank you. Family income is incredibly important. Roughly 70 percent of GDP is consumption, and so, that has to be the income of individuals, the income of families in making their consumption choices. So it is certainly important for the Fed to be cognizant of and concerned about total income in pursuing the goal of maximum employment and maximum growth in a low and stable inflation environment. And so, certainly, we want to be very much aware of that.

I think, as Mr. Warsh has pointed out, one sees a difference in the total costs of compensation and the take-home wages that individuals have been receiving, because there are many benefits that they do not receive directly in their wages but are a part of their total costs and compensation, and these are areas that require a great deal of attention because they are increasingly costly. They are causing the differential between the take home pay and the amount of pay or the cost of each of the individual workers, and that is something that certainly is important to look at going forward.

Senator REED. I thank both the answers, and I think it sets it up very well for Mr. Lazear, who is the policy guy, not the Fed guy, but just one other perhaps footnote is that what I am observing anecdotally is that a lot of companies are trying to solve this difficult medical cost dilemma by dropping people off coverage.

So for some families, you are getting a double whammy: The wages are flat, and they lost what they had before, which were reasonably good benefits. But I think your points are well-taken, and I would hope that on the Fed, you would consider this issue as very central to what we all should be about.

And Mr. Lazear, please.

Mr. LAZEAR. Senator Reed, as you know, I spent my life thinking about labor issues, and so, your concern about wages is one that is certainly near and dear to my heart as well.

The one thing we do know is that wages are very closely related to productivity, as pointed out, and productivity is very closely related to two kinds of investment: Investment in physical capital and investment in human capital.

One of the issues that we need to focus on in this country is making sure that individuals have sufficient human capital, sufficient skills to be productive in the labor market, and that is particularly true at the bottom end and for some of our more disadvantaged citizens.

I think that if we look at some of the programs that we think about in terms of K–12 education, that would certainly be one of the key aspects to focus on. We have done tremendously well at the college level and the graduate level of education. The United States leads the world in that. It is one of our big export industries. We have many people coming into the country for our education.

We have not done quite so well at the K through 12 level, and I think that we need to focus on that, because individuals who do not get to go on to college or graduate school suffer as a result of a system that is not serving them well right now.

So in terms of even the short-run but certainly in terms of the long-run, I think that the focus needs to be on the human capital side.

Senator REED. I do not want to presume—any more questions? I just have a general question. One of the areas that concerns me also is the abysmal household savings rate, and I appreciate your answer before, but my time has expired, so if someone wants to comment briefly, particularly—perhaps Mr. Kroszner, from the Fed, from your perspective, your aspiration to the Fed, what would you do about household savings?

Mr. KROSZNER. I think it is very important for the Federal Reserve to provide a stable macroeconomic environment, because that is the best one in which individuals will have much more certainty about their future, will be able to make their savings and consumption plans most sensibly.

I think if the Federal Reserve causes uncertainty, causes volatility, that is problematic for individual decisions. If the Federal Reserve provides a very stable, very transparent, clear environment that is pursuing its goals of long-term price level stability that will maximize employment and maximize economic growth, that is the best—from the Federal Reserve perspective—that the Fed can do to provide an environment to try to foster good decisions on individuals' parts and particularly fostering savings.

Senator REED. If I may, Mr. Lazear, from the policy perspective of the Council of Economic Advisers, what is the significant thing that can be done to raise household savings?

Mr. LAZEAR. Senator Reed, again, I would focus on tax issues. Our tax system right now penalizes future consumption relative to present consumption. We would be well-served by moving to a structure that is more flat, flat in the sense of treating present and future consumption in the same way. I think that would encourage saving.

Some of the things that we focused on when I was on the tax panel involved helping low-income individuals save and trying to provide some refundable tax credits that would be instrumental in getting those individuals into the saving picture, and I think all of those things could be useful.

Senator REED. Thank you.

Thank you, Mr. Chairman.

Chairman SHELBY. Senator Sarbanes.

Senator SARBANES. Mr. Kroszner, I welcome the statement in your opening testimony about the importance of accurate and timely economic statistics.

I remember often in his testimony before this Committee, former Chairman Greenspan would say that one area where he supported more government investment was with respect to statistics and that for a very small investment, he thought we could get a very large payoff in terms of the accuracy of the basis on which we were making important policy judgments. Dr. Lazear, why do we not get you on the record on statistics and then Mr. Warsh?

Mr. LAZEAR. One of the things we talked about in your office, Senator Sarbanes, was the need for better statistics. And actually, right after leaving your office, I started thinking about some of the things that we really need to focus on.

One involves some of these issues that came up earlier with respect to jobs. We do not have very good data right now about the kinds of jobs that the economy is creating and the kinds of jobs that are being lost, and that would be one of the things that I would like to focus on as Chairman of the Council of Economic Advisers if confirmed.

There are a large number of other possible ways that we could beef up the statistics. I know that you have a connection to the CEA earlier, and you started working on those things even when you were on the CEA. I think we need to be even more diligent in terms of thinking about additional areas where statistics could be useful to provide information to us and then to you.

Senator SARBANES. Mr. Warsh.

Mr. WARSH. Senator Sarbanes, I would say the underlying dynamism in our economy has proven relatively difficult to be measured by Government data, which is put together in somewhat traditional ways. I think a lot of progress has been made in trying to improve the quality of that data, but in light of that problem, it strikes me that our markets, particularly our capital markets, are able to provide some important price signals with respect to the current account deficit, with respect to policy actions, which is not a perfect measure of how the economy is doing but is a necessary supplement given the data that we have.

If U.S. companies were to try to make judgments based on the sorts of data that you, Senator, have at your disposal as a policy-maker, they would be struggling. In fact, U.S. companies have moved to just-in-time inventory, real-time data that allows them to be much more nimble in their policy decisions, and I think it is a helpful model for us all to consider.

Senator SARBANES. The President's latest budget proposal calls for the elimination of the Survey of Income and Program Participation, the SIPP, which has been regarded as a unique source of high quality policy-relevant data on the economic well-being of the U.S. population.

And I really would put this to you to take with you as something to examine. I think it would be a major step backward to drop the SIPP, and since you have this concern for statistics, I commend that to you for your thinking. I do not know whether any of you is either aware of this or conversant with this particular series.

Mr. LAZEAR. I certainly know the data set. I have not used it, but many of my colleagues have, and I am certainly interested in following through on finding out more about that.

Senator SARBANES. The money laundering title of the USA PATRIOT Act came out of this Committee. Chairman Shelby has had a number of oversight hearings on money laundering, and I want to ask the nominees for the Federal Reserve Board their evaluation of where the Fed is in terms of its supervisory activity with respect to money laundering.

There have been some serious criminal investigations by the Department of Justice, which to some extent might suggest that the regulatory authorities were not doing all that they should have been doing for the matter to progress to the point where the Department of Justice would come along and undertake criminal investigations. I would like to hear from both of you about this money laundering issue.

Mr. WARSH. Senator Sarbanes, while not privy to the details of what the Federal Reserve is contemplating currently, I do know that our bank regulators, along with different parts of the Administration, have been trying to increasingly speak with one voice and be coordinated; that is, FinCEN, the bank regulators, other parts of the Government that are aware of possible violations of the Bank Secrecy Act must, and I think are, continuing to take that responsibility very seriously.

I believe that there was guidance offered toward the end of last year to try to provide an ability for these regulators to communicate, share information better between and among themselves. But I would take that responsibility, if confirmed at the Federal Reserve, very seriously, and I think part of the supervisory role is to ensure that the Bank Secrecy Act, the antimoney laundering initiatives which have been brought before this Committee, are taken very seriously so that our banking system is not used by people who are trying to circumvent our laws and engage in terrorist activities.

Senator SARBANES. Mr. Kroszner.

Mr. KROSZNER. Senator, this is a very important issue. It is intolerable to have our financial system be used to finance terrorist activities or aid and abet terrorists in any way in the United States or around the world. So it is very important to vigorously enforce the antimoney laundering statutes, to enforce the Bank Secrecy Act, and to ensure that we do not, in any way, allow our system to be used by terrorists.

Again, I do not have the specific knowledge of exactly what the Federal Reserve has been doing with respect to enforcement activities, but I certainly do support maximal deterrence and making sure that our system is not used by terrorists in any way to aid or abet their activities.

Senator SARBANES. Mr. Chairman, I just want to point out because you have taken such a strong interest in this issue that the September 11 Commission issued a final report on their recommendations in December. Of course, they had made a whole series of recommendations. They issued a final report on how well they were working and how well they were being implemented.

The only recommendation they got an A, an A-minus, was with respect to terrorist financing. So they seem to have regarded the work we did here, not only the statutory work but also the oversight hearings, the follow-up, I remember a meeting the Chairman convened in his office with representatives of the Treasury to examine carefully what they were doing I think have all produced a result.

Finally, the other issue I wanted to touch with you, because it is one that, again, this Committee has had a keen interest in is privacy and data security. We have had some horror stories about the loss of people's sensitive information, the breaches of the privacy of Social Security numbers, credit and debit card numbers, security codes, bank account information.

In fact, the Chairman convened, I think, three or four hearings of this Committee on data privacy. How important do you regard that issue? Everyone thinks the Federal Reserve does—I mean, obviously, it does monetary policy, but it does not only do monetary policy, and issues of this sort come directly under your jurisdiction.

Mr. KROSZNER. Certainly, protecting people's privacy is of the utmost importance. In that Act of 2002, the Confidential Information Protection and Statistical Efficiency Act of 2002 that I was very much involved in, the first part of it is confidential information protection.

And so, one of the things that I wanted to ensure is not only that we allow the statistical agencies to be more efficient in the use of the data that they have but also that the information collected from individuals and firms has the highest level of protection possible. What this Act did was actually raise the safeguards and raise the protections for those. Obviously, this is an extremely important issue, and the Federal Reserve has a role to play.

Some of the incidents that we have heard about have been outside of the Federal Reserve's mandate, however. Some of them have been associated with institutions that are not banks or not regulated institutions by the Fed. But certainly, to the extent that the Fed can ensure the confidentiality of and protection of people's privacy, of their information in financial institutions, I would work the utmost to make sure that does occur.

Senator SARBANES. Mr. Warsh.

Mr. WARSH. Senator, I think that part of the success of the domestic economy has been an increasing reliance by consumers in providing their financial information to those institution which they believe are really trusted intermediaries.

So part of the reason why home mortgages are more prevalent in the United States than they are among our European trading partners is because of the depth and breadth of those commercial financing and securities markets, all of which are really critically important, then, to make sure that data is private so that those people continue to participate in these marketplaces.

I think this Committee took on the challenge of identity theft in the reauthorization and signing by the President of the FACT Act, which is an important step down that road. But vigorous oversight by the regulators and oversight by this Congress is probably necessary going forward.

Senator SARBANES. The final question I want to put: Mr. Lazear, you are going to be the President's Chief Economist, in effect; I mean, that is the theory of it, at least, as Chairman of the Council of Economic Advisers. But the two Fed nominees are moving from being part of the President's economic team to being members of the Federal Reserve Board.

We give Members of the Federal Reserve Board a 14-year term if they get the full term. And of course, the purpose behind that is to give them independence so that they will call it as they see it and that the judgments will not be political judgments but represent well considered economic judgments.

Given your past experiences as members of the President's economic team, I think you need to address this question of the independence of the Federal Reserve.

Mr. Kroszner and then Mr. Warsh.

Mr. KROSZNER. The independence of the Federal Reserve is fundamental to the Federal Reserve's mission. In order to be credible and make sure to reduce volatility, to reduce uncertainty, the central bank cannot be a political animal; it must be an independent animal, and that was the Congressional mandate in setting up the structure as you had discussed.

I have been an academic for most of my life. I did take 2 years to have the honor to be confirmed by this Committee and to work in the White House as a Member of the President's Council of Economic Advisers, which I think has given me a very useful perspective on taking the academic and bringing it to the policy world.

I fully understand that when I am at the Federal Reserve, I am at the Federal Reserve; I am not part of any administration. I am there as an independent person. The vast majority of my life has been in academia, which, as you know, especially in the University of Chicago tradition, is one in which there is a lot of independence. Regardless of who may be giving a paper, who may be putting ideas forward, whether it is a new assistant professor, whether it is a Nobel Prize winner, those ideas are debated on their merits, and it is not the source of them; it is the substance of them.

And at the Federal Reserve Board, I assure you, Senator, that is the approach that I would take, and I understand the independence is fundamental to the successful mission of the Federal Reserve Board.

Mr. WARSH. Senator, if confirmed, I think it is essential that I take on the role to call them the way that I see them. And I absolutely intend to do just that. I think it is a dramatically different role than I have served and had the privilege to serve over the course of the last 4 years. I am very really comfortable taking off one hat and putting on the other.

I think what is at least as important is the credibility the Federal Reserve in the marketplace; given the responsibilities that this Committee has given the Federal Reserve, it is at least as essential that the markets believe the judgments of the Federal Reserve, both Chairman Bernanke and the Governors, are really impartial judgments that are based on the best data and the best information that is available. I think that is part of the reason why the markets pay so much attention to the reactions of the Federal Reserve.

Senator SARBANES. Thank you very much, Mr. Chairman.

Chairman SHELBY. Thank you, Senator Sarbanes.

I just want to throw out something you know just for emphasis: Identity theft is costing billions and billions of dollars. We have heard this. And we are trying to get a hold of it. As regulators, you will be right in the midst of it, but it seems to be not an issue that is going away despite our robust economy and the use of everything, the legislation that we have passed and the oversight that we do here. So we do want to work with you at the Fed and the other regulators to try to combat this, because it has reached epidemic stages, and I think it could get worse. I pray it will not.

Thank all of you for your appearance here today. We will try to schedule a vote on your nomination as soon as we can. Thank you very much. The hearing is adjourned.

[Whereupon, at 4:19 p.m., the hearing was adjourned.]

[Prepared statements and biographical sketches of nominees supplied for the record follow:]

PREPARED STATEMENT OF EDWARD P. LAZEAR

CHAIRMAN-DESIGNATE, COUNCIL OF ECONOMIC ADVISERS

FEBRUARY 14, 2006

Chairman Shelby, Ranking Member Sarbanes, and Members of the Committee, it is a great honor to be here today as the President's nominee to be Chairman of the Council of Economic Advisers. The Council, which has been in existence for 60 years now, is charged with the task of advising the President on economic issues. Throughout its history, it has remained a body of experts and academicians who have taken it to be their duty to inform policymakers in an unbiased and professional manner.

One colleague recently told me that in Washington, when people want the correct answer on economics, they go to the Council of Economic Advisers. The best compliment that can be paid to the CEA is that the CEA "tells it like it is" so that the President and Congress, who are charged with the responsibility of weighing all factors, can make the best decisions possible.

Let me offer a brief summary of my background. I was born in New York, but raised in the San Francisco Bay Area, when my father, who worked as a machinist in the defense industry, followed the work to California. I attended UCLA where I obtained Bachelor's and Master's degrees and then went to Harvard to get my Ph.D., all in economics. After graduating, I taught at the University of Chicago for 19 years and moved to Stanford University full-time in 1992, where I am currently a Professor in the Graduate School of Business and a Fellow of the Hoover Institution. I have founded two businesses and was the chairman of my company from 2001 until recently.

I am primarily an applied economist and have worked in a number of different areas. My specialty is issues involving incentives and productivity. Although most of my work has been in microeconomics, broadly defined, I have some well-known research in macroeconomics that examines the effects of government policies on employment. I have also spent much of my career studying education and am currently the sole economist on a National Academy of Sciences standing board that deals with education issues.

My government experience is varied. I have advised a number of countries on economic growth and reform, specifically Eastern European nations as they moved from command to market economies. I was also a Member of the President's Advisory Panel on Tax Reform last year. I am currently a Member of Governor Schwarzenneger's Council of Economic Advisers.

Before I left California to testify, my senior Stanford colleague, Secretary George Shultz, told me that the role of the Chairman of the Council of Economic Advisers is to be an economist to be straight and to bring the economics to the table, leaving the politics to others. If confirmed, I will devote all of my energy to ensuring that policymakers have the best economic analysis possible.

Thank you. I welcome your questions.

PREPARED STATEMENT OF RANDALL S. KROSZNER

MEMBER-DESIGNATE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

FEBRUARY 14, 2006

Chairman Shelby, Senator Sarbanes, and Members of the Committee, I am pleased to have the opportunity to appear before you today as one of President Bush's nominees to serve on the Board of the Governors of the Federal Reserve System. I am honored that President Bush has nominated me to serve on the Board. If I am confirmed by the Senate, I will work to the best of my abilities to fulfill the significant responsibilities of this office.

After studying economics as an undergraduate at Brown University, I earned M.A. and Ph.D. degrees in economics from Harvard University. I then joined the faculty of the Graduate School of Business of the University of Chicago, where I am Professor of Economics and have been teaching Money & Banking since 1990. I have researched and published on topics including domestic and international banking and financial regulation, corporate governance at both financial and nonfinancial firms, international banking and financial crises, debt defaults, and monetary economics. I am Editor of the *Journal of Law and Economics* and have been Associate Editor of a number of scholarly journals, including the *Journal of Financial Services Research.*

I have had extensive and regular contact with the Federal Reserve System as a visiting scholar and consultant to regional Federal Reserve Banks including Chicago, New York, Kansas City, Minneapolis, and St. Louis, as well as to the Federal Board in Washington. I also serve on the Academic Advisory Committee of the Federal Reserve Bank of Chicago. I have visited and consulted for many central banks and finance ministries around the world, including Central Bank of Argentina, Bank of Sweden, Swedish Finance Ministry, Bundesbank (Germany), and the European Central Bank. I have also visited and consulted for international financial institutions, including the Bank for International Settlements, the International Monetary Fund, World Bank, Inter-American Development Bank, and Asian Development Bank.

As a Member of the President's Council of Economic Advisers (2001–2003), I have had policy experience in a variety of areas including banking and financial regulation, international financial crises, and macroeconomic forecasting. In this capacity, I witnessed first-hand the importance of having accurate and timely economic statistics in order to make sensible policy judgments and decisions. I spearheaded an initiative to improve the quality of Government statistics and enhance the protection of confidential data reported to the Government, resulting in the Confidential Information Protection and Statistical Efficiency Act of 2002. After returning to the University, I was delighted to be appointed by the Secretary of Labor to the Federal Economic Statistics Advisory Committee (FESAC) which meets regularly with the major official statistical agencies to discuss how to improve measurement of economic activity. If confirmed, I would be devoted to further enhancement of the quality of economic statistics.

Monetary policy is a fundamental responsibility of the Federal Reserve. Long-run price stability is crucial to achieving maximum employment and overall economic stability. Under Chairman Greenspan and Chairman Volcker before him, the Federal Reserve has achieved much success in reducing and stabilizing inflation and inflation expectations. This success has helped to contribute to a tendency for the fluctuations in employment and output to be lower than in the past and a reduction in the frequency and severity of recessions. If confirmed, I would look forward to working with Chairman Bernanke and the other members of the Federal Open Market Committee (FOMC) to continue to underscore the role of long-term price stability in achieving prosperity and maximum employment. I also applaud the increase under Chairman Greenspan in monetary policy transparency, which helps to reduce uncertainty for households, entrepreneurs, and investors, and thereby contributes to economic stability and growth.

The Federal Reserve also has a fundamental responsibility for protecting the stability of the country's banking and financial system. Much of my research and work with central banks has been devoted to analyzing banking and financial regulation as well as banking and financial crises. The safety and soundness of the U.S. banking and payments systems is critical to achieving economic growth, maximum employment, and general economic stability, and the Federal Reserve works closely with other regulators to achieve this goal. The Federal Reserve also has an important role to play in responding to and mitigating the impact of financial crises and shocks. If confirmed, I would work vigorously to protect and promote the safety and soundness of the system.

The Federal Reserve has an additional important responsibility to consumers and users of the banking and financial system. Discriminatory or abusive lending practices should not be tolerated, and the privacy of individuals and their financial data must be protected. The Federal Reserve is active in promoting financial literacy and, as an educator, I believe that financial literacy is fundamental to the proper functioning of the financial system. If I am confirmed, I will place a high priority on these responsibilities and look forward to being actively involved in promoting financial literacy.

Thank you for holding this hearing, and I look forward to your questions.

PREPARED STATEMENT OF KEVIN M. WARSH

MEMBER-DESIGNATE,

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

FEBRUARY 14, 2006

Chairman Shelby, Senator Sarbanes, and Members of the Committee, thank you for the opportunity to appear today and for the expeditious scheduling of this hearing.

I wish to express my sincere appreciation to President Bush for nominating me to serve as a Member of the Board of Governors of the Federal Reserve System.

I have served on the National Economic Council for the past 4 years, focusing on domestic finance, capital markets, banking, securities and insurance related issues. In that capacity, I have had the privilege of working closely and productively with Members and staff of this Committee. If confirmed, I look forward to continuing that cooperative relationship, along with Chairman Bernanke and the Board of Governors, in carrying out the important responsibilities that Congress has assigned to the Federal Reserve.

Market participants, policymakers, and the American people rely on the credibility and sound judgment that flows from the Federal Reserve's independence. If confirmed, I will be devoted solely to the Federal Reserve's statutory mandate for monetary policy—to preserve price stability and foster maximum sustainable growth in employment and output—and will work to promote a secure, fair, and efficient financial system.

The flexibility and resiliency of the U.S. capital markets are matched only by the remarkable innovation and adaptability of our Nation's workers. Both of these markets—capital and labor—are a source of great strength to the American economy, and have proven in recent years equal to the task of cushioning external shocks to the economy.

The capital markets, from which I come, are the transmission mechanism for monetary policy. Under Chairman Greenspan's leadership, the Federal Reserve took meaningful steps during the past decade to describe and explain its policies with greater transparency. As a result, market volatility is lower, and our capital markets are deeper, broader, and more dynamic than ever before. Pools of free-flowing capital, in turn, are able to provide real-time, forward-looking information to help Federal Reserve officials make appropriate policy decisions. I hope and believe that my prior experience of nearly 7 years at Morgan Stanley—as an investment banker and mergers and acquisitions adviser—would prove beneficial to the deliberations and communications of the Federal Reserve.

Over the course of the last generation, the Federal Reserve has compiled an enviable track record in achieving price stability and successfully anchoring long-term inflation expectations. This stability has contributed to low long-term interest rates and has promoted strong employment growth and significant productivity gains. The Federal Reserve must remain attuned, however, to the possibility of unexpected shocks.

The Federal Reserve's responsibilities extend, of course, beyond monetary policy. It is responsible for the supervision and regulation of bank and financial holding companies and State-chartered banks that are members of the Federal Reserve System. Working with other financial regulators, the Federal Reserve should continue to promote three complementary pillars of prudential oversight: Strong capital standards, effective supervision, and meaningful market discipline of these institutions. I am fully committed to these principles.

The Federal Reserve also maintains significant responsibility for promoting an efficient and effective financial system, including protection from systemic risks. As a staff participant on the President's Working Group on Financial Markets since 2002, I would hope to continue to contribute as a Member of the Board to its important work in the years to come. The Federal Reserve remains on the front lines in avoiding financial crises—or mitigating their consequences—should they occur. The American people have come to rely upon the Federal Reserve in times of significant financial distress, and it is a responsibility that I take seriously.

Finally, if confirmed, I will work to ensure that the Federal Reserve continues its important role in promoting financial literacy and fair dealing for consumers. The Federal Reserve's knowledge and credibility should continue to be brought to bear to help bring those on the fringes of the U.S. financial system into the mainstream.

In conclusion, the Federal Reserve System's decisions significantly impact America's families and businesses. I would take on the responsibility of joining the Board of Governors of the Federal Reserve System with humility, and would be honored if the Senate sought fit to confirm my nomination.

Thank you. I am happy to respond to your questions.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name:	Lazear	Edward	Paul
	(Last)	(First)	(Other)

Position to which nominated: Member and Chairman, Council of Economic Advisors

Date of nomination:

Date of birth: 17 August 1948 (Day) (Month) (Year) **Place of birth:** New York

Marital Status: Married **Full name of spouse:** Victoria Ann Lazear

Name and ages of children: Julia Ann Lazear, 20

Education:

Institution	Dates attended	Degrees received	Dates of degrees
UCLA	Sept 66-March 71	A.B., A.M.	1971 for both
Harvard	Sept 71-June 74	Ph.D.	1974

Honors **List below all scholarships, fellowships, honorary degrees, military medals, honorary and awards: society memberships and any other special recognitions for outstanding service or achievement.**

IZA Prize in Labor Economics, 2004
Adam Smith Prize, European Association of Labor Economists, 2003
Society of Labor Economists, Fellow, 2003-
National Academy of Sciences, BOTA, member, 2001-
Michael and Monica Spence Faculty Fellow, 2000-01
Distinguished Service Award, Ph.D. Faculty, Stanford University, 2000
American Academy of Arts and Sciences, Fellow, 2000-
Leo Melamed Biennial Prize for Outstanding Research, 1998
President, Society of Labor Economists, 1997-98
First Vice-President, Society of Labor Economists, 1996-97
Honorary Doctor of Laws degree, Albertson College of Idaho, awarded June, 1997
Stanford Graduate School of Business Research Fellowship, 1996-97
Personnel Economics selected as MIT Press Outstanding Book, 1996
Personnel Economics selected as one of ten most important books in Labor Economics Princeton, 1996
Distinguished Teaching Award, Graduate School of Business, Stanford University, May 1994
Econometric Society, Fellow, 1988-
Member, Conference on Research in Income and Wealth, 1988-
Grant by Government of Spain to study U.S./Spanish unemployment, 1987-88
Binational Fellowship, United States/Israel Binational Science Foundation, 1985
Elected Fellow, Center for Advanced Study in the Behavioral Sciences, June 1981
National Science Foundation Grant Recipient, 1979-81, 1981-83, 1984-86, 1987-90, 1991-95, 1995-96, 1996-97, 1997-2001
Graduate Fellow, National Science Foundation, 1971-74

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Name	Type	Dates	Position
SIEPR Stanford Institute for Economic and Policy Research	Academic Research	1996-present	Member of steering committee
NBER National Bureau of Economic Research	Academic Research	1974-present	Research fellow
Journal of Labor Economics	Academic Journal	1982-2001	Founding editor
Journal of Economic Perspectives	Academic Journal	1986-99	Assoc. Editor
Labour	Academic Journal	1992-present	Member, Editorial Board
Managerial and Decision Economics	Academic Journal	1994-present	Member, Editorial Board
Journal of Labor Abstracts	Academic Journal	1996-present	Co-editor
German Economic Review	Academic Journal	2000-04	Associate Editor
The Economist's Voice	Academic/popular Journal	2005-present	Columnist
Econometric Society	Scholarly society	1974-present	member, fellow
American Economics Association	Scholarly society	1971-present	Member
Society of Labor Economists	Scholarly society	1996-present	founder, member, past vice-president, past president, fellow
Conference on Research in Income and Wealth	Academic Research	1988-present	Member
National Academy of Sciences	Scholarly society	2001-present	member, Board on Training Assessment
American Academy of Arts and Sciences	Scholarly society	2000-present	Fellow
PADI	Scuba diving association	1996-present	Member
Alpine Hills Swim and Tennis Club	Neighborhood pool, tennis courts, and gym	1987-present	Member
Automobile Assoc of America	Roadside assistance club	1975-present	Member
Harley Owners' Group	Roadside assistance / touring club	2003-present	Member
BMW On	Roadside assistance / touring club	2001-present	Member

Vista Verde Community Association	Neighborhood association (safety, fire prevention, membership lists)	1990-present	Resident
Center for Corporate Performance, Univ of Aarhus, Aarhus Denmark (CCP)	Scholarly	1/2004 – present	Fellow
Ctr for Econ and Policy Rsch, London Bus. School, London, England (CEPR)	Scholarly	6/04-present	Fellow
IZA Bonn, Germany	Scholarly	6/02-present	Fellow
Hong Kong Institute of Econ and Bus Strategy, U of Hong Kong	Scholarly	4/2000-present	Advisor

Employment record: **List below all positions held since college, including the title or description of job, name of employment, location of work, and inclusive dates of employment.**

Regular Positions:

Morris Arnold Cox Senior Fellow,
Hoover Institution (2002-)
and
Jack Steele Parker Professor of Human Resources
Management and Economics, Graduate School of
Business, Stanford University (1995-)
Senior Fellow, Hoover Institution (1985-2002)
Professor of Human Resource Management and
Economics, Graduate School of Business (1992-95)
Stanford University
Coordinator of Domestic Studies (1987-1990),
Hoover Institution (department head)
Assistant Professor of Economics (1974-1978);
Associate Professor of Industrial Relations (1978-1981);
Professor of Industrial Relations (1981-1985);
Isidore Brown and Gladys J. Brown Professor of Urban and
Labor Economics, Graduate School of Business (1985-1992)
University of Chicago
Teaching Fellow, Harvard University, Cambridge, Ma Sept 73-June 74.
Chairman, Liquid Engines, Inc. 2001-2005

OTHER AFFILIATIONS:

Research Fellow, Center for Corporate Performance, Denmark (2004-)
Research Fellow, CEPR (2004-)
Research Fellow, IZA (2002-)
Member, Advisory Council, Hong Kong Institute of Economics and Business Strategy, University of Hong Kong (2000-)
Chairman, Academic Research Committee, Research Advisory Board of the American Compensation Association (1999-2002)
Research Advisory Board, American Compensation Association (1996-99)
Steering Committee, SIEPR, Stanford University (1996-)
Research Associate, National Bureau of Economic Research (1974-)

EDITORIAL AFFILIATIONS:

Founding editor, *Journal of Labor Economics* (University of Chicago Press) (1982- 2001)
Associate Editor, *Journal of Economic Perspectives* (American Economic Association) (1986-1989)
Member, Editorial Board, *LABOUR/Review of Labour Economics and Industrial Relations* (1992-)
Member, Editorial Board, *Managerial and Decision Economics* (1994-)
Co-Editor, *Journal of Labor Abstracts* (1996-)
Associate Editor, *German Economic Review* (2000-2004)
Columnist, *The Economist's Voice* (2005-)

Government experience: **List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part time service or positions.**

Member, Governor Schwarzenegger's Council of Economic Advisors, Autumn, 2005-present
Member, President's Advisory Panel on Tax Reform, Jan 2005-Nov 2005.
Testimony before Board of Governors of the Federal Reserve System, October 1997
National Science Foundation Economics Review Panel, August 1993-95

Published Writings: **List the titles, publishers and dates of books, articles, reports or other published materials you have written.**

See attached C.V.

Political Affiliations and activities: List memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

None.

Political Contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify specific amounts, dates, and names of recipients.

None.

Qualifications: **State fully your qualifications to serve in the position to which you have been named. (attach sheet)**

I have been an academic economist for 30 years and have received many awards for my academic work. In addition, I have advised many governments on economics as they moved from command to market economies. I have founded a company and was its chairman. I have held administrative positions. I served on the President's tax commission recently and am a member of Governor Schwarzenegger's Council of Economic Advisors. My curriculum vitae (attached) provides more details on my qualifications.

Future employment relationships: **1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.**

Yes, except for my relationships with Stanford University and the National Bureau of Economic Research. I will take leave from Stanford and will not receive any compensation from the National Bureau of Economic Research.

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

I plan to return to Stanford and the National Bureau of Economic Research.

3. Has anybody made you a commitment to a job after you leave government?

No.

4. Do you expect to serve the full term for which you have been appointed?

Yes.

Potential conflicts of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

None.

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

The Council works on economic policies directed to the interests of a large and diverse group of persons, and therefore a conflict of interest is unlikely to arise. However, please refer to my financial disclosure form for potential conflicts of interest and my ethics agreement for the actions I would take in the unlikely event that a conflict of interest did arise.

3. Describe any business relationship, dealing or financial transaction (other than tax paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in anyway constitute or result in a possible conflict of interest with the position to which you have been nominated.

None.

4. List any lobbying activity during the past ten years in which you have engaged in for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

None.

5. Explain how you will resolve any conflict of interest that may be disclosed by your responses to the items above.

N/A

Civil, criminal and investigatory actions:

1. Give the full derails of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you werethe subject of the inquiry or investigation.

None.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None.

EDWARD PAUL LAZEAR

CURRICULUM VITAE
January, 2006

Business addresses:
Hoover Institution
Stanford University
Stanford, CA 94305-6010
Phone: 650/723-4724 Fax: 650/723-0498and
Graduate School of Business
Stanford University
Stanford, CA 94305-5015
Phone: 650/723-9136 Fax: 650/725-7979

Home Address:
277 Old Spanish Trail
Portola Valley, CA 94028
Phone: 650/851-3163

Married, one daughter

PRIMARY POSITIONS:

Morris Arnold Cox Senior Fellow,
Hoover Institution (2002-)
and
Jack Steele Parker Professor of Human Resources
Management and Economics, Graduate School of
Business, Stanford University (1995-)

PREVIOUS POSITIONS:

Senior Fellow, Hoover Institution (1985-2002)
Professor of Human Resource Management and
Economics, Graduate School of Business (1992-95)
Stanford University

Coordinator of Domestic Studies (1987-1990),
Hoover Institution

Assistant Professor of Economics (1974-1978);
Associate Professor of Industrial Relations (1978-1981);
Professor of Industrial Relations (1981-1985);
Isidore Brown and Gladys J. Brown Professor of Urban and
Labor Economics, Graduate School of Business (1985-1992)
University of Chicago

OTHER AFFILIATIONS:

Research Fellow, Center for Corporate Performance, Denmark (2004-)
Research Fellow, CEPR (2004-)
Research Fellow, IZA (2002-)
Member, Advisory Council, Hong Kong Institute of Economics and Business Strategy, University of Hong Kong (2000-)
Chairman, Academic Research Committee, Research Advisory Board of the American Compensation Association (1999-2002)
Research Advisory Board, American Compensation Association (1996-99)
Steering Committee, SIEPR, Stanford University (1996-)
Research Associate, National Bureau of Economic Research (1974-)

EDITORIAL AFFILIATIONS:

Founding editor, *Journal of Labor Economics* (University of Chicago Press) (1982- 2001)
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Member, Editorial Board, *LABOUR/Review of Labour Economics and Industrial Relations* (1992-)
Member, Editorial Board, *Managerial and Decision Economics* (1994-)
Co-Editor, *Journal of Labor Abstracts* (1996-)
Associate Editor, *German Economic Review* (2000-2004)
Columnist, *The Economist's Voice* (2005-)

ACADEMIC DEGREES:

A.B., UCLA (Economics) 1971
A.M., UCLA (Economics) 1971
Ph.D., Harvard University (Economics) 1974
Legum Doctor (Honorary), Albertson College of Idaho, 1997

TEACHING EXPERIENCE:

Microeconomic Theory; Labor Economics; Industrial Relations; Personnel; Econometrics; Mathematics for Economists; and Discrimination in the Labor Market

HONORS AND FELLOWSHIPS:

IZA Prize in Labor Economics, 2004
Adam Smith Prize, European Association of Labor Economists, 2003
Society of Labor Economists, Fellow, 2003-
National Academy of Sciences, BOTA, member, 2001-
Michael and Monica Spence Faculty Fellow, 2000-01
Distinguished Service Award, Ph.D. Faculty, Stanford University, 2000
American Academy of Arts and Sciences, Fellow, 2000-
Leo Melamed Biennial Prize for Outstanding Research, 1998
President, Society of Labor Economists, 1997-98
First Vice-President, Society of Labor Economists, 1996-97
Honorary Doctor of Laws degree, Albertson College of Idaho, awarded June, 1997
Stanford Graduate School of Business Research Fellowship, 1996-97
Personnel Economics selected as MIT Press Outstanding Book, 1996
Personnel Economics selected as one of ten most important books in Labor Economics Princeton, 1996

Distinguished Teaching Award, Graduate School of Business, Stanford University, May 1994
Econometric Society, Fellow, 1988-
Member, Conference on Research in Income and Wealth, 1988-
Grant by Government of Spain to study U.S./Spanish unemployment, 1987-88
Binational Fellowship, United States/Israel Binational Science Foundation, 1985
Elected Fellow, Center for Advanced Study in the Behavioral Sciences, June 1981
National Science Foundation Grant Recipient, 1979-81, 1981-83, 1984-86, 1987-90, 1991-95, 1995-96, 1996-97, 1997-2001
Graduate Fellow, National Science Foundation, 1971-74

HONORARY LECTURES:

Keynote Address, Canadian Annual Conference on Economics, Montreal, Canada, 2005
Keynote Address, International Workshop on Human Resources Management, Seville, Spain, 2005
Keynote Address, Fifth International Symposium on Multinational Business Management, Nanjing, China, 2005
Bogen Lecture, Hebrew University of Jerusalem, 2005
Keynote Address, Personnel Economics and New Data, Bonn, Germany, November, 2004.
Adam Smith Lecture, European Association of Labor Economists, Seville, Spain, 2003
Commencement Address, UCLA, June 2002
Presidential Address, American Economic Association, for Sherwin Rosen, January 2002
Bertha Leigh Memorial Lecture, University of Washington, 2002.
Fishelson Memorial Lecture, Tel Aviv University, January 2002
Keynote Address, CAEP Conference on New Data in Personnel Economics, Aarhus, Denmark, October 2001
Keynote Address, CEP Conference on Education Policy in the UK, September 2001
Keynote Address, Ministry of Labor, Ottawa, Canada, May 2000
McMyler Annual Lecture, Case Western Reserve University, March 2000
University of Cincinnati Annual Lecture, February 1999
Astra-Erikkson Lectures in Economics, Stockholm, Sweden, September 1998
Presidential Address to Society of Labor Economists, May 1998
Frank Paish Lecture to the Royal Economic Society, April 1998
University of Dundee, Scotland, EMRU Conference Keynote Speaker, July 1995
Centre for Labour Market & Social Research, Aarhus, Denmark, Inaugural Lecture, March 1994
Wicksell Lectures, Stockholm, Sweden, March 1993
University of Warwick/European Assn. of Labour Economists Keynote Speaker, September 1992
Western Michigan University Public Lecture Series, September 1989
Harding Visiting Lecturer, University of Toronto, October 1988
Towers/Cresap Annual Lecture, University of Chicago, October 1988
Washington University, October 1987
University of Kansas, April 1985
Louisiana State University, November 1985
Goldwater Lectureship, Arizona State University, 1982

VISITING APPOINTMENTS:

London School of Economics, June 1999
NAKE (Netherlands Network of Economics), Tilburg, Netherlands, June 1999
University of Oregon, March 1999
Finnish Postgraduate Program in Economics, Helsinki, August 1998
Aarhus University, Denmark, September 1996
Institut d'Etudes Politiques/MBA Program, Paris, September 1995
University of Saarlandes/Center for the Study of New Institutional Economics, Saarbrucken, Germany, August 1992
Institut d'Etudes Politiques, Paris, May 1987
Institute for Advanced Studies, Vienna, 1983-84 (in residence January 1984)
National Productivity Board, Singapore, June 1985 & July 1982
Fellow of the Institute for Advanced Study, Hebrew University of Jerusalem, 1977-78 (in residence June-July 1978)

OTHER PUBLIC POLICY APPOINTMENTS AND SERVICE:
Council of Economic Advisors, Governor Arnold Schwarzenegger, State of California, 2005-2006
Commissioner, White House Panel on Tax Reform, President George W. Bush, January, 2005-November, 2005.
Testimony before Board of Governors of the Federal Reserve System, October 1997
Economic Advisor to President Shevardnadze of Republic o National Science Foundation Economics Review Panel, August 1993-95
f Georgia, October 1994

Supreme Economic Council of Russian Republic, December 1991 - August 1993
Advisor to Prime Minister of Ukraine, Kiev, April 1993
Advisor to Supreme Economic Council, Supreme Soviet, Russian Republic, Moscow,
March 1991, May 1991, January 1992; By Decree of Supreme Soviet, Foreign Member of
Supreme Economic Council of Russian Republic, December 1991 - August 1993
Advisor to Prime Minister of Romania, January 1992
Advisor to Vice Prime Minister of Romania, Bucharest, February 1991
Advisor to Ministry of Privatization of Czechoslovakia, Prague, February 1991
Advisor to Government of Romania, Bucharest, October 1990
Advisor to Minimum Wage Study Comm. (an Ad Hoc Committee of the U.S. Congress), 1979-81

BOOKS:

Allocation of Income Within the Household, with Robert T. Michael. Chicago: University of Chicago Press, 1988.

Issues in Contemporary Retirement, edited with Rita Ricardo-Campbell. Stanford, CA: Hoover Press, 1988.

Microeconomic Theory, 6th edition, with John P. Gould, Jr. Homewood, IL: Richard D.Irwin, 1989.

Searching for Alternatives: Drug-Control Policy in the United States, edited with Melvyn B.Krauss. Stanford, CA: Hoover Institution Press, 1991. Paperback edition, 1992.

Economic Transition in Eastern Europe and Russia: Realities of Reform, ed. Edward P. Lazear. Stanford, CA: Hoover Institution Press, 1995.

Personnel Economics [The 1993 Wicksell Lectures]. Eleven-chapter book on which lectures were based. Cambridge: The MIT Press, 1995.

Personnel Economics for Managers, Edward P. Lazear. New York: John Wiley & Sons, 1998. (Also in Japanese, 1998; in German (with Birgitta Wolf and Uschi Backes-Gellner); in Chinese and Korean.

Education in the 21st Century, ed. and introduction by Edward P. Lazear, Stanford, CA: Hoover Institution Press, 2002.

Personnel Economics, Collected Works, with Robert McNabb, Edward Elgar Publisher, forthcoming, 2003.

PUBLISHED PAPERS:
"Age, Experience, and Wage Growth," *American Economic Review* 66:4 (September 1976): 548-58.

"Schooling as a Wage Depressant," *Journal of Human Resources* 12:2 (Spring 1977): 164-76.

"Education: Consumption or Production?" *Journal of Political Economy* 85:3 (June 1977): 569-97.

"The Narrowing of Black-White Wage Differentials Is Illusory," *American Economic Review* 69:4 (September 1979): 553-64.

"Why Is There Mandatory Retirement?" Orig. *Journal of Political Economy* 87:6 (December 1979): 1261-84. Reprinted in *Labor Economics/The International Library of Critical Writings in Economics* 47, Vol. II, eds. Orley C. Ashenfelter and Kevin F. Hallock (Aldershot, England: Edward Elgar Publishing Ltd., 1995): 381-404; also reprinted in *The Economics of Aging/The International Library of Critical Writings in Economics* 51, ed. John Creedy (Aldershot, England: Edward Elgar Publishing Ltd., 1995): 90-113. Reprinted in *Worth Series of Outstanding Contributions in Economics: Labor Economics.* Orley Ashenfelter, Series Editor and Volume Editor: Worth Publishers, Inc., University of Chicago Press, 1999.

"Male-Female Wage Differentials: Has the Government Had Any Effect?" In *Women in the Labor Market*, edited by Cynthia B. Lloyd, Emily S. Andrews, and Curtis L. Gilroy. New York: Columbia University Press, 1979.

"The Economics of Compensation of Government Officials," with Sherwin Rosen. In *The Rewards of Public Service: Compensating Top Federal Officials*, ed. Robert W. Hartman and Arnold R. Weber. Washington, DC: Brookings Institution, c.1980.

"Family Background and Optimal Schooling Decisions," *Review of Economics and Statistics* 62:1 (February 1980): 42-51.

"Family Size and the Distribution of Real Per Capita Income, with Robert Michael, *American Economic Review* 70:1 (March 1980): 91-107.

"Real Income Equivalence Among One-Earner and Two-Earner Families," with Robert Michael, *American Economic Review* 70:2 (May 1980): 203-8.

"Minimum Wages vs. Minimum Compensation," a report to the Minimum Wage Study Commission, with Frederick H. Miller, December 1980.

"Forced Exit," *The Wharton Magazine* 4:2 (Winter 1980): 30-33.

"Agency, Earnings Profiles, Productivity, and Hours Restrictions," *American Economic Review* 71:4 (September 1981): 606-20. Reprinted in *The Economic Value of Education: Studies in the Economics of Education/The International Library of Critical Writings in Economics* 17, ed. Mark Blaug (Aldershot, England: Edward Elgar Publishing Limited, 1992): 226-240; also reprinted in *Labor Economics/The International Library of Critical Writings in Economics* 47, Vol. II, eds. Orley C. Ashenfelter and Kevin F. Hallock (Aldershot, England: Edward Elgar Publishing Ltd.,1995): 111-125.

"Rank-Order Tournaments as Optimum Labor Contracts," with Sherwin Rosen, *Journal of Political Economy* 89:5 (October 1981): 841-64. Reprinted in M. Kleiner, ed., *Industrial Relations: Institutions and Organizational Performance,* Dartmouth Publishing, 1994 and in *Labor Economics/The International Library of Critical Writings in Economics* 47, Vol. II, eds. Orley Ashenfelter and Kevin F. Hallock (Aldershot, England: Edward Elgar Publishing Ltd., 1995): 422-45 and in Kevin F. Hallock and Kevin J. Murphy, *The Economics of Executive Compensation,* 1999.

"An Analysis of Federal Worker Compensation," Washington, DC: American Enterprise Institute, 1982.

"Severance Pay, Pensions, and Efficient Mobility," NBER Working Paper No. 854, February 1982.

"Intergenerational Externalities," *Canadian Journal of Economics* 16:2 (May 1983): 212-28.

"A Competitive Theory of Monopoly Unionism," *American Economic Review* 73:4 (September 1983): 631-43.

"A Microeconomic Theory of Labor Unions," *Research in Labor Economics,* Supplement 2: New Approaches to Labor Unions, ed. Joseph Reid (Greenwich, CT: JAI Press, 1983): 53-97.

"Pensions as Severance Pay." In *Financial Aspects of the United States Pension System*, eds. Zvi Bodie and John B. Shoven. Chicago: University of Chicago Press for the NBER, 1983.

"A Comparison of Federal and Private Pension Plans," with Beth Asch, Washington, DC: American Enterprise Institute, 1984.

"The Excess Sensitivity of Layoffs and Quits to Demand," with Robert Hall, *Journal of Labor Economics* 2:2, Essays in Honor of Melvin W. Reder. (April 1984): 233-57. Reprinted in *Labor Economics/The International Library of Critical Writings in Economics* 47, Vol. III, eds.

Orley C. Ashenfelter and Kevin F. Hallock (Aldershot, England: Edward Elgar Publishing Ltd., 1995):155-79.

"Incentives, Productivity, and Labor Contracts," with Robert L. Moore, *Quarterly Journal of Economics* 99:2 (May 1984): 275-96; also in *Efficiency Wage Models of the Labor Market*, eds. George Akerlof and Janet Yellen (Cambridge: Cambridge University Press, 1986): 135-56.

"Incentives and Wage Rigidity," *American Economic Review* 74:2 (May 1984): 339-44.

"Incentive Effects of Pensions." In *Pensions, Labor, and Individual Choice*, ed. David A. Wise (Chicago: University of Chicago Press for the NBER, 1985): 253-82.

"Social Security and Pensions." In *Research in Labor Economics*, Vol. 7, ed. Ronald G. Ehrenberg (Greenwich, CT: JAI Press, 1985): 1-30.

"The Role of Wages in the Allocation Process," *Wirtschaftspolitische Blatter* (June 1985): 547-54.

"Retirement from the Labor Force." In *Handbook of Labor Economics*, Vol. 1, eds. Orley Ashenfelter and Richard Layard (London: Elsevier, 1986): 305-55.

"Raids and Offer Matching." In *Research in Labor Economics*, Vol. 8, Part A, ed. Ronald G. Ehrenberg (Greenwich, CT: JAI Press, 1986): 141-65.

"Retail Pricing and Clearance Sales," *American Economic Review* 76:1 (March 1986): 14-32.

"Salaries and Piece Rates," *Journal of Business* 59:3 (July 1986): 405-31.

"Estimating the Personal Distribution of Income with Adjustment for Within-Family Variation," with Robert Michael, *Journal of Labor Economics* 4:3 (July 1986): S216- S239.

"Comparable Worth and Discrimination in the Labor Market," with Daniel Fischel, *Chicago Law Review* 53 (Summer 1986): 891-918.

"Incentive Contracts," *The New Palgrave: A Dictionary of Economics*, Vol. 2 (E-J), eds. John Eatwell, Murray Milgate and Peter Newman (London: The Macmillan Press Limited, 1987): 744-48.

"Pension Inequality," with Sherwin Rosen, *Issues in Pension Economics*, eds. Zvi Bodie, John B. Shoven and David A. Wise (Chicago: University of Chicago Press for the NBER, 1987): 341-359.

"Lump-Sum Payments," *Hoover Institution Working Paper in Economics* No. E-87-8 (February 1987); A Report Prepared for the Bureau of Labor Statistics, United States Department of Labor (March 1987).

"Pensions and Turnover," with Robert Moore, *Pensions in the U.S. Economy*, eds. Zvi Bodie, John Shoven, and David Wise (Chicago: University of Chicago Press for the NBER, 1988): 163-88.

"The Labor Market and International Competitiveness," *Thinking About America: The United States in the 1990s*, eds. Annelise Anderson and Dennis Bark (Stanford, CA: Hoover Institution Press, 1988): 367-81.

"Employment-at-Will, Job Security, and Work Incentives." In *Employment, Unemployment, and Labor Utilization*, ed. Robert A. Hart (Boston: Unwin Hyman, 1988): 39-61.
"Introduction," with Rita Ricardo-Campbell. In *Issues in Contemporary Retirement*, eds. Rita Ricardo-Campbell and Edward P. Lazear (Stanford, CA: Hoover Institution Press, 1988): xvii-xxiii; also available as separate reprint, "Introduction to *Issues in Contemporary Retirement*," Hoover Institution Press, 1988.

"Enhancing Productivity through Compensation: The 1988 Towers/Cresap Lecture," University of Chicago, Graduate School of Business, Selected Paper No. 68, 1988.

"Pay Equality and Industrial Politics," *Journal of Political Economy* 97:3 (June 1989): 561-80.

"Adjusting to an Aging Labor Force." In *Issues in the Economics of Aging*, ed. David A. Wise (Chicago: University of Chicago Press for the NBER, 1990): 287-312.

"Job Security and Unemployment." In *Advances in the Theory and Measurement of Unemployment*, eds. Yoram Weiss and Gideon Fishelson (London: Macmillan, 1990): 245-67.

"Male-Female Wage Differentials in Job Ladders," with Sherwin Rosen, *Journal of Labor Economics* 8:1, Part 2: Essays in Honor of Albert Rees. (January 1990): S106-S123.

"The Introduction of New Products," with Debra J. Aron, *American Economic Review* 80:2 (May 1990): 421-6.

"Pensions and Deferred Benefits as Strategic Compensation," *Industrial Relations* 28:2 (Spring 1990): 263-80; also in *The Economics of Human Resource Management*, eds. Daniel J. B. Mitchell and Mahmood A. Zaidi (Oxford, England and Cambridge, MA: Basil Blackwell, 1990): 109-26.

"Job Security Provisions and Employment," *Quarterly Journal of Economics* 105:3 (August 1990): 699-726.

"The Timing of Raises and Other Payments," *Carnegie-Rochester Conference Series on Public Policy*, Vol. 33 [Studies in Labor Economics in Honor of Walter Y. Oi], eds. Allan H. Meltzer and Charles I. Plosser. (Amsterdam: Elsevier Science Publishers, Autumn 1990): 13-48.

"The Resurgence of Regulation," Stanford University draft (November 1990).

"Labor Economics and the Psychology of Organizations," *Journal of Economic Perspectives* 5:2 (Spring 1991): 89-110; also forthcoming in Italian from Bollati Boringhieri Editore, Turin, Italy.

"Introduction," with Melvyn B. Kraus. In *Searching for Alternatives: Drug-Control Policy in the United States*, eds. Melvyn B. Krauss and Edward P. Lazear (Stanford, CA: Hoover Institution Press, 1991): xxi-xxxvii.

"Stock, Options, and Deferred Compensation," with Matthew O. Jackson, *Research in Labor Economics*, Vol. 12, ed. Ronald G. Ehrenberg (Greenwich, CT: JAI Press, Inc., 1991):41-62.

"Discrimination in Labor Markets," *Essays on the Economics of Discrimination*, ed. Emily P. Hoffman (Kalamazoo: W. E. Upjohn Institute for Employment Research, 1991): 9-24.

"Prices and Wages in Transition Economies." In *Search of a Transition to a Free Society*, (Prague: Mont Pelerin Society Regional Meeting, November 3-6, 1991): 226-262; revision in *Hoover Institution Essays in Public Policy* series, No. 29 (June 1992).

"The Job as a Concept." In *Performance Measurement, Evaluation, and Incentives*, ed. William J. Bruns, Jr. (Boston: Harvard Business School Press, 1992): 183-215.

"Peer Pressure and Partnerships," with Eugene Kandel, *Journal of Political Economy* 100:4 (August 1992): 801-17.

"Incentive Contracts in Labour Markets," *The New Palgrave Dictionary of Money and Finance*, Vol. 2 (F-M), eds. Peter Newman, Murray Milgate and John Eatwell (New York: The Stockton Press; London: The Macmillan Press Ltd., 1992): 335-341.

"Compensation, Productivity and the New Economics of Personnel," *Research Frontiers in Industrial Relations and Human Resources*, eds. David Lewin, Olivia Mitchell and Peter Sherer (Madison: Industrial Relations Research Association, 1992): 341-380.

"The New Economics of Personnel," *LABOUR/Review of Labour Economics and Industrial Relations* 7:1 (Spring 1993): 3-23.

"The Interaction Between Political and Economic Freedom," Chapter Six, *Transition to Democracy in Poland*, ed. Richard F. Staar (New York: St. Martin's Press, 1993): 111-122.

"Some Thoughts on Savings," *Studies in the Economics of Aging*, ed. David A. Wise (Chicago: University of Chicago Press for the NBER, 1994): 143-169.

"Economic Reform: Appropriate Steps and Actual Policies" [introduction]. In *Economic Transition in Eastern Europe and Russia: Realities of Reform*, ed. Edward P. Lazear (Stanford, CA: Hoover Institution Press, 1995): 3-61.

"Publicly Provided Goods and Services In a Transition Economy," with Sherwin Rosen. In *Economic Transition in Eastern Europe and Russia: Realities of Reform*, ed. Edward P.Lazear (Stanford, CA: Hoover Institution Press, 1995): 322-339.

"A Jobs-Based Analysis of Labor Markets," *American Economic Review* 85:2 (May 1995):260-265.

"Corporate Culture and the Diffusion of Values." In *Trends in Business Organization: Do Participation and Cooperation Increase Competitiveness?* [International Workshop/The Kiel Institute of World Economics], ed. Horst Siebert (Tubingen: J.C.B. Mohr/Paul Siebeck, 1995): 89-133.

"Bait and Switch," *Journal of Political Economy* 103:4 (August 1995): 813-30.

"An Economic Analysis of Works Councils," with Richard B. Freeman. In *Works Councils: Consultation, Representation, and Cooperation in Industrial Relations* [NBER conference volume], eds. Joel Rogers and Wolfgang Streeck, Chicago: University of Chicago Press for the NBER, November 1995.

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COMMENTS AND OTHER PAPERS:

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"Comment on Hausman and Paquette, 'Involuntary Early Retirement and Consumption,'" *Work, Health, and Income among the Elderly*, ed. Gary Burtless (Washington, DC: The Brookings Institution, 1987): 175-81.

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"Sherwin Rosen, 1938–2001," *Annals of the National Academy of Sciences, Biographical Memoir*, Vol. 83, 2003.

"Lazear Responds to "Why the Annuity of Social Security is Valuable and Why Despite the Annuity Feature African-Americans Do Not Fare Badly," by Jack Needleman" in *The Economists' Voice*, January, 2005.

POSITION PAPERS:

"Privatization of Large Scale Enterprises in Romania" (February 1991) "Economic Reform in Eastern Europe, with Application to Czechoslovakia and Romania" (March 1991).

"Russian Economic Transition: Privatization, Labor Issues, & Pricing Policies" (March 1991).

"Rapid Sequential Reform: A Proposal for the Economic Transition in the Russian Republic,"
with Annelise Anderson, Mikhail Bernstam & Charles McLure (May 1991).

"The Renaissance: A Set of Specific Economic Reforms for Russia" [prepared for the Supreme Economic Council of the Russian Republic] (September 1991).

"Restructuring the Coal Industry in the Kuznetzk Basin" (August 1991; revised September 1992).

"Economic Reform in Ukraine," with Michael Bernstam, John Cochrane, Charles McLure and Sherwin Rosen (April 1993).

"Reflections on the October 1994 Trip to Tbilisi, Georgia" (October 1994).

Jonathan Marshall, "Minimum Wage Increase Finds More Support," *San Francisco Chronicle* (1/25/95).

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"Whose Boom Is It, Anyway?" *Hoover Digest* 2:2 (1999)

"The Plight of Mexicans in the United States" *Hoover Essays* (2004)

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WORK IN PROGRESS:

"International Differences in Productivity and Personnel Practices, " with Kathryn Shaw

"Immigration Status and the Status of Immigrants"

"Personnel Economics in Business," with Kathryn Shaw, in *Journal of Political Economy*, 2007

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"Pay Compression in Education," with Anna Mastri and Kathryn Shaw

Social Policies Affecting Women. The Swedish Case, with Ann-Sofie Kolm.

Leadership, Entrepreneurship and Creativity, Oxford University Press, 2006

Personnel Economics: New Developments, Oxford University Press, 2007

Fat Tails

COLUMNS, OP-EDS AND POPULAR PRESS:

"Job Security Rules Cut Employment in Much of Europe," *Wall Street Journal* (10/14/87).

"Plant Closure Notice Means Lost Jobs," *Christian Science Monitor* (10/14/87).

"U.S. Will Cripple Business If It Repeats Europe's Follies," *The American* (9/21/88).

"Which Minimum Wage Bill," *The Washington Times* (4/10/89).

"Some Thoughts on Economies in Transition, with Special Application to the Soviet Union," *Pravda* (Moscow), 1990.

"Water for the People." (Perspective on the Drought/Agriculture accounts for 85% of the usage, so inefficient farming, not householders, should bear the brunt of cuts.) *Los Angeles Times* (2/5/91).

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"Russia's Economic Reform As Seen From the Inside," *San Francisco Chronicle* (2/3/92); reprinted as "Russia: Misunderstanding Market Economics," *Newport Daily Independent* (Arkansas) (8/7/92).

"The Shifting World of Work," *Los Angeles Times* (2/7/94).

"Fixing the Immigration Problem," *San Francisco Chronicle* (8/2/95).

"Clinton rides the prosperity wave," *Washington Times* (1/20/99).

"Smaller Class Size Isn't a Magic Bullet," *Los Angeles Times* (9/2/99).

"Education in California: Teachers for the New Century," *San Francisco Chronicle* (12/23/02).
"How are managers to be compensated? Amazing insights from the field of Personnel Economics," *Neue Zürcher Zeitung* (6/10/03).

"The Double Benefit of Tax Cuts," with Gary S. Becker and Kevin M. Murphy, *Wall Street Journal* (10/7/03).

"Private Accounts for Social Security," *Economist's Voice*, (2005).

"A Golden Opportunity," with James M. Poterba, *Wall Street Journal,* (11/1/05)

""Reforming Taxes to Promote Economic Growth" *Economist's Voice* (2005), reprinted in Hoover Digest, 2005.

RECENT PRESENTATIONS:

1/05 Lausanne, "Speeding, Tax Fraud, and Teaching to the Test"

1/05 Business Economists Zurich, "Personnel Economics: New Development

1/05 Research talk at Zurich, "Speeding, Tax Fraud, and Teaching to the Test"

4/05 Chicago, "Sorting and Experiments"

5/05 Bogen Lecture, Hebrew University of Jerusalem

5/05 International Workshop on Human Resources Management, Seville, "The Structure of Wages, Raises and Mobility in Europe"

5/05 Nanjing, China "Fifth International Symposium on Multinational Business Management

6/05 SOLE, San Francisco, "The Structure of Wages, Raises, and Mobility within and among Countries"

7/05 Board on Testing and Assessment, Washington D.C., "Speeding, Terrorism and Teaching to the Test"

7/05 NBER Labor Studies Workshop, Boston, "Wage Structure, Wages and Mobility"

9/05 Syracuse University, "Tax Reform in the U.S."
9/05 Alex Bryson Conference, London, "Wage Structure, Wages and Mobility"

9/05 CEPR's European Summer Symposium in Labour Economics, Ammersee, "Experiments and Sorting"

9/05 The Swedish Welfare State Revisited, Cambridge, "Female-Oriented Policies"

10/05 Orange County Briefing, "Tax Reform in the U.S."

10/05 Occidental College, "Tax Reform in the U.S."

10/05 Canadian Annual Conference on Economics, Montreal, Canada, "The Structure of Raises, Wages and Mobility"

10/05 University of Washington "The Nature of and Proposals for Tax Reform in 2006" and "Speeding, Terrorism and Teaching to the Test"

10/05 Yale Law School, "The U.S. and the World Economy: Global Aspects of Labor, Products, and Financial Markets"

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name:	Kroszner (Last)	Randall (First)	S. (Other)

Position to which nominated: **Member**, Board of Governors of the Federal Reserve System

Date of nomination: January 27, 2006

Date of birth: 22 (Day) June (Month) 1962 (Year) **Place of birth:** Englewood, NJ

Marital Status: Single **Full name of spouse:**

Name and ages of children:

Education:

Institution	Dates attended	Degrees received	Dates of degrees

Harvard University, 1984-1990, Ph.D., 1990
Harvard University, 1984-1990, M.A., 1987.
Brown University, 1980-1984, Sc.B., magna cum laude, 1984.

Honors and Awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships and any other special recognitions for outstanding service or achievement.

Editor, Journal of Law and Economics, 2000 – 2001, 2003 – present.
Board of Directors, National Association of Business Economists, 2005 – present.
Editorial Advisory Board, Regulation Magazine, 2001.
Law and Economics Fellowship, University of Chicago Law School, 1999 - 2000.
Brattle Prize for Best Corporate Finance Paper in the Journal of Finance in 1999.
Program Committee, Financial Management Association Annual Meeting, 1999.
Beril Danielson Visiting Professorship of Banking and Finance, Stockholm School of Economics, Sweden, 1998 - 1999.
Associate Editor, Journal of Financial Services Research, 1999 – 2001.
Associate Editor, Journal of Economics and Business, 1998 – 2001.
Associate Editor, Economics of Governance, 1997 – 2001.
Academic Advisory Council, Federal Reserve Bank of Chicago, 1998 – 2001, 2003 – present.
Center for the Study of the Economy and the State Grant, Graduate School of Business, University of Chicago, 1994 – 2001, 2003 – present.

Center for International Business Education and Research Grant,
Graduate School of Business, University of Chicago, 1993 - 1999.
National Science Foundation Grant SES-9211231, 1992 - 1994.
William S. Fishman Scholar, Graduate School of Business, University of Chicago, 1992 - 1993.
R. C. Hoiles Postdoctoral Fellowship, 1989 - 1990.
Claude R. Lambe Fellowship, 1988 - 1989.
Richard M. Weaver Fellowship, 1988 - 1989.
National Science Foundation Graduate Fellowship, 1984 - 1987.
Phi Beta Kappa, 1983 - presnet
Sigma Xi, Scientific Research Society of North America, 1983 – present.

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
American Economics Assoc.	None	1990 – present
Chicago Symphony Orchestra	Member of the Governing Board	1999 – present
Chicago Council on Foreign Relations	President's Circle Member	from 2005 to present
National Association of Business Economists	Member of the Board of Directors	from 2005 to present
National Bureau of Economic Research	Research Associate Faculty Research Fellow	from 2004 to present from 1998 to 2004
Stigler Center for the Study of the Economy and the State	Director Associate Director	from 2005 to present 1999-2001, 2003-2005

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and inclusive dates of employment.

Graduate School of Business, University of Chicago, Chicago, IL
Professor of Economics, 1999 – present (on leave 2001 – 2003).
Associate Professor of Economics, 1994 - 1999.
Assistant Professor of Economics, 1990 - 1994.

Council of Economic Advisers, Executive Office of the President, Washington, DC
Member, confirmed by the U.S. Senate November 28, 2001 and served until July 3, 2003.
Junior Staff Economist, 1987 - 1988.
Visiting Scholar, American Enterprise Institute, 2003 – present.
Research Consultant, Research Department, Federal Reserve Bank of Chicago, 1994 – present.
Visiting Scholar, Research Department, Federal Reserve Bank of New York, 1996, 1998 – 2001.
John M. Olin Visiting Fellow in Law and Economics, University of Chicago Law School, 1999 - 2000.
Visiting Scholar, Research Department, International Monetary Fund, 1993, 1994, 1995 and 2000.
Visiting Scholar, Board of Governors of the Federal Reserve, Division of International Finance, 1999, and Division of Research and Statistics, 1995.
Visiting Scholar, Federal Reserve Bank of Minneapolis, 1999.
Visiting Scholar, Financial Markets Group, London School of Economics, 1999.
Bertil Danielson Visiting Professor of Banking and Finance, Stockholm School of Economics,
Sweden, 1998 - 1999.
Visiting Scholar, Research Department, Federal Reserve Bank of Kansas City, 1997.
Visiting Professor, Institute for International Economic Studies, Stockholm University, 1996.
Visiting Scholar, Research Department, Federal Reserve Bank of St. Louis, 1996.
Visiting Professor, Kennedy Institute of North American Studies, Free University of Berlin, Germany, 1995.
Visiting Professor, Finance Department, Stockholm School of Economics, Sweden, 1994.
Visiting Scholar on International Financial Markets, U.S. Securities and Exchange Commission, 1992.
Research Fellow, G.T. Management (Asia) Ltd., Hong Kong, 1990.
Economist, The Economics Resource Group, Cambridge, MA, 1989 - 1990.

Government Experience: List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part time service or positions.

Council of Economic Advisers, Executive Office of the President, Washington, DC
Member, confirmed by the U.S. Senate November 28, 2001 and served until July 3, 2003.
Junior Staff Economist, 1987 - 1988.
Federal Economic Statistics Advisory Committee, Department of Labor, Washington, DC
Member, 2005 – present.
Federal Deposit Insurance Corporation, Center for Financial Research, Washington, DC
Senior Fellow, from 2004 to present

Published Writings: List the titles, publishers and dates of books, articles, reports or other published materials you have written.

Academic Articles:

"Corporate Campaign Contributions, Repeat Giving, and the Rewards to Legislator Reputation," Journal of Law and Economics, April 2005, 48(1), 41-72, with Thomas Stratmann.

"The Economics of Corporate Governance Reform," Journal of Applied Corporate Finance, Spring/Summer 2004, 16(2-3), 42-50.

"Sovereign Debt Restructuring," American Economic Review, May 2003, 93(2), 75-79.

"Economic Organization and Competition Policy," Yale Journal on Regulation, Summer 2002, 19(2), 541-97, with Wallace Mullin, Judson Jaffe, and Cindy Alexander.

"Bankers on Boards: Monitoring, Conflicts of Interest, and Lender Liability," Journal of Financial Economics, December 2001, 62(3), 415-52, with Philip Strahan.

"The Rise in Managerial Stock Ownership," Journal of Applied Corporate Finance, Fall 2000, 8-18, with Clifford Holderness and Dennis Sheehan.

"Congressional Committees as Reputation-Building Mechanisms: Repeat PAC Giving and Seniority on the House Banking Committee," Business and Politics, April 2000, 35-52, with Thomas Stratmann.

"What Drives Deregulation? Economics and Politics of the Relaxation of Bank Branching Restrictions in the United States," Quarterly Journal of Economics, November 1999, 1437-67, with Philip Strahan.

"Interests, Institutions, and Ideology in Securing Policy Change: The Republican Conversion to Trade Liberalization after Smoot-Hawley," Journal of Law and Economics, October 1999, 643-73, with Douglas Irwin.

"Can the Financial Markets Privately Regulate Risk? The Development of Derivatives Clearing Houses and Recent Over-the-Counter Innovations," Journal of Money, Credit, and Banking, August 1999, 569-618.

"Were the Good Old Days that Good? Changes in Managerial Stock Ownership since the Great Depression," Journal of Finance, April 1999, 435-69, with Clifford Holderness and Dennis Sheehan (winner of the Brattle Prize for Best Corporate Finance Paper in the Journal of Finance).

"Interest Group Competition and the Organization of Congress: Theory and Evidence from Financial Services Political Action Committees," American Economic Review, December 1998, 1163-87, with Thomas Stratmann.

"The Political Economy of Banking and Financial Regulatory Reform in Emerging Markets," Research in Financial Services, vol. 10, 1998, 33-51.

"Rethinking Banking Regulation: A Review of the Historical Evidence," Journal of Applied Corporate Finance, Summer 1998, 48-58.

"Organization Structure and Credibility: Evidence from Commercial Bank Securities Activities before the Glass-Steagall Act," Journal of Monetary Economics, August 1997, 475-516, with Raghuram G. Rajan.

"Log-Rolling and Economic Interests in the Passage of the Smoot-Hawley Tariff," Carnegie-Rochester Conference Series on Public Policy, December 1996, 173-200, with Douglas A. Irwin.

"Regulatory Incentives and the Thrift Crisis: Dividends, Mutual-to-Stock Conversions, and Financial Distress in the Thrift Industry," Journal of Finance, September 1996, 1285-1320, with Philip E. Strahan (nominated for the Smith Breeden Prize for best paper of the year in the Journal of Finance).

"Is the Glass-Steagall Act Justified? A Study of the U. S. Experience with Universal Banking before 1933," American Economic Review, September 1994, 810-32, with Raghuram G. Rajan.

"Money's Marketability Premium and the Microfoundations of Keynes' Theory of Money and Interest," Cambridge Journal of Economics, August 1994, 379-90, with Tyler Cowen.

"German-Language Precursors of the New Monetary Economics," Journal of Institutional and Theoretical Economics (Zeitschrift fuer die gesamte Staatswissenschaft), September 1992, 387-410, with Tyler Cowen.

"Empirical Predictions of the New Monetary Economics: Perspectives on Velocity," Journal of Policy Modelling, Summer 1990, 265-79, with Tyler Cowen.

"Scottish Banking Before 1845: A Model for Laissez-Faire?" Journal of Money, Credit, and Banking, May 1989, 221-31, with Tyler Cowen (reprinted in Lawrence H. White, ed., International Library of Macroeconomic and Financial History, no. 11, Aldershot, UK: Elgar 1993).

"The Development of the New Monetary Economics," Journal of Political Economy, June 1987, 567-90, with Tyler Cowen (reprinted in Lawrence H. White, ed., International Library of Macroeconomic and Financial History, no. 11, Aldershot, UK: Elgar, 1993).

Books:

The Economic Nature of the Firm: A Reader, second edition, New York: Cambridge University Press, 1996, co-edited with Louis Putterman. (First edition 1986. Spanish language edition, 1994.)

Explorations in the New Monetary Economics, Cambridge: Basil Blackwell, 1994, with Tyler Cowen.

Book Chapters:

"An Agenda for Global Growth: European Challenges," pp. 47-59 in Gertrude Tumpel-Guggerell and Peter Mooselchum, eds., Structural Challenges for Europe, Northampton, MA: Edward Elgar, 2003.

"Currency Competition in the Digital Age," pp. 275-96 in David Altig and Bruce Smith, eds., Evolution and Procedures in Central Banking, New York: Cambridge University Press, 2003.

"Asset Price Bubbles, Information, and Public Policy," pp. 3-14, in William Hunter, George Kaufman, and Michael Polmerleano, eds., Asset Price Bubbles: Implications for Monetary, Regulatory, and International Policies, Cambridge, MA: MIT Press, 2003.

"Obstacles to Optimal Policy: The Interplay of Politics and Economics in Shaping Bank Supervision and Regulation Reforms," pp. 233-66 in Frederic S. Mishkin, ed., Prudential Supervision: What Works and What Doesn't, Chicago: University of Chicago Press and National Bureau of Economic Research, 2001, with Philip Strahan.

"Is the Financial System Politically Independent? Perspectives on the Political Economy of Banking and Financial Regulation," pp. 127-62 in Finanssektorn Framtid [Government Inquiry on the International Competitiveness of the Swedish Financial Sector], Volume D, Stockholm: Swedish Ministry of Finance, 2000.

"Global Government Securities Markets: Economics and Politics of Recent Market Microstructure Reforms," pp. 86-110 in Guillermo Calvo and Mervyn King, eds., The Debt Burden and its Consequences for Monetary Policy, London: Macmillan, 1997.

"How Should Financial Institutions and Markets Be Structured? Analysis and Options for Financial System Design," pp. 97-122 in Liliana Rojas-Suarez, eds., Safe and Sound Financial Systems: What Works for Latin America, Washington: Inter-American Development Bank and Johns Hopkins University Press, 1997, with George Kaufman (reprinted in translation in Ilter Turan, ed., Finansal Piyasalarin Derinlesmesi, Istanbul: Koc Universitesi, 1997).

"Free Banking: The Scottish Experience as a Model for Emerging Market Economies," pp. 41-64 in Gerard Caprio and Dimitri Vittas, eds., Reforming Financial Systems: Historical Implications for Policy, New York: Cambridge University Press, 1997.

"The Political Economy of Banking and Financial Regulation in the U.S." pp. 200-13 in George M. von Furstenberg, ed., The Banking and Financial Structure in the NAFTA Countries and Chile, Boston: Kluwer Academic Publishers, 1997.

"The Evolution of Universal Banking and Its Regulation in Twentieth Century America," pp. 70-99 in Anthony Saunders and Ingo Walter, eds., Universal Banking: Financial System Design Reconsidered, Chicago: Irwin, 1996.

"Scottish Free Banking," pp. 398-400 in John Eatwell, Murray Milgate, and Peter Newman, eds., New Palgrave Dictionary of Money and Finance, London: Macmillan, 1992, with Tyler Cowen.

Shorter Papers, Policy Papers, Comments, and Book Reviews:

"Corporate Governance," forthcoming in David Henderson, ed., The Concise Encyclopedia of Economics.

"Errors of Banking Crisis Response," forthcoming in George J. Kaufman, ed., Systemic Financial Crises: Resolving Large Bank Insolvencies.

"The Rodney Dangerfield Recovery," Rising Tide, Summer 2005, pp. 24-25.

"Evaluating Section 404 of the Sarbanes-Oxley Act concerning Internal Controls," Shadow Financial Regulatory Statement 219, May 2005.

"The Possible Extension of the Terrorism Risk Insurance Act," Shadow Financial Regulatory Statement 207, May 2004, with Scott Harrington and reprinted in the American Banker.

"Enabling Institutional Investors to Play a More Effective Role in Corporate Governance," Shadow Financial Regulatory Statement 204, February 2004, with Charles Calomiris.

"Taxpayer Exposure to Liabilities of the Pension Benefit Guarantee Corporation," Shadow Financial Regulatory Statement 198, September 2003.

"Legislation on Fannie Mae and Freddie Mac," Shadow Financial Regulatory Statement 196, with Peter Wallison.

"Enhancing Sovereign Debt Restructuring," Cato Journal, Spring/Summer 2003, 23(1), pp. 79-86.

"Fostering Prosperity," Journal of Indexes, Third Quarter 2003.

"Federal Terrorism Risk Insurance," National Tax Journal, September 2002, 55(3), 647-57, with Jeffrey Brown and Brian Jenn.

"Private and Public Interests in Bank Regulatory Reform: Understanding Branching Deregulation in the United States," Jahrbuch fuer Wirtschaftsgeschichte, 2002/1, pp. 217-226.

"Bureau of Economic Analysis' Strategic Plan for 2001-2005: Comments," Survey of Current Business, May 2002, pp. 10-11.

"The Motivations behind Banking Reform: Why Do Lawmakers Pursue Deregulation?" Regulation, Summer 2001, pp. 36-41.

"Lessons from Financial Crises: The Role of Clearinghouses," Journal of Financial Services Research, December 2000, vol. 18, pp. 157-71.

"Commentary: The Supply of and Demand for Financial Regulation -- Public and Private Competition around the Globe," Global Economic Integration: Opportunities and Challenges, Jackson Hole Symposium, Federal Reserve Bank of Kansas City, 2000, pp. 137-49.

"The Economics and Politics of Financial Modernization," Federal Reserve Bank of New York's Economic Policy Review, October 2000, 25-37.

"The Legacy of the Separation of Banking and Commerce Continues in Gramm-Leach-Bliley," Federal Reserve Bank of Minneapolis, The Region, June 2000, 18-21.

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"The Market as International Regulator," Financial Times, July 21, 1997, pp. 13-14 and reprinted in The Complete Finance Companion, London: Pittman Publishers, 1998, pp. 398-404.

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"Comment on Richard Sylla's 'The 1930s Financial Reform in Historical Perspective,'" pp. 30-33 in Dimitri Papadimitriou, ed., Stability in the Financial System, New York: St. Martins, 1996.

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"Banking in Hong Kong: Regulation, Stability, and the Role of Money Market Mutual Funds," Asian Monetary Monitor, July/August 1990, 16-36.

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"Futures Markets, Loans, and Asset Marketability: A Review Essay on Jeffrey Williams's The Economic Function of Futures Markets," Market Process, Spring 1990, 77-81, with Tyler Cowen.

"An Assessment of Deregulation and Privatization in the United States," Business in the Contemporary World, Spring 1989, 55-63, with Thomas Gale Moore.

"The Mismanagement of Air Transport," The Public Interest, Spring 1989, 100-11, with Robert W. Hahn.

"Review of M. Baranzini and R. Scazzieri, eds., The Foundations of Economics," Journal of Comparative Economics, June 1988, 260-3.

"Technology and the Control of Labor: A Review of David Noble's Forces of Production," Critical Review, Spring 1987, 6-16.

"Recent Developments in the New Monetary Economics," Zeitschrift fuer Wirtschaftspolitik, vol. 36, 1987, 207-20, with Tyler Cowen.

Working Papers:

"Financial Crises, Financial Dependence, and Industry Growth," World Bank Working Paper 2855, revised August 2005, with Luc Laeven and Daniela Klingebiel.

"Is It Better to Forgive (Partially) than to Receive? An Empirical Analysis of the Impact of Debt Repudiation," revised, December 2004.

"Throwing Good Money After Bad? The Role of Board Linkages and Bank Lending During Distress," Working Paper 8694, revised July 2004, with Philip Strahan.

"Promoting Global Economic Growth: The Productivity Challenge," revised July 2003.

"Stock Market Responses to Bank Restructuring Policies during the East Asia Crisis," World Bank Working Paper 2571, March 2001, with Daniela Klingebiel, Luc Laeven, and Pieter van Oijen.

Political Affiliations and activities:

List memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

Registered as a Republican in Illinois.

No offices held or services rendered.

Political Contributions:

Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify specific amounts, dates, and names of recipients.

None.

Qualifications:

State fully your qualifications to serve in the position to which you have been named.

1) I am a professor of economics in the Macroeconomics and International group at the Graduate School of Business of the University of Chicago, where I have been teaching Money & Banking for 16 years. I have written widely on domestic and international banking and financial regulation, corporate governance at both financial and non-financial firms, international banking and financial crises, debt defaults, monetary economics, and economic history. I am Editor of the Journal of Law and Economics and have been Associate Editor of a number of scholarly journals, including the Journal of Financial Services Research, Journal of Economics and Business, and Economics of Governance. I am a Research Associate of the National Bureau of Economic Research where I am involved in a variety of programs ranging from corporate finance to industrial organization and regulation.
2) I have had regular contact with the Federal Reserve System (including the Board in Washington and regional Federal Reserve Banks such as New York, Kansas City, Minneapolis, and St. Louis) as a visiting scholar and consultant. I have visited and consulted for many central banks and finance ministries around the world, including Central Bank of Argentina, Bank of Sweden, Swedish Finance Ministry, Bundesbank (Germany), and the European Central Bank. I have also visited and consulted for international financial institutions, including the Bank for International Settlements, the International Monetary Fund, World Bank, Inter-American Development Bank, and Asian Development Bank.
3) As a Member of the President's Council of Economic Advisers (2001-2003), I have extensive administrative and policy experience in areas such as banking and financial policy, international financial crises, and macroeconomic forecasting (as chair of the so-called Troika 2 process). I regularly attended international meetings of deputy finance ministers and deputy central bank governors. In addition, I am Director of the Stigler Center for the Study of the Economy and the State where I have administrative responsibilities for both fund raising and disbursement of funds to academics and for outreach activities.
4) As a recently elected member of the board of directors of the National Association of Business Economists, I have had regular contact with economists in the private sector, thereby providing me with additional insights into real world economic conditions.

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

I plan to take an unpaid public service leave of absence from my professorship at the University of Chicago's Graduate School of Business for two years.

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

As long as the University of Chicago Graduate School of Business will grant me a leave of absence, I will have the option of returning to the University.

3. Has anybody made you a commitment to a job after you leave government?

   No.

4. Do you expect to serve the full term for which you have been appointed?

   Yes.

Potential conflicts of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

   None.

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

   I own stock in Citigroup, JP Morgan Chase and Wal-Mart and have been advised that these holdings could present a conflict of interest with my responsibilities as a Federal Reserve Board member.

3. Describe any business relationship, dealing or financial transaction (other than tax paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

   None.

4. List any lobbying activity during the past ten years in which you have engaged in for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of

government or affecting the administration and execution of national law or public policy.

None.

5. Explain how you will resolve any conflict of interest that may be disclosed by your responses to the items above.

   As I stated in my ethics agreement, I will divest the stock that presents a conflict of interest with my duties as a Federal Reserve governor.

Civil, criminal and investigatory actions:

1. Give the full derails of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

   None.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

   None.

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
Phi Beta Kappa Honor Society	Member	1992 - present
Bar Assoc. of the State of N.Y.	Member	1996 - present
Harvard Club of New York City	Member	1996 - present
Harvard Alumni Association	Board Member	2000 - 2004
The Brook	Member	2001 - Nov. 2005
Metropolitan Club of D.C.	Member	2003 - present
Union Club of the City of N.Y.	Member	2004 - Nov. 2005
Chevy Chase Club	Resident Guest	2003 - present
Georgica Association	Member	2004 - present
Meadow Brook Club	Member	2005 - present

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and inclusive dates of employment.

The White House, Washington, DC
Special Assistant to the President for Economic Policy (8/02 - present)
Executive Secretary, National Economic Council (6/03 - present)
Associate Director, National Economic Council (2/02 - 8/02)
Intern, President's Council on Competitiveness (6/92 - 9/92)

Morgan Stanley & Co., Mergers & Acquisitions Department, Investment Banking Division, New York, NY
Executive Director, Vice President, Senior Associate, Associate (8/95 - 2/02)

Harvard Law School, Cambridge, MA
Research Assistant to Professor Jon Hanson (9/93 - 6/94; 9/94 - 6/95)

Cravath Swaine & Moore, New York, NY
Summer Associate (6/94 - 9/94)

Brobeck, Phleger & Harrison, San Francisco, CA
Summer Associate (6/93 - 9/93)

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name:	**Warsh**	**Kevin**	**M.**
	(Last)	(First)	(Other)

Position to which nominated: **Member of the Board of Governors of the Federal Reserve System**

Date of nomination: January 27, 2006

Date of birth: **13 April 1970** (Day) (Month) (Year) **Place of birth: Albany, NY**

Marital Status: Married **Full name of spouse: Jane Alexandra Lauder**

Name and ages of children: None

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Harvard Law School	9/92 - 6/95	J.D.	6/95
Stanford University	9/88 - 6/92	A.B.	6/92
Shaker High School	9/84 - 6/88	Diploma	6/88

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships and any other special recognitions for outstanding service or achievement.

A.B., Stanford University with Honors, Phi Beta Kappa Society
J.D., Harvard Law School, *cum laude*

Government experience: List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part time service or positions.

I currently serve as a Special Assistant to the President for Economic Policy and as Executive Secretary of the National Economic Council. I previously served as Associate Director of the National Economic Council.

As a college student and prior to law school, I interned in the Office of Counsel to the President and President's Council on Competitiveness and in the U.S. House of Representatives, on the Subcommittee on Elections.

Published Writings: List the titles, publishers and dates of books, articles, reports or other published materials you have written.

"Deciding to Run for Congress: An Opportunity Cost Model with Partisan Implications," published by the *American Political Science Association*, 1992.

"Corporate Spinoffs and Mass Tort Liability," published by *Columbia Business Law Review*, Volume 1995, Number 3.

Political Affiliations and activities: List memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

Republican (1988-present)

Political Contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify specific amounts, dates, and names of recipients.

George W. Bush (6/99, $1000)
George W. Bush (5/04, $1000)
Manger for Congress (11/03, $2000)
Glenn for Congress (11/03, $2000)
Lazio for Congress (11/00, $500)

Qualifications: State fully your qualifications to serve in the position to which you have been named. (attach sheet)

Separate sheet attached.

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

I will resign from my position at the White House and on the National Economic Council.

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

I have no such plans.

3. Has anybody made you a commitment to a job after you leave government?

No.

4. Do you expect to serve the full term for which you have been appointed?

Yes.

Potential conflicts of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

I have no such arrangements or agreements. I will, however, continue to be entitled to receive a monthly award from a Morgan Stanley pension plan upon turning 65 years of age.

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

I have been advised of the restrictions that apply to the personal financial interests of Federal Reserve governors, and I do not own any such prohibited interests. My wife, Jane Lauder, has separate pre-marital assets over which I exercise no control. I have, however, advised my wife and her financial advisor of the applicable restrictions as well. I have been informed that there are two assets held by my wife or her trusts—shares of the Financial Select Sector SPDR fund and an interest in Hope Capital Partners (which holds, *inter alia*, an interest in Citigroup)—that are prohibited interests. My wife and I also both have cash accounts with JP Morgan Chase that are in excess of the federally insured maximum amount.

3. Describe any business relationship, dealing or financial transaction (other than tax paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

There are none.

4. List any lobbying activity during the past ten years in which you have engaged in for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

I was involved in no such activity.

5. Explain how you will resolve any conflict of interest that may be disclosed by your responses to the items above.

Pursuant to an ethics undertaking letter I signed on January 26, 2006, if confirmed, I will not participate in certain matters involving JP Morgan Chase unless I first obtain a waiver; I will not participate in certain matters related to my Morgan Stanley pension; my wife and her trusts will divest her interest in any prohibited interests; and my wife and her trusts will divest her interest in certain other funds that do not currently hold prohibited interests but could acquire such interests in the future.

Civil, criminal and investigatory actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

In 1998, I was named as a defendant in a landlord-tenant dispute filed in the Court of the City of New York (civil); the dispute was settled amicably out of court.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None.

Kevin M. Warsh -- Qualifications

My background in finance, capital markets, economics and regulatory policy should serve as valuable qualifications, if confirmed, as a Member of the Board of Governors of the Federal Reserve System.

During the last four years, I have served as Special Assistant to the President for Economic Policy and as Executive Secretary of the National Economic Council. My primary areas of responsibility include domestic finance, banking and securities regulatory policy, and consumer protection. I have advised the President and senior Administration officials on issues related to the U.S. economy, particularly fund flows in the capital markets, securities, banking and insurance issues. I have participated in virtually all meetings of the President's Working Group on Financial Markets, and served as the Administration's chief liaison to the independent financial regulatory agencies. These experiences in the application of microeconomic policies should prove beneficial, if I am confirmed as member of the Board of Governors.

For nearly seven years, I was a member of the Mergers & Acquisitions Department of Morgan Stanley & Co. Incorporated in New York, ultimately serving as Vice President and Executive Director. I served as financial advisor to scores of companies across a range of sectors – including manufacturing, heavy industry, professional services and high tech. In that capacity, I structured capital markets transactions and facilitated fixed income and equity financings to help companies fulfill their strategic objectives. I guided market participants in real-time as they navigated the fixed income, bank loan, commodity, and equity capital markets. These markets, in my view, provide important information for Federal Reserve policymakers. In addition, I believe that my experiences in the capital markets should be of significant benefit in communicating monetary and regulatory policy perspectives to market participants.

I studied law, economics and regulatory policy at Harvard Law School, graduating with a J.D. *cum laude*. I also conducted significant course work in market economics and debt capital markets at Harvard Business School and MIT's Sloan School of Management. Throughout my graduate and post-graduate studies, I conducted significant research on issues related to the U.S. economy. Previously, I graduated with an A.B. degree in Public Policy with Honors from Stanford University with significant course work in economics, statistics and mathematics.