AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

S. HRG. 112–326

NOMINATIONS OF: ALAN B. KRUEGER, DAVID A. MONTOYA, AND CYRUS AMIR-MOKRI

HEARING

BEFORE THE

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

ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

ON

NOMINATIONS OF:

ALAN B. KRUEGER, OF NEW JERSEY, TO BE A MEMBER OF THE COUNCIL OF ECONOMIC ADVISERS

DAVID A. MONTOYA, OF TEXAS, TO BE INSPECTOR GENERAL, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

CYRUS AMIR-MOKRI, OF NEW YORK, TO BE AN ASSISTANT SECRETARY OF THE TREASURY, DEPARTMENT OF THE TREASURY

SEPTEMBER 22, 2011

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



Available at: http://www.fdsys.gov/

U.S. GOVERNMENT PRINTING OFFICE

73–405 PDF WASHINGTON : 2012

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2250 Mail: Stop SSOP, Washington, DC 20402–0001

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

TIM JOHNSON, South Dakota, *Chairman*

JACK REED, Rhode Island
CHARLES E. SCHUMER, New York
ROBERT MENENDEZ, New Jersey
DANIEL K. AKAKA, Hawaii
SHERROD BROWN, Ohio
JON TESTER, Montana
HERB KOHL, Wisconsin
MARK R. WARNER, Virginia
JEFF MERKLEY, Oregon
MICHAEL F. BENNET, Colorado
KAY HAGAN, North Carolina

RICHARD C. SHELBY, Alabama
MIKE CRAPO, Idaho
BOB CORKER, Tennessee
JIM DEMINT, South Carolina
DAVID VITTER, Louisiana
MIKE JOHANNS, Nebraska
PATRICK J. TOOMEY, Pennsylvania
MARK KIRK, Illinois
JERRY MORAN, Kansas
ROGER F. WICKER, Mississippi

DWIGHT FETTIG, *Staff Director*
WILLIAM D. DUHNKE, *Republican Staff Director*

CHARLES YI, *Chief Counsel*
MARC JARSULIC, *Chief Economist*
LAURA SWANSON, *Policy Director*
GLEN SEARS, *Senior Policy Advisor*
BRIAN FILIPOWICH, *Professional Staff Member*

ANDREW OLMEM, *Republican Chief Counsel*
BETH ZORC, *Republican Counsel*
MIKE PIWOWAR, *Republican Senior Economist*
CHAD DAVIS, *Professional Staff Member*

DAWN RATLIFF, *Chief Clerk*
ANU KASARABADA, *Deputy Clerk*
RIKER VERMILYE, *Hearing Clerk*
SHELVIN SIMMONS, *IT Director*
JIM CROWELL, *Editor*

C O N T E N T S

THURSDAY, SEPTEMBER 22, 2011

Page

Opening statement of Chairman Johnson 1
Opening statements, comments, or prepared statements of:
Senator Shelby 2

WITNESSES

Alan B. Krueger, of New Jersey, to be a Member of the Council of Economic Advisers 4
Prepared statement 25
Response to written questions of:
Senator Shelby 29
Senator Vitter 31
David A. Montoya, of Texas, to be Inspector General, Department of Housing and Urban Development 6
Prepared statement 26
Cyrus Amir-Mokri, of New York, to be an Assistant Secretary of the Treasury, Department of the Treasury 7
Prepared statement 27

NOMINATIONS OF:

ALAN B. KRUEGER, OF NEW JERSEY, TO BE A MEMBER, COUNCIL OF ECONOMIC ADVISERS;

DAVID A. MONTOYA, OF TEXAS, TO BE INSPECTOR GENERAL, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT;

CYRUS AMIR-MOKRI, OF NEW YORK, TO BE AN ASSISTANT SECRETARY OF THE TREASURY, DEPARTMENT OF THE TREASURY

THURSDAY, SEPTEMBER 22, 2011

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

The Committee met at 10:04 a.m. in room SD–538, Dirksen Senate Office Building, Hon. Tim Johnson, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN TIM JOHNSON

Chairman JOHNSON. Good morning. I call this hearing to order. Thanks to all of our nominees for joining us here today. I also extend a warm welcome to our witnesses' families and friends who are here with us.

Today we consider three nominees to fill important roles in the administration at the Council of Economic Advisers, the Department of Housing and Urban Development, and the Treasury Department.

The Council of Economic Advisers is an agency within the executive branch charged with offering the President objective economic advice and the formulation of both domestic and international economic policy. At this point in the economic recovery, the Administration's economic team must have all hands on deck, so it is important that the Committee move in a timely manner on the consideration of Dr. Alan Krueger for this post.

David Montoya was nominated to serve as HUD's Inspector General and fulfill the office's mission of providing independent and objective reporting to the Secretary and the Congress on HUD's operations. As with all executive agencies, a confirmed Inspector Gen-

eral is crucial for the integrity, efficiency, and effectiveness of HUD.

The Office of Financial Institutions within the Treasury Department formulates policy on financial institutions, GSEs, and financial education. I hope that the Committee can proceed in the consideration of Mr. Cyrus Amir-Mokri as Assistant Secretary so that this office can function at full capacity.

I now turn to Senator Shelby for any opening remarks he may have. Senator Shelby.

STATEMENT OF SENATOR RICHARD C. SHELBY

Senator SHELBY. Thank you, Mr. Chairman. I think this is a very important hearing for these crucial nominees.

Dr. Alan Krueger, as you mentioned, has been nominated to be the Chair of the Council of Economic Advisers. The CEA is an agency within the Executive Office of the President that is charged with providing the President economic advice, and there is no more crucial time, Dr. Krueger.

Dr. Krueger is an accomplished labor economist. Given his expertise in labor market dynamics, I would be interested in hearing—we have met and talked—what policies he will advocate at the White House. After more than 2 years of failed Keynesian programs, I believe the President needs to be provided with better advice, Dr. Krueger, that will help grow our economy, not the size and scope of Government.

The Committee will also be considering today the nomination of Mr. David Montoya to be the Inspector General of the U.S. Department of Housing and Urban Development. That is also a very important job. He has spent many years in law enforcement as well as other Government oversight and supervisory roles, and I would be interested here this morning in hearing how you would apply your skills and your background in the investigative, audit, and legal activities required of the office. Inspectors General are tasked, as you well know, with rooting out fraud and abuse as well as promoting transparency and protecting the taxpayers.

For example, HUD's Office of Inspector General's most recent semiannual report highlighted 500 convictions and 767 arrests related to fraud. That is a lot of stuff. In addition, the Office of Inspector General determined that $768 million, three-quarters of a billion dollars, of taxpayer funds should have been put to better use at HUD during the 6-month period. I believe you have your work cut out for you, but we want you to do a super, super job.

Also here before us today—and I might struggle with the name—is Cyrus Amir-Mokri. Did I get it right?

Mr. AMIR-MOKRI. Yes.

Senator SHELBY. Thank you. He has been nominated to serve as both the Assistant Secretary for Financial Institutions at the Treasury Department and as a member of the Board of Directors of the National Consumer Cooperative Bank. He has recently served as senior counsel to the Chairman of the Commodity Futures Trading Commission, where he also serves as the Commission's deputy representative to the Financial Stability Oversight Council. If confirmed, he will be responsible for coordinating Treasury's efforts regarding regulation and legislation affecting financial

institutions. He will also be responsible for coordinating Treasury's efforts on financial education policy as well as overseeing the Terrorism Risk Insurance Program and the Community Development Financial Institutions Fund.

I thank all of the nominees for their willingness to serve and to appear before the Committee, and I look forward to your testimony.

Thank you, Mr. Chairman.

Chairman JOHNSON. Would any other Senators like to make a statement?

[No response.]

Chairman JOHNSON. If not, I will now give brief introductions of our three nominees.

The first nominee is the Honorable Alan Krueger, who has been nominated as the Chairman of the Council of Economic Advisers. Dr. Krueger is an eminent economist who is currently the Bendheim Professor of Economics and Public Policy at Princeton University and has published extensively. Dr. Krueger also has a great record of public service. He served as Assistant Secretary for Economic Policy in the Treasury Department from 2009 to 2010 and as the Chief Economist of the Department of Labor from 1994 to 1995.

Mr. David A. Montoya has been nominated to serve as the Inspector General for the Department of Housing and Urban Development. For the past 6 years, Mr. Montoya has been serving as the executive special agent in charge of the U.S. Postal Service Inspector General's Western Area field office. He has over 24 years of great public service with the DEA, EPA, and the Department of Interior.

Mr. Cyrus Amir-Mokri has been nominated to serve as Assistant Secretary for Financial Institutions in the Treasury Department. He most recently served as senior counsel to the Chairman of the CFTC. In this role he also served as the CFTC's deputy representative to the Financial Stability Oversight Council. Prior to joining the CFTC, Mr. Amir-Mokri was a partner at the law firm of Skadden Arps, where he focused on complex securities and antitrust litigation.

I look forward to hearing the nominees' testimony.

Will the nominees please rise and raise your right hand? Do you swear or affirm that the testimony that you are about to give is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. KRUEGER. I do.

Mr. MONTOYA. I do.

Mr. AMIR-MOKRI. I do.

Chairman JOHNSON. Do you agree to appear and testify before any duly constituted Committee of the Senate?

Mr. KRUEGER. I do.

Mr. MONTOYA. I do.

Mr. AMIR-MOKRI. I do.

Chairman JOHNSON. Please be seated. Please be assured that your written statement will be part of the record. Please also note that Members of this Committee may submit written questions to you for the record and you should respond to these questions promptly in order for the Committee to proceed on your nominations.

I invite all the witnesses to introduce your family and friends in attendance before beginning your statement. Dr. Krueger, please proceed.

STATEMENT OF ALAN B. KRUEGER, OF NEW JERSEY, TO BE A MEMBER OF THE COUNCIL OF ECONOMIC ADVISERS

Mr. KRUEGER. Thank you very much. I would like to introduce my wife, Lisa; my parents, Rhoda and Norman; and I see my sister-in-law, Karen, and my niece—I am a little bit confused on my niece because they are identical twins, but I see my niece, Amy, and I am delighted that they are here.

Would you like me to proceed with my statement or——

Chairman JOHNSON. Please proceed.

Mr. KRUEGER. Chairman Johnson, Ranking Member Shelby, and other distinguished Members of the Committee, I am honored to have my nomination come before you today.

I am grateful to President Obama for asking me to serve as a Member and Chairman of the Council of Economic Advisers at this critical time for our Nation's economy.

I am also deeply grateful to my wife, Lisa, and to our children for their support and willingness to allow me to return to public service.

And I am grateful that my parents and wife could attend this hearing today. Let me tell you a little bit more about them. My mother worked as an elementary school teacher in East Orange, New Jersey, and my father, an army veteran, had a long career as a certified public accountant and small businessman.

From my father, I learned at an early age to respect the entrepreneurs and small business owners who were his clients. I have long appreciated that job growth is dependent on a vibrant private sector. Government can only set the conditions for private employers to prosper and grow. My father also encouraged me to work as soon as I was legally able to do so in order to save for my college education. My first job, when I was in middle school, was working in a medical laboratory. In high school, I worked at Baskin Robbins and later as an assistant electrician. These early work experiences taught me the importance of teamwork and that the actual labor market does not always function the way that economic theory says it should.

My wife is a math teacher at our local public high school, which both of our children attended. I learned firsthand from my mother and wife's tireless efforts how a quality education can provide children with greater opportunities and a brighter future.

I have been very fortunate in my own education. I graduated from my local public high school in Livingston, New Jersey, a year ahead of New Jersey Governor Chris Christie. I attended Cornell's School of Industrial & Labor Relations. I then earned a Ph.D. in economics from Harvard.

I subsequently have had the privilege of working as a professor of economics and public policy at Princeton University for the last 24 years, teaching and conducting research.

I have conducted research on a range of topics, from job growth and social insurance to terrorism and time use, from bond markets to labor markets, from the economics of education to the economics

of Super Bowl tickets. I have tried not to be tied to a particular doctrine of economic thought in my work and instead have sought to develop the best evidence possible to test economic theories and estimate key parameters.

This approach has often led me to collect original data and use econometric methods to study natural experiments and policy changes. Sometimes my findings have been contrary to what I expected and contrary to the conventional wisdom among economists. But, in every instance, I have tried to adhere to a standard of reporting my findings objectively, regardless of which school of thought they support.

I also recognize that the data and evidence that economists and policymakers rely upon are not perfect. As a result, I have strived to improve our data and statistical infrastructure.

Princeton briefly served as the capital of the United States, and the University is true to its motto, first coined by Woodrow Wilson, "Princeton in the Nation's service." As part of this tradition, Princeton afforded me the opportunity to take a public service leave, as Chairman Johnson mentioned, to serve as Chief Economist of the U.S. Department of Labor and then as Assistant Secretary and Chief Economist of the Treasury Department.

After returning to Princeton in November of last year, I taught a new course called "The Great Recession: Causes, Consequences, and Remedies." I do not need to tell this Committee that that course is still a work in progress. The United States is still struggling to recover from the effects of the financial crisis that erupted in 2008. While time will heal many of the wounds in the economy, applying the proper medicine will help those wounds heal more quickly. I take solace in the fact that the United States is a resilient Nation with great resources, including our physical and human capital, our constitutional system of Government, our tradition of entrepreneurship, and our common-sense approach to solving problems. I am convinced that we can meet the serious challenges we face with the right mix of economic policies and faith in American workers and businesses to adapt to change and emerge a stronger country.

The Council of Economic Advisers is a unique and important institution within the Government. The President relies on the Council to provide the best available objective analysis of the economy. I think an important role of the Chairman of the Council is to present to the President a range of views from leading schools of economic thought indicating the uncertainty surrounding an issue and highlighting where others hold different views from the Chairman. My background as a labor economist, teacher, and researcher helped to prepare me to take on these duties, if I am confirmed.

I am humbled and honored to have the possibility of serving the Nation, should I be confirmed.

Thank you again for the time and opportunity to appear before you today, and I look forward to answering your questions.

Chairman JOHNSON. Thank you, Dr. Krueger.

Mr. Montoya, please proceed.

STATEMENT OF DAVID A. MONTOYA, OF TEXAS, TO BE INSPECTOR GENERAL, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. MONTOYA. Thank you. With me today, if I may, sir, is my brother, Daniel Montoya.

Chairman Johnson, Senator Shelby, and Members of the Committee thank you for the privilege and the opportunity to discuss my nomination as Inspector General of the Department of Housing and Urban Development. It is an honor to appear before this distinguished Committee.

If you will permit me, I would like to acknowledge my wife, Katherine, and children, Alyssa and Jonathan, both of whom are students at Colorado State University. While they were unable to attend with me today, I want to take a moment to publicly thank them for all of their support, thoughts, and prayers. I would also like to recognize my brother Daniel, who is here with me today, and my sister, Deborah, who unfortunately could not attend. I also want to acknowledge my parents who have truly been an inspiration to me. They raised me and my siblings with a strong work ethic, a dedication to public service, and leadership.

Last but not least, I would like to also recognize and thank Mr. David Williams, the Inspector General for the U.S. Postal Service and the Council of Inspectors General for Integrity and Efficiency, for staying with me through this nomination process.

I am honored that President Obama has nominated me to the position of Inspector General for the Department of Housing and Urban Development. The Department's mission, as you know, "is to create strong, sustainable, inclusive communities and quality affordable homes for all," and I believe that owning your own home is truly a fundamental American dream. The Inspector General for the Department of Housing and Urban Development's mission promotes the integrity, efficiency, and effectiveness of HUD programs and operations to assist the Department in meeting its mission.

My career has prepared me for the challenges of this position. I have spent the majority of my professional life dedicated to public service in Federal law enforcement. Sixteen of those years have been in oversight, supervisory, and leadership positions, including 10 years in the Federal Senior Executive Service and the Postal Career Executive Service.

As an executive special agent in charge for the Office of Inspector General at the U.S. Postal Service, I direct the largest field office overseeing 60 percent of the United States and a Postal Area with just under $1 billion in contract obligations. As Assistant Inspector General for Investigations with the Office of Inspector General at the Department of the Interior, I reorganized and directed a national law enforcement program which helped to protect America's natural resources and heritage.

As Deputy Director and Acting Director of the Environmental Protection Agency's Criminal Investigation Division, I provided leadership and direction to a national environmental crimes law enforcement program that investigated and helped to prosecute criminal conduct that threatened the health of our citizens and our environment.

And, finally, as a special agent with the Drug Enforcement Administration, I conducted criminal investigations of individuals and organizations who threatened our country's security with the importation of illicit drugs and the violence that drug trafficking produces.

My professional career has been characterized by increasing leadership roles and responsibilities with a commitment toward accountability and high ethical standards. While I have spent a career investigating violations of either criminal, civil, or administrative laws and regulations, it has always troubled me that these crimes and violations occur in the first place.

If confirmed as the Inspector General for the Department of Housing and Urban Development, I will stress the need for collaboration with Secretary Donovan and HUD staff to ensure that HUD's resources are being effectively and efficiently implemented. In addition, I will work to ensure early detection of warning signs of fraud or abuse through the IG's audits, evaluations, reviews, and investigations. Every IG employee will focus on prevention, while ensuring that all funds lost through fraud, abuse, or mismanagement are fully recovered.

A key priority, if I am confirmed, will be to maintain a strong partnership with this Committee and the Congress. The laws you write must be implemented in a manner that fulfills your intent and the very real needs of the people for whom they were written.

With the state of our economy and the limited financial resources our Government faces, it has never been more important to ensure that every dollar spent is spent well.

Given my background, I understand the responsibilities that the position of Inspector General will require. I believe that the knowledge and experience I have gained in nearly a quarter century of public service in investigative and oversight roles make me uniquely qualified and prepared for the new challenges I will face, should I be confirmed.

If confirmed, I would look forward to the opportunity to work with this Committee and other Members of Congress, Secretary Donovan, and our State and local partners to be accountable and transparent with the work of the Office of Inspector General and the oversight of HUD's program responsibilities.

Chairman Johnson, Senator Shelby, Members of the Committee thank you for allowing me the distinct privilege to testify here today. I would be pleased to answer any questions you may have.

Thank you.

Chairman JOHNSON. Thank you, Mr. Montoya.

Mr. Amir-Mokri, please proceed.

STATEMENT OF CYRUS AMIR-MOKRI, OF NEW YORK, TO BE AN ASSISTANT SECRETARY OF THE TREASURY, DEPARTMENT OF THE TREASURY

Mr. AMIR-MOKRI. Thank you, Mr. Chairman. With me today are my parents, Mahvash and Ebrahim Amir-Mokri, sitting behind me, and my sister, Mina Amir-Mokri.

Chairman Johnson, Ranking Member Shelby, and distinguished Members of the Committee, I am honored to appear before you

today as the nominee for the position of Assistant Secretary of Treasury for Financial Institutions.

I introduced my family. I just wanted to say that I would not be here today without their love, support, and sacrifice. I just want to take a moment right now to give special recognition to my parents' sacrifice. They were at or about my age today when, shortly after the Iranian revolution of 1979, they sent their two children, then aged 16 and 13, abroad. Physical separation between parents and children is difficult under any circumstance, but this difficulty was even more pronounced in those days because of the tensions that bedeviled relations between the United States and Iran, particularly during the hostage crisis and its aftermath. To give me and my sister the support we needed to go through school and young adulthood, my parents left behind everything that they had worked for in their careers, and more, and joined us in the United States to start a new life. And so we came to America in search of truths that the Declaration of Independence holds to be self-evident: that we are endowed by our Creator with the unalienable rights of life, liberty, and the pursuit of happiness. To our family, America has meant the realization of that promise.

To all those around the world who wonder what America offers and what it represents, I ask that they consider my story. From the moment I arrived in 1981, I have known nothing but kindness, warmth, respect, and encouragement, whether it be in the idyllic town of Beaver Dam, Wisconsin, where I spent a year finishing high school, or in the cosmopolitan metropolis of New York City, which is now my permanent home. In America, I have not been judged by the place of my birth, but by my dedication, loyalty, and hard work. The fact that a first-generation immigrant from Iran finds himself sitting before this distinguished Committee today proves that America, indeed, is a very special place.

I am truly humbled that, in these extraordinary times, President Obama has nominated me to discharge the significant responsibilities of the Assistant Secretary of the Treasury for Financial Institutions and to serve as a Director of the National Consumer Cooperative Bank. And I am extremely grateful to Secretary Geithner for his confidence and support and for recommending me for the President's consideration.

In these challenging times, it is my privilege to answer the call to public service. As a first-generation immigrant, I believe that I have a duty to give back to the country that has given so much to me. I also believe that we are all custodians of the idea of America, and we bear the solemn responsibility of safeguarding this idea of America so that it may continue to inspire people around the globe to seek a better life and to build a better world.

Today we continue to recover from the most profound financial crisis since the Great Depression. Congress enacted landmark legislation to remedy flaws in our financial system. It is critically important that financial regulators continue carefully to implement the reform agenda embodied by that legislation in a coordinated and measured fashion, consistent with the intent of Congress. Our approach should strive to achieve appropriate balances so that we establish and maintain a healthy financial system while also continuing to encourage efficiency and innovation. We must continue

to build the institutions designed for detecting and addressing systemic risk so that we do not experience a recurrence of the financial crisis of 2008. We must also work with regulators around the globe to ensure that financial regulatory regimes are consistent so that the playing field is not tilted to anyone's unfair advantage. Mindful that much of America is served by our community banks and that small businesses form a critical part of our job-creating engine, we must work to facilitate the means by which they can once again flourish. We must also work to ensure that Americans have access to housing, but that our financial system provides financing in a responsible manner. If confirmed, I will look forward to working with Congress toward these ends.

I believe that my professional background has prepared me to accept this responsibility. Most recently, I was senior counsel to the Chairman of the Commodity Futures Trading Commission. I also served as the CFTC's deputy representative to the Financial Stability Oversight Council. After passage of the Dodd-Frank Act, I participated in the CFTC's implementation efforts and oversaw coordination of the CFTC's work with implementation by other financial regulatory agencies. And I supervised the CFTC's efforts to harmonize its regulations with the SEC.

Before joining the CFTC, I was a general commercial litigation partner at Skadden Arps where, all told, I practiced law for more than a dozen years. My principal focus was in antitrust and securities litigation. I also served on the Practicing Law Institute's annual Consumer Financial Services Litigation program.

If confirmed, I look forward to working closely with you to take the necessary steps to building and maintaining a financial system that can reliably sustain a growing, prosperous economy over the long term for all Americans.

Thank you.

Chairman JOHNSON. Thank you, Mr. Amir-Mokri.

Dr. Krueger, I want to start by following up on something we talked about when we met last week. The unemployment rate is currently 9.1 percent. Do you think that most of the rise in unemployment has been structural or cyclical?

Mr. KRUEGER. Thank you, Chairman Johnson. Since 2007, most of the rise in unemployment, in my view, has been cyclical. A concern I have, however, with the particularly sharp rise in long-term unemployment is that some of the cyclical unemployment may become structural. And I would also mention that even before the recession, the United States was having difficulty with job growth. The fraction of the population employed never recovered between 2000 and 2007 to its previous peak, so there are trends underlying the economy which are slowing down job growth, which may indeed be related to some structural forces.

Chairman JOHNSON. Dr. Krueger, you supported a new job tax credit for employers when we had slow growth back in the early 2000s, and now the President has proposed a measure along these lines. How do you think this policy will work now?

Mr. KRUEGER. Well, I think the President's proposal in the American Jobs Act to eliminate the payroll tax on additional payroll that employers add is a measure which will have a lot of bang for the buck in terms of job creation. The CBO analyzed a variety of pro-

grams and found that a form of the new job tax credit, which the President's proposal is, has very high bang for the buck. I think it is focused on a dimension of the job market that is particularly weak, which is hiring. And I think it is also important to note that eliminating the 6.2 percent payroll tax for additions to payroll and cutting it in half for other employees in the President's proposal is focused on small employers because of the caps on the amount that employers can receive in this tax credit. And I think that is also particularly timely because small employers have been struggling in the recovery, and this will help their cash-flow, and small employers depend a lot on their cash-flow for their investment and hiring.

Chairman JOHNSON. Dr. Krueger, the economic performance of the small business sector is a continuing concern. I think you had a hand in proving statistical data to track small business performance to help inform our policymaking. So what can you tell us about how small business is faring now?

Mr. KRUEGER. Yes, that is right. One of the problems with tracking the performance of small businesses is that the data that we get are only available with a lag, and the Bureau of Labor Statistics had an ongoing survey called the Job Opening and Labor Turnover Survey, which began about 10 years ago, and this survey has information on establishment size, but they were not being produced on a regular basis. So I talked to the Bureau of Labor Statistics and asked if it might be possible to produce a new series, and indeed, what this data set shows, which is the most current, most authoritative current data that we have on small business job growth, is that small employers have been having much more difficulty than large employers.

There are several research studies which find that that is not so unusual in the aftermath of a financial crisis. Small businesses are more dependent on bank financing than large companies that can go out and issue corporate debt. Given that the financial crisis led to an increase in credit tightening, that has been hurting small businesses, which is one of the reasons why I think helping their cash-flow can also help to support their additional hiring.

Chairman JOHNSON. Mr. Montoya, as you know, this is a difficult time for too many Americans in need of affordable housing. What steps will you take to ensure that your office examines and works with HUD to improve the administration of their programs that millions of Americans count on?

Mr. MONTOYA. Yes, sir, thank you. Well, clearly, I think through our audits, evaluations, and review process and working with the Department program managers, not only HUD's but obviously our State and local partners to figure out just exactly what is working well within these programs and what is not. Clearly, those have to take a priority. I think much like Senator Shelby mentioned, the arrests in the last couple of years have been very high. That tells me there is a problem. Something is obviously broken if that many arrests can happen with regards to fraud in these programs. So, clearly, an oversight role, making recommendations not only to HUD but to this Committee on concerns that we have and areas of weakness that we think could be tightened up to keep these monies going to those that need it the most, sir.

Chairman JOHNSON. Mr. Amir-Mokri, if confirmed, what role do you think the Office of Financial Institutions can play to aid in our Nation's economic recovery? What would be your approach?

Mr. AMIR-MOKRI. Thank you, Mr. Chairman. The portfolio of the position, Mr. Chairman, as Ranking Member Shelby was indicating, consists of financial institutions, other areas including housing and focus on small business issues. So it cuts across a number of very important and central matters that we are concerned with in the economy. And I certainly would feel that that office would play an integral role in supporting the efforts to better our economy.

In terms of the approach that I would take, I would kind of go back to the experiences of my life and how I have served in my various professional capacities. I have been an adviser, whether in private practice of law or serving as an adviser to the Chairman of the Federal regulatory agency, what I would do is try to look at every side of an issue, be inclusive of all viewpoints. I am a firm believer in Justice Holmes' idea of a marketplace of ideas. You look for the best ideas. Extensive consultation working with the Members of Congress. I would also—in my approach I also believe in coordination of many different interests and interested stakeholders and agencies, whether it was in private litigation working on complex cases or in my role as—my coordinating role at the CFTC with other Federal regulatory agencies. I would certainly bring that approach.

And, finally, I think what I would try to do is, given my private sector background, to be sensitive to issues that are of concern to the private sector. For years I advised companies on the impact of Government action and worked with them on their compliance with Government regulations. So I certainly would like to bring that sensitivity as well, but mindful of the deep financial crisis that we have been through and the important reforms that Congress has enacted.

Chairman JOHNSON. Senator Shelby.

Senator SHELBY. Thank you, Mr. Chairman.

I do not speak Farsi, so I probably will not pronounce your name right again. You have a beautiful education. You had a beautiful story of coming here, and your family. Amir-Mokri is that close or not?

Mr. AMIR-MOKRI. That is very close, Senator. Mokri.

Senator SHELBY. Doctor. He is a doctor. He has a Ph.D. and a J.D., so we can call him that, although he does not purport to teach right now.

According to a piece in today's Financial Times—you may have read it and you may not, but probably you have—Spain's economic problems are likely to spark, according to the article, a Spanish banking crisis, which nobody wants. It is very possible that a banking crisis in Spain could quickly spread to other European countries. We have been worried about Greece, and we still are. We have been worried about Portugal, and we still are. Ireland is not out of the woods yet. Italy has been in the news.

What is your assessment of the impact that a European financial crisis—and its dark clouds hanging right now, as you know—would have on our banking system? Chairman Bernanke has already said

and we know that there are some interrelated deals here. Candidly, for this Committee.

Mr. AMIR-MOKRI. Right. Thank you, Senator Shelby. I think that is obviously a very, very important subject. I have not seen that particular Financial Times report, but——

Senator SHELBY. Would you pull your microphone up just a little bit?

Mr. AMIR-MOKRI. Certainly. I have not seen that particular Financial Times story, but Europe——

Senator SHELBY. But you understand the problem.

Mr. AMIR-MOKRI. Absolutely. Europe has been an issue that has been of concern for a long time.

Senator SHELBY. It is an issue not going away soon, it does not look like.

Mr. AMIR-MOKRI. In response to your question, specifically what impact it is going to have, just to be clear, because I have been away from the Federal regulatory agencies since early March, so——

Senator SHELBY. But you bring a lot of experience and knowledge to this table.

Mr. AMIR-MOKRI. Exactly. So here is how I would think about it. We have to make sure that we understand what our exposures are. We have to make sure that we are prepared in terms of—in light of what exposures we have.

Senator SHELBY. What do you mean by being prepared? What do you mean? Prepared for the inevitable? Prepared for some bad news, or what?

Mr. AMIR-MOKRI. I think that—any circumstance that may come up. I think that it is, you know, sitting here today, it is—I do not want to prejudge anything. I do not want to suggest that anything is going to happen or not going to happen. So I just think that we should be prepared for any eventuality.

And, finally, the one principle that I think should always drive how we think about this is protection of the U.S. taxpayers. So that is kind of how I would——

Senator SHELBY. Can we disengage ourselves from Europe, or are we so intertwined in the financial area that there is no way to do it short of a financial catastrophe?

Mr. AMIR-MOKRI. That is one of the very important questions, Senator. Again, it is such a moment and fact and circumstance, and, you know, having all the information at your fingertips question that I—what I would do is I—I am very mindful of that question, and, you know, there is information gathering and consultation and all that that has to occur between agencies and, you know, foreign authorities.

Senator SHELBY. Would you agree that it is going to be hard to paper over, you know, just broad brush, the deep financial problems that Europe and European banks have today that we know about? It is not going to just go away like a Band-aid over it.

Mr. AMIR-MOKRI. Well, Senator, again, I do not want to prejudge anything. I think the Europeans are—my understanding is that they are trying to deal with their issues. You know, we certainly have to give them a chance to resolve their own issues, and——

Senator SHELBY. Dr. Krueger, do you want to comment on this? What is your assessment of Europe right now as we talk? You are going to be at the White House, assuming you are confirmed—and I believe you will be—and you are going to be giving advice to the President. You will be interacting with Treasury and everything else. You will be interacting with this Committee and, of course, the House Committee on Financial Services. We have deep problems. Europe probably has got deeper problems. What is your observation there, candidly?

Mr. KRUEGER. Thank you for the question. I would make a few observations.

First of all, there is tremendous heterogeneity in Europe. Much of Europe is in strong fiscal health, and then there are some countries——

Senator SHELBY. Say that again, now.

Mr. KRUEGER. Much of Europe—Germany, France are in strong fiscal health.

Senator SHELBY. You are saying France is in strong fiscal——

Mr. KRUEGER. Fiscal health, government—the fiscal positions of their government.

Senator SHELBY. I know Germany is, or has been.

Mr. KRUEGER. In Germany, for example. So I just want to highlight that there are differences across Europe, as you certainly understand. And when problems arise in Europe, as you mentioned, we are not insulated from them. The financial markets are integrated, and also our exports are affected. And one of the drags that has occurred in our recovery comes from both of those channels. Volatility in our financial markets is higher. Our exports are being held back because of weaknesses in Europe.

One way of insulating against that is to try to increase demand for our products domestically. Components of the American Jobs Act would do that, for example, the payroll tax cut for employees.

Senator SHELBY. You are talking about the proposal the President has made lately?

Mr. KRUEGER. The President's proposal would help insulate us if we see a drop in exports.

Senator SHELBY. Do you believe that is going to be passed in this Congress? Do you think that has got any life or legs to it?

Mr. KRUEGER. You know, Senator, I try to analyze the economics of the proposals. I leave the politics to those who work on the politics.

Senator SHELBY. But isn't this proposal, as some people would say, a "on of the stimulus bill," a smaller stimulus bill? You indicated that to me in our conversation. Maybe not in those words.

Mr. KRUEGER. Well, I think it is focused on the problems and the weakness that we have in the economy, and I think it will strengthen aggregate demand, which is what we need to do. And I would also just add, as you alluded, our banking system is a lot stronger today than it was a few years ago. The increased capital that our banks have raised helped to provide a buffer against those shocks.

Senator SHELBY. Thank you, Mr. Chairman. Are we going to have another round?

Chairman JOHNSON. Yes.

Senator SHELBY. OK.

Chairman JOHNSON. Senator Akaka.

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

Let me add my welcome to the witnesses who are here today and also your families who are here to support you and even friends.

Dr. Krueger, we are in the middle of an unprecedented battle of our budget and deficits. It is as much a political debate as it is a policy and Government debate. As Council for Economic Advisers Chair, you will have a critical role in providing recommendations on economic policy based on objective economic research and data. How do you view your role in providing advice to the President, and hearing your economic background and the background you have had, it brings with you an interesting wealth of knowledge that you can apply.

So my question is, is there an intersection between political considerations and factual data-based considerations that you would use?

Mr. KRUEGER. Thank you very much for your question, Senator. The President said when he announced my nomination that he relies on the Council of Economic Advisers to provide him unvarnished objective economic analysis, and that is what I intend to do if I am confirmed for the position.

How would I go about that? Well, the Council has an excellent staff. I saw at least one of the Members here earlier. I see both of the Members, who the Committee knows, Carl Shapiro and Katharine Abraham, both outstanding economists who I have worked with for over 20 years in my capacity as an academic. Together with our staff, we will gather evidence. We will look at the relevant theory. We search the literature. We talk to people involved in the policy, people in business, to learn more about what is going on on the ground. We monitor trends, monitor trends in Europe, for example. And then wading through this information present to the President the pros and cons of various options, the risks that we face, and, as I said, try to do this and let others make the political judgments. We provide the best economic input that we can.

Senator AKAKA. Thank you. We are in the middle of this crisis, but you were the Chief Economist at the National Council of Economic Education for several years and a senior official at Treasury. Based on these experiences, do you see a value to investing in financial literacy initiatives during these difficult economic times?

Mr. KRUEGER. Well, thank you for asking about that and for noticing my work for the National Council on Economic Education, which subsequently changed its name to the Council for Economic Education. I believe that economic and financial literacy is critical. I think a better informed population makes better economic decisions and that strengthens our society, it strengthens our economy, and I have worked together with the NCEE. I have actually devoted several years to writing a high school economics textbook. Two million students take economics in high school, more than take it in college, and I think it is critical to reach people at an early age to teach them about making economic decisions and personal finance decisions.

When I was at Treasury, I worked together with Michael Barr, who had financial literacy in his shop, the same position that

Cyrus Amir-Mokri—I do not know if I pronounced it correctly, either—has been nominated for, and we worked very well together and I think there are many opportunities to try to further economic and financial literacy.

Senator AKAKA. Thank you.

Dr. Krueger, the Census report that was released last week showed an increase of poverty in 2010. This includes an increase in children living in poverty. The report also showed that the level of hardship would have been much worse without unemployment insurance and the EITC, Food Stamps, and Medicaid. Some experts claim that we can reduce the deficit without sacrificing these low-income assistance and safety net programs. What do you think? What are the key programs to keep poverty levels from rising even higher? What data could you point to that could convince our colleagues to preserve these programs?

Mr. KRUEGER. Thank you for the question. I think you highlighted the key programs in your question. All of those are key. I would mention, particularly with long-term unemployment, with over 40 percent of he unemployed spending 6 months or longer unemployed, unemployment insurance is now more of a bulwark against poverty. The programs you mentioned function as automatic stabilizers. They provide support for families to maintain their consumption, to pay for their mortgage, and so on, when the economy is weak. That helps the macro economy.

And then the last thing I would mention, the best anti-poverty program would be sustaining the recovery, strengthening job growth. I think ways that we have seen poverty decline in the past, in addition to the programs you cited, is a stronger economy and stronger job growth, so I would mention that, as well.

Senator AKAKA. Thank you very much for your comments.

Chairman JOHNSON. Senator Reed.

Senator REED. Well, thank you very much, Mr. Chairman.

Gentlemen, thank you for your willingness to serve and also the support your families will give you in that great service.

Let me start with Professor Krueger. You are not only a noted economist, but you have also served previously in Government, so you bring many talents to bear. One program that we had a chance to speak about in my office is the Work Share Program, which is part of the President's proposal. It is working very well in Rhode Island, and for my colleagues' benefit, essentially, it allows the employer to basically furlough a worker for 2 days. They can collect unemployment, pro rate unemployment benefits. The employer maintains other benefits.

But it has been extraordinarily successful in Rhode Island. I visited a machine tool company that has used it several times in the last year. Now, everyone is back at work. They are doing well. And instead of sort of casting people away and losing them forever, their talents, they have maintained the integrity of their operation.

So I wonder if you might comment on that, Professor Krueger, how important it is, and it is something I hope we can get through.

Mr. KRUEGER. Well, thanks very much for raising that issue. I think work sharing has been an important component in softening the effects of the recession in other countries and in speeding the recovery. Some States, as you mentioned, Rhode Island in par-

ticular, have had effective work sharing programs as part of their unemployment insurance program.

In the President's proposals in the American Jobs Act, the President had several ways of reforming unemployment insurance, and I think we may be at a unique moment where we could take a 75-year-old program and allow the States to do more experimentation with work sharing or wage loss insurance for older workers. I think we are in a situation where we might be able to learn from those—I hesitate to use the word "experiments," because it is not quite an experiment, but learn from those new programs and strengthen unemployment insurance going forward, and if I am confirmed, I would very much welcome an opportunity to work with you on those issues.

Senator REED. Thank you, Professor.

I notice, and some of my colleagues might have noticed, there is an op-ed piece in the New York Times that referred to a new book by the head of the Gallup polling organization, and basically his conclusion looking at data worldwide is that the next 30 years is going to be dominated by trying to create jobs everywhere, and the suspicion, at least one comment was that there might be an at least temporary finite limit so that we are in a very rough race against tough competitors. But job creation, that seems to me should be central to all policies, because in your view, it looks like it is central to policies of our other economy at this time, and if we neglect it, then we will be poorer for it. Is that fair?

Mr. KRUEGER. It is interesting that you raise that because I just received a copy of that book from Jim Clifton, the author. I should also acknowledge I have been a senior scientist for the Gallup Organization. I have worked on the world poll, which is the data set he analyzes for that book.

One of the findings I found striking is the role of entrepreneurship and formal jobs. When we look across countries in the world, the countries which have the larger formal employment sector are the ones that have stronger GDP. And I think of this very much as how do we strengthen entrepreneurship. How do we maintain a formal employment sector. We do not want jobs under the table. I have not finished digesting the book, I have to say. I read chunks of it on the train on the way down here for this trip. But I think he raises a number of important issues in the book.

Senator REED. Thank you very much.

Mr. Montoya, good luck with your important work, and just a quick question. The IGs usually come in after the explosion and try to sift through the rubble. Are you going to take, or try to take the view that you can also be helpful before these problems occur by looking sort of generally at the Department and offering advice and suggestions to the Secretary?

Mr. MONTOYA. Thank you for the question, Senator Reed. Absolutely. I am coming in with the frame of mind that it is probably more important for me to look at preventative measures, measures that we are going to stress the economy, the efficiency and the effectiveness of these programs, well before we get into any investigative work. As I said earlier, once we get to that investigative stage, it is too late. We are chasing after people we do not know and looking for money we probably will never get back.

So for me, critically important will be to work with the Department and our stakeholders, State and local stakeholders, to ensure that these programs are running the way they are supposed to so these monies get to the people who need it most, sir.

Senator REED. All right. Good luck with your efforts. My time has expired, but we had an opportunity, I think, to talk frankly and about important issues. I appreciate your commitment and I would look forward to supporting you as you go forward. Thank you, gentlemen.

Mr. KRUEGER. Thank you, Senator.

Chairman JOHNSON. Senator Menendez?

Senator MENENDEZ. Well, thank you, Mr. Chairman.

Congratulations to all of you on your nominations and your families who are here, and I specifically want to recognize Dr. Krueger, who is a New Jersey native, grew up in Livingston, a professor at Princeton, has had an extraordinary career. In my view, by the President's nomination of you, it is a very strong statement, as one of the Nation's foremost job experts, that job creation is number one on his economic priority efforts, so I appreciate that and I appreciate your service.

I want to start off by asking you, I know there is a chorus of voices who believe that maybe we should do nothing and that nothing will somehow create jobs in America. Can you give me a sense, if we do nothing from a governmental macro sense, what would we expect on the job market?

Mr. KRUEGER. Thank you, Senator, and thanks for mentioning my past service. Let me just say that, having worked at the Treasury, having had the opportunity to go to some meetings together with the President, I do not think the President is satisfied with the pace of the recovery. I have seen him try to lead, every meeting I went to, looking for ideas for strengthening the economy. And the reason why, when he asked me to come back, I agreed, is because I think there are more things that we can do to strengthen the economy.

The risks that we face of doing nothing are that the economy is facing several headwinds. One of those headwinds is the aftermath of the financial crisis. Families are deleveraging. They are reducing their debt. That is cutting back on their consumption. And also——

Senator MENENDEZ. The financial crisis that came to a peak in September of 2008.

Mr. KRUEGER. That is correct.

Senator MENENDEZ. All right.

Mr. KRUEGER. But the problems that caused the crisis took a long time to buildup, including excess debt, and families are working their way down through that debt. The financial crisis itself has a lingering effect because the appetite for risk has been reduced. Investors tend to swing after an event like we saw in 2008.

On top of that, the support that has been provided for the economy is phasing down. The Recovery Act was, for the most part, temporary. Those programs are phasing out. That has been a drag on the economy, and I think you can see that effect, particularly in State and local governments which received support to retain teachers and first responders, and as that support has been cut back, we are seeing a lot more layoffs at the State and local level.

And then, finally, as Senator Shelby mentioned, we have the volatility, uncertainty from what is going on in Europe.

So I do not think this is a moment to say we do not want to try to do more to strengthen the economy, to try to speed the rate of job growth. For me, it is, if I am confirmed, a tremendous opportunity to go back with the people who I worked with, Secretary Geithner, who is the most dedicated, loyal public servant I have ever had the opportunity to work with, the rest of the economics team, and under the leadership of the President, who has encouraged me and the whole team to look for new solutions, solutions that have very high bang for the buck, and that not only strengthen the economy in the short run, but also put us in a better position in the long run by investing in the future, by trying to raise productivity in the future——

Senator MENENDEZ. Let me——

Mr. KRUEGER.——and——

Senator MENENDEZ. Unfortunately, I do not have the same time that you have in your classroom at Princeton——

[Laughter.]

Senator MENENDEZ.——so let me try to get you to be a little more succinct. I do appreciate your answer, but I want to get specifically what do you believe are—there are many elements into job creation, but what do you think are some of the most important ones, and as a corollary to that, I read the General Electric CEO is talking about the fundamentals of the economy are actually stronger than you would think compared to the negative outlooks that many people have. How do we change that dynamic?

Mr. KRUEGER. Well, as I alluded in my opening statement, there are certainly strengths in our economy. The corporate sector is very strong. Corporate balance sheets are much stronger now than they have been in the past. So when they do see a pick-up in things, it is possible, and indeed, I would say likely, that we will see a more rapid turnaround.

I think the fundamental problem that the U.S. economy is facing right now is weak aggregate demand. I think this is fundamentally a result of the excess borrowing that took place. The savings rate has been rising. So increasing aggregate demand, such as by cutting the payroll tax or supporting the unemployed, who have a very high marginal propensity to consume, I think have a lot of bang for the buck.

And then I would just last add working on the hiring margin, making it less expensive for employers to hire through cutting the payroll tax for companies that expand their payroll.

Senator MENENDEZ. Mr. Montoya, you and I had a good discussion in my office. I do not have any questions for you. I appreciate your view about being proactive instead of just reactive as the Inspector General, and I look forward to, as the Subcommittee chair on housing, working with you in that regard. So I look forward to supporting your nomination.

Finally, Mr. Amir-Mokri, your role is a very important one in Treasury and I would like to get a sense of—I read your statement, but I would like to get a sense of how you are going to approach the Treasury Department's interaction with the financial institutions that we dealt with in 2008 as a result of the crisis that Chair-

man Bernanke outlined would create systemic risk to the entire country's economy and the verge of a new depression. How are you going to view the implementation of Dodd-Frank in your role, but also how are you going to balance that implementation in a way that we get the right messages on responsible lending to take place, because we see this incredible freeze that has taken place in access to capital, which is part of growth at the end of the day. I would like to just get a sense from you of how you are going to approach that.

Mr. AMIR-MOKRI. Absolutely, Senator. Thank you. Those are extremely, extremely important issues. Starting with the—I will probably take the first two together, the Dodd-Frank implementation and the large financial institutions. As you know, Treasury is part of the Financial Stability Oversight Council and it also—many of the regulations that were enacted in Dodd-Frank, the responsibility for actually drafting them is with independent regulatory agencies. Nevertheless, in some instances, the Treasury does play a coordinating role, and certainly as a member of the Financial Stability Oversight Council, the Treasury does have a role in the consultations and some of the decisions that are specific to the Financial Stability Oversight Council which relate to the large institutions that you were referring to. So taking the structure of the Dodd-Frank legislation into account, there is certainly going to be a role for my office in advising the—if confirmed, I would be advising the Secretary on these issues.

And just to add a couple of points to that, I think the intent of the Dodd-Frank legislation was to make sure that the large institutions do not any longer pose the same risks or concentrate the same risks that they did that led to the 2008 financial crisis, so we have to be very mindful of that and make sure that the prudential reforms and the heightened standards are implemented sensibly, but consistent with the intent of Congress.

So, overall, with respect to your first two points, I think that I would just say implementing the Dodd-Frank legislation to make sure that we address the large financial institution issues that the legislation addresses and playing the role that has been outlined for Treasury in the legislation.

The second—and more specifically on that, second, having had experience in coordinating activities between the CFTC and the SEC, I would hope personally to bring some of those skills to bear to make sure that regulations are consistent, that they are sensible as much as I can.

With respect to the impact on jobs, I think the reason for the legislation was to build a financial system on which you can have job growth. When you have a stable financial system, when people are not worried about their sources of funding, then you can have more confidence with the banks to go ahead and lend and to get the economy going. So we have to work toward implementing the reforms to bring back the confidence to the financial system so that normal activity can resume.

Senator MENENDEZ. Well, CDFIs will be under your jurisdiction, as well, and we had a major initiative signed into law that is unfolding and we think that is a great economic driver, as well, and we look forward to working with you on that.

Thank you, Mr. Chairman.

Chairman JOHNSON. Senator Shelby.

Senator SHELBY. Thank you, Mr. Chairman.

I would like to direct this to the Treasury nominee. For the past 2 years, you have worked with Chairman Gensler over at the Commodities Futures Trading Commission. During that time, Gensler has sought to impose a record number of new regulations, as we are all familiar with. There has been widespread criticism of a lot of those rules on grounds that they will undermine the competitiveness of the U.S. financial system without making it any safer.

Do you disagree with this assessment, and if so, why? I would like to have your view.

Mr. AMIR-MOKRI. Thank you, Senator. What I am aware of——

Senator SHELBY. Excuse me just a minute. I did not mean to—or do you disagree with any of Gensler's proposals? I know you worked with him and you have to do that. You are going to be a free man. You do not work there. I am sure you will be confirmed at Treasury. But there is widespread criticism there of a lot of those rules—not all, but a lot.

Mr. AMIR-MOKRI. Senator, what I can say is I was there until about March 4 and that was at or about the time that we had gotten substantially all of the proposed rules out. You know, in any regulatory effort, there, as you well know, there are going to be folks who disagree with what you do and some folks who agree with what you do.

More specifically with respect to how I saw it, and I am commenting on the proposed rules, what we tried to do was to—you know, this is a very challenging area. The derivatives title poses a lot of complicated——

Senator SHELBY. Very complex, is it not?

Mr. AMIR-MOKRI. Very complex. Very complex. And it is the first time that this area is, per the direction of Congress, being regulated. So what we tried to do when I was there, and this was, I believe, reflected in the proposed rules, was to make a proposal, which was subject to Commission review, and to ask robust questions in the proposals, to subject it to the administrative process, which depends on commentary from all interested stakeholders, and to hopefully get the best answer and to come up with the right result.

And in that connection, I will just mention that I felt that we had a very robust outreach process with both all interested stakeholders and consultation with other regulatory agencies. As you know, Title VII has provisions on coordination and consultation with not only the Securities and Exchange Commission, but also the Federal Reserve. But we went above and beyond that to consult with many—any regulatory agency that had a stake in the rules that we were working on. So——

Senator SHELBY. But you are plowing new ground, are you not, in a sense, trying to regulate, or hopefully regulate, without taking risk out of the market, out of the derivatives? I think the derivatives, myself, play an important role in the international economy. Do you agree with that?

Mr. AMIR-MOKRI. Senator, in terms of plowing new ground, the legislation, I feel for very right reasons—I mean, you remember the

financial crisis. You were seeing it very up close and derivatives certainly played a role in that, so I think Congress was right to——

Senator SHELBY. Do you believe that derivatives, as we speak, play, overall, a positive role in the international economy?

Mr. AMIR-MOKRI. Senator, risk management is critical. Risk management——

Senator SHELBY. Critical to a market economy, is it not?

Mr. AMIR-MOKRI. Whether it is trading futures or entering into derivatives contracts, businesses run on risk management.

Senator SHELBY. Did it ever occur to you or Chairman Gensler I know he is not up here, but you will be up here from time to time—that you could possibly overregulate an economy or the derivatives market? I am not saying you have. I am saying a lot of people think you have. Do you consider that when you are making regulations——

Mr. AMIR-MOKRI. Senator Shelby——

Senator SHELBY.——the possibility to overregulate the market?

Mr. AMIR-MOKRI. Senator Shelby, that is absolutely always a concern. I think the issue with regulations, I alluded to before, I advised private clients on complying with regulations, so I fully understand what it means to—the impact of Government action on private business. So I would just make a couple of points.

One is you always have to find the right balance, and as I was mentioning before, when we put those rules together, we were mindful of asking robust questions so that we would, in fact, at the end of the day find the right balance.

But, second, we also have to remember that we are emerging from a significant financial crisis and Congress's reforms are very important. So you are absolutely right to be concerned with issues of overregulation. I think it is always a matter of finding the right calibration.

Senator SHELBY. Dr. Krueger, the stimulus programs. A recent academy paper by two economists at the University of Chicago and the University of California at Berkeley found that the so-called Cash for Clunkers stimulus program had no long-run effect on auto purchases. They also found no evidence that it positively affected employment, house prices, or household default rates in the cities with high exposure to the program.

Do you still believe that these stimulus programs work, and if you do, why?

Mr. KRUEGER. Thank you for the question. Yes, I do believe that the Recovery Act did work, and I will explain why.

Senator SHELBY. You are talking about the big stimulus program?

Mr. KRUEGER. I will talk about both. First——

Senator SHELBY. OK. You think they both worked?

Mr. KRUEGER. Yes.

Senator SHELBY. You would be in the minority in this country.

Mr. KRUEGER. Well, I think the way an economist views——

Senator SHELBY. OK.

Mr. KRUEGER.——the question that you raised is to compare it to a counterfactual. What would the world have been like without the Recovery Act? And one of the things that we have learned recently is that the economy was contracting much more rapidly than

anyone had appreciated back in the end of 2008. GDP fell by 8.9 percent at an annual rate in the last quarter of 2008. When the Recovery Act took effect, we seem to have broken the back of the recession. So I think the Recovery Act needs to be compared to what the world would have been like without it. Now, I do not question that there was a lot of damage inflicted by the recession and that we are still digging our way past that damage.

If you would like, I can also respond to the Cash for Clunkers question.

Senator SHELBY. Go ahead.

Mr. KRUEGER. So the study that you mentioned, which I think is a very nice attempt to address the question, divides areas up by looking at those where there were more clunkers, where more cars were eligible for the program. But I am not convinced that that is the best methodology in this particular instance because even in an area where there were relatively few Clunkers, the program was pretty well subscribed. This was a program—actually, I asked my father if he cashed in one of his cars—where it went so quickly that I do not think we were bumping up against the constraints that they were using in their analysis.

And there is one other piece of evidence which I think is relevant. Of course, the goal of the Cash for Clunkers program was to move up consumption.

Senator SHELBY. Sure.

Mr. KRUEGER. And a survey that the Department of Transportation has done found that the average person who traded in a car under the program said that they were not planning to buy another car for two-plus years. So it seems to have attracted a lot of people who were kind of frugal. They were not planning to buy a car right away.

I think this is an area of active research——

Senator SHELBY. Did you factor in the cost of this program?

Mr. KRUEGER. Oh, well, I think one has to look at the cost, no question. I think one also needs to look at the benefits fairly broadly. So, for example, when the program started, I think there was a boost in consumer confidence. There was a lot of advertising that took place. So I think there could have been some spillover more generally to consumption elsewhere.

Senator SHELBY. The Chairman has been generous with his time here with me. I would like to ask you one more question. You are going down to the White House. You are going to be advising the President on economics. We know the chances—there is conventional wisdom out there that the economy—the unemployment is probably going to tick up some. Some of the economists testified here that the real unemployment, that is people who have given up getting jobs and so forth, is around 15 percent in this country, you know, if we look at it.

Do you see, Dr. Krueger, a real turn-around in this economy without us, one, absorbing all the excess in housing, not just in California, Florida, Nevada, and others, but everywhere? How are we going to put people back to work? I do not mean marginally, but how is this economy going to really take off again until we absorb the excess out there? Do you have any—I do not think you can do it by stimulus programs, because if you could have, we spent

nearly a trillion dollars. Of course, we could argue all day about that, but look at the economy today. Go ahead, sir. It is your forum.

Mr. KRUEGER. Thank you very much, sir. As I said, the scale of the problem was much deeper than I think people had appreciated, and that shows up in the revisions to the GDP data back in 2008 and early 2009.

The proposals that the President made in the American Jobs Act have high bang for the buck. Private forecasters, such as Mark Zandi, have forecast that the program would raise employment by roughly 1.9 million jobs. It could lower the unemployment rate by a percentage point. It could raise GDP growth by 2 percent.

But I think what we need to do is to continue looking for these types of solutions. I think the proposal the President made selected the types of programs that independent analysts think have the biggest bang for the buck. But we need to do many things at once.

I think we face three great economic challenges. The first is to sustain the recovery and strengthen job growth, as I mentioned.

Second is to invest in the future, to continue educating and innovating and investing in infrastructure, which would also help right now in terms of putting people back to work.

And then, third, as we discussed in your office, we need to get on a sustainable fiscal path. We need to do all of that——

Senator SHELBY. And that includes entitlements, does it not, whether we like to talk about it—none of us want to talk about it, but does it not include—a real, sustainable economic plan in any trajectory, we have got to deal with entitlements. I think the President has even alluded to it. I do not think he is on board, but he talks about it.

Mr. KRUEGER. Well, I think what you said is exactly right. We need to look at the whole budget, including entitlements. The very fast growth is in Medicare and Medicaid costs.

Senator SHELBY. Mm-hmm.

Mr. KRUEGER. The President put out a proposal which brings down the deficit relative to GDP, or debt relative to GDP over the next 10 years substantially, and if that were enacted, I think that would put us on much more solid footing in terms of sustainability over the next decade.

Senator SHELBY. Thank you. Thank you, Mr. Chairman.

Chairman JOHNSON. Dr. Krueger, we have talked about a variety of important economic issues this morning. How would you summarize the economic policy challenges that we face?

Mr. KRUEGER. Well, fundamentally, we face weak demand. Consumption has been growing at a modest pace. We have a lot more capacity to produce than people and businesses are willing to buy right now. That slack capacity shows up in the unemployment numbers that Senator Shelby mentioned. It shows up in the capacity utilization numbers.

So, fundamentally, I think we need to strengthen demand. Some of that can come about by people becoming more confident that their jobs are secure, that they can go out and buy purchases that they put off. Some of it can come about by focusing our measures on raising job growth so people have more income. But the diag-

nosis that I have of the economy, the number one problem has been weak demand.

Chairman JOHNSON. I thank the witnesses for your testimony and for your willingness to serve our Nation.

I ask all Members of this Committee to submit questions for the record by close of business on Tuesday, September 27, and I request that the witnesses submit your answers to us in a timely manner so that we can move your nominations forward as quickly as possible.

This hearing is adjourned.

[Whereupon, at 11:23 a.m., the hearing was adjourned.]

[Prepared statements and responses to written questions supplied for the record follow:]

PREPARED STATEMENT OF ALAN B. KRUEGER

NOMINEE FOR MEMBER OF THE COUNCIL OF ECONOMIC ADVISERS

SEPTEMBER 22, 2011

Chairman Johnson, Ranking Member Shelby, and other distinguished Members of the Committee, I am honored to have my nomination come before you today.

I am grateful to President Obama for asking me to serve as a Member and Chairman of the Council of Economic Advisers at this critical time for our Nation's economy.

I am also deeply grateful to my wife, Lisa, and to our children, Ben and Sydney, for their support and willingness to allow me to return to public service.

And I am grateful that my parents and wife could attend this hearing today. My mother worked as an elementary school teacher in East Orange, New Jersey, and my father, an army veteran, had a long career as a certified public accountant and small businessman.

From my father, I learned at an early age to respect the entrepreneurs and small business owners who were his clients. I have long appreciated that job growth is dependent on a vibrant private sector and that Government can only set the conditions for private employers to prosper and grow. My father also encouraged me to work as soon as I was legally able to do so in order to save for my college education. My first job, when I was in middle school, was working in a medical laboratory, where I cleaned test tubes and retrieved lunch; I was promoted to a position where I stained slides that were screened for cancer. In high school, I worked at Baskin Robbins and later as an assistant electrician, laying cables and installing equipment. These early work experiences were important to me because they taught me the importance of teamwork and that the actual labor market does not always function the way that economic theory says it should.

My wife is a math teacher at our local public high school, which both of our children attended. I learned firsthand from my mother and wife's tireless efforts how a quality education can provide children with greater opportunities and a brighter future.

I have been very fortunate in my own education. I graduated from my local public high school in Livingston, New Jersey, a year ahead of New Jersey Governor Chris Christie. I attended Cornell's School of Industrial & Labor Relations with the idea of becoming a lawyer, but quickly became fascinated by the power of economics and statistics for improving people's lives. I then earned a Ph.D. in economics from Harvard University in 1987.

I subsequently have had the great privilege of working as a professor of economics and public policy at Princeton University for the last 24 years, teaching undergraduate and graduate students and conducting research. My teaching has primarily been in the areas of labor economics, statistics, public finance and the economics of education.

I have conducted research on a range of topics, from job growth and social insurance to terrorism and time use, from bond markets to labor markets, from the economics of education to the economics of Super Bowl and concert tickets. I have tried not to be tied to a particular doctrine of economic thought in my work, and instead have sought to develop the best evidence possible to test economic theories and estimate key economic parameters.

This approach often has led me to collect original data and use econometric methods to study natural experiments and policy changes. Sometimes my findings have been contrary to what I expected and contrary to the conventional wisdom among economists. But, in every instance, I have tried to adhere to a standard of reporting my findings objectively, regardless of which school of thought they support.

I also recognize that the data and evidence that economists and policymakers rely upon are not perfect. As a result, I have strived to improve our data and statistical infrastructure. In 1993, I started the Princeton Survey Research Center to facilitate innovative methods of data collection. More recently, I launched the Princeton Data Improvement Initiative. This effort enlisted business and academic economists and Government statisticians to try to evaluate existing economic indicators and to develop informative new measures.

Princeton briefly served as the capital of the United States, and the University is true to its motto, first coined by Woodrow Wilson, "Princeton in the Nation's service." As part of this tradition, Princeton afforded me the opportunity to take a public service leave and serve first as Chief Economist of the U.S. Department of Labor in the mid-1990s and then as Assistant Secretary and Chief Economist of the Treasury Department in 2009–10.

After returning to Princeton in November 2010, I taught a new course called, "The Great Recession: Causes, Consequences and Remedies". I do not need to tell this Committee that that course is still a work in progress. The United States is still struggling to recover from the effects of the financial crisis that erupted in 2008. While time will heal many of the wounds in the economy, applying the proper medicine will help those wounds heal more quickly. I take solace in the fact that the United States is a resilient Nation with great resources, including our physical and human capital, our Constitutional system of government, our tradition of entrepreneurship, and our common sense approach to solving problems. I am convinced we can meet the serious challenges we face with the right mix of economic policies and faith in American workers and businesses to adapt to change, and emerge a stronger country.

The Council of Economic Advisers is a unique and important institution within the Government. The President relies on the Council to provide the best available objective economic analysis. The Council is responsible for preparing the *Economic Report of the President,* monitoring economic trends, and developing and recommending to the President economic policies to promote competitive enterprise and to avoid and diminish the effects of economic fluctuations.

My background as a labor economist, teacher and researcher will help me take on these duties, if I am confirmed. My work on improving economic indicators would provide useful background in interpreting economic trends. My work as a researcher would help to appraise the success or failure of various programs. My experience as an editor of one of the American Economic Association's main journals will help me to present a wide variety of views and relevant evidence to the President, not just my own personal views but also those of the other Members and others in the economics profession. Indeed, I think an important role of the Chairman of the Council of Economic Advisers is to present the President with a range of views from leading schools of economic thought, indicating the uncertainty surrounding an issue, and highlighting where others hold different views of the merits and demerits of various policies than the Chairman.

I am humbled and honored to have the possibility of serving the Nation, should I be confirmed. If you and your colleagues in the Senate give me the opportunity to serve as a Member and Chairman of the President's Council of Economic Advisers, I promise to apply my human capital to the best of my ability to justify your trust and confidence.

Thank you again for the time and opportunity to appear before you today, and I look forward to answering your questions.

PREPARED STATEMENT OF DAVID A. MONTOYA

NOMINEE FOR INSPECTOR GENERAL, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

SEPTEMBER 22, 2011

Chairman Johnson, Senator Shelby, and Members of the Committee thank you for the privilege and opportunity to discuss my nomination as Inspector General of the Department of Housing and Urban Development. It is an honor to appear before this distinguished Committee.

If you will permit me, I would like to acknowledge my wife, Katherine and children, Alyssa and Jonathan, both of whom are students at Colorado State University. While they were unable to be here with me today, I want to take a moment to publicly thank them for all of their support, thoughts and prayers. I would also like to recognize and thank my brother Daniel, who is here with me today and my sister Deborah who was unable to attend. Finally, I want to acknowledge and thank my parents who have truly been an inspiration to me. They raised me and my siblings with a strong work ethic, dedication to public service and leadership.

I am honored that President Obama has nominated me to the position of Inspector General for the Department of Housing and Urban Development. The Department's mission "is to create strong, sustainable, inclusive communities and quality affordable homes for all" and I believe that owning your own home is truly a fundamental American dream. The Inspector General for the Department of Housing and Urban Development's mission promotes the integrity, efficiency, and effectiveness of HUD programs and operations to assist the Department in meeting its mission.

My career has prepared me for the challenges of this position. I have spent the majority of my professional life dedicated to public service in Federal law enforcement. Sixteen of those years have been in oversight, supervisory and leadership po-

sitions, including 10 years in the Federal Senior Executive Service and the Postal Career Executive Service.

As an Executive Special Agent in Charge, for the Office of Inspector General at the U.S. Postal Service, I direct the largest field office overseeing 60 percent of the United States and a Postal Area with just under one billion dollars in contract obligations.

As Assistant Inspector General for Investigations with the Office of Inspector General, at the Department of the Interior, I reorganized and directed a national law enforcement program which helped to protect America's natural resources and heritage.

As Deputy Director and Acting Director of the Environmental Protection Agency's Criminal Investigation Division, I provided leadership and direction to a national environmental crimes law enforcement program that investigated and helped to prosecute criminal conduct that threatened the health of our citizens and our environment.

As a Special Agent with the Drug Enforcement Administration I conducted criminal investigations of individuals and organizations who threatened our country's security with the importation of illicit drugs and the violence that drug trafficking produces.

My professional career has been characterized by increasing leadership roles and responsibilities with a commitment toward accountability and high ethical standards. While I have spent a career investigating violations of either criminal, civil or administrative laws and regulations, it has always troubled me that these crimes and violations occur in the first place.

If confirmed as the Inspector General for the Department of Housing and Urban Development, I will stress the need for collaboration with Secretary Donovan and HUD staff to ensure that HUD's resources are being effectively and efficiently implemented. In addition, I will work to ensure early detection of warning signs of fraud or abuse through the IG's audits, evaluations, reviews and investigations. Every IG employee will focus on prevention, while ensuring that all funds lost through fraud, abuse or mismanagement is fully recovered.

A key priority, if I am confirmed, will be to maintain a strong partnership with this Committee and the Congress. The laws you write must be implemented in a manner that fulfills your intent and the very real needs of the people for whom they were written.

With the state of our economy and the limited financial resources our Government faces it has never been more important to ensure that every dollar spent is spent well.

Given my background, I understand the responsibilities that the position of Inspector General will require. I believe that the knowledge and experience I have gained in nearly a quarter century of public service in investigative and oversight roles make me uniquely qualified and prepared for the new challenges I will face, should I be confirmed.

If confirmed, I would look forward to the opportunity to work with this Committee and other Members of Congress, Secretary Donovan, and our State and local partners to be accountable and transparent with the work of the Office of Inspector General and the oversight of HUD's program responsibilities.

Chairman Johnson, Senator Shelby, Members of the Committee thank you for allowing me the distinct privilege to testify here today. I would be pleased to answer any questions you may have.

PREPARED STATEMENT OF CYRUS AMIR-MOKRI

NOMINEE FOR AN ASSISTANT SECRETARY OF THE TREASURY, DEPARTMENT OF THE TREASURY

SEPTEMBER 22, 2011

Chairman Johnson, Ranking Member Shelby, and distinguished Members of the Committee, I am honored to appear before you today as the nominee for the position of Assistant Secretary of the Treasury for Financial Institutions.

With me today are my parents, Mahvash and Ebrahim Amir-Mokri, and my sister Mina Amir-Mokri. I would not be here before you today without their love, support, and sacrifice. I would like to take a moment to give special recognition to my parents' sacrifice. They were at or about my age today when, shortly after the Iranian revolution of 1979, they sent their two children, then aged 16 and 13, abroad. Physical separation between parents and children is difficult under any circumstance, but this difficulty was even more pronounced because of the tensions that bedeviled

relations between the United States and Iran during the hostage crisis and its immediate aftermath. To give me and my sister the support we needed to go through school and young adulthood, my parents left behind everything that they had worked for in their careers, and more, and joined us in the United States to start a new life. And so we came to America in search of truths that the Declaration of Independence holds to be self-evident: that we are endowed by our Creator with the unalienable rights of life, liberty, and the pursuit of happiness. To our family, America has meant the realization of that promise.

To all those around the world who wonder what America offers and what it represents, I ask that they consider my story. From the moment I arrived in 1981, I have known nothing but kindness, warmth, respect, and encouragement, whether it be in the idyllic town of Beaver Dam, Wisconsin, where I spent a year finishing high school or in the cosmopolitan metropolis of New York City, which is now my permanent home. In America, I have not been judged by the place of my birth, but by my dedication, loyalty, and hard work. The fact that a first generation immigrant from Iran finds himself sitting before this distinguished Committee today proves that America, indeed, is a very special place.

I am truly humbled that, in these extraordinary times, President Obama has nominated me to discharge the significant responsibilities of the Assistant Secretary of the Treasury for Financial Institutions and to serve as a Director of the National Consumer Cooperative Bank. I am extremely grateful to Secretary Geithner for his confidence and support, and for recommending me for the President's consideration.

In these challenging times, it is my privilege to answer the call to public service. As a first generation immigrant, I believe that I have a duty to give back to the country that has given so much to me. I also believe that we are all custodians of the idea of America, and we bear the solemn responsibility of safeguarding the idea of America so that it may continue to inspire people around the globe to seek a better life and to build a better world.

Today, we continue to recover from the most profound financial crisis since the Great Depression. Congress enacted landmark legislation to remedy flaws in our financial system. It is critically important that financial regulators continue carefully to implement the reform agenda embodied by that legislation in a coordinated and measured fashion, consistent with the intent of Congress. Our approach should strive to achieve appropriate balances so that we establish and maintain a healthy financial system while also continuing to encourage efficiency and innovation. We must continue to build the institutions designed for detecting and addressing systemic risk so that we do not experience a recurrence of the financial crisis of 2008. We must also work with regulators around the globe to ensure that financial regulatory regimes are consistent so that the playing field is not tilted to anyone's unfair advantage. Mindful that much of America is served by our community banks and that small businesses form a critical part of our job-creating engine, we must work to facilitate the means by which they can once again flourish. We must also work to ensure that Americans have access to housing, but that our financial system provides financing in a responsible manner. If confirmed, I will look forward to working with Congress toward these ends.

I believe that my professional background has prepared me to accept this responsibility. Most recently, I was Senior Counsel to the Chairman of the Commodity Futures Trading Commission. In my role as Senior Counsel, I advised the Chairman of the CFTC on legal and policy matters. I also served as the CFTC's deputy representative to the Financial Stability Oversight Council and was responsible for assisting the Chairman in matters regarding the President's Working Group on Financial Markets. After passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act, I participated in the CFTC's implementation efforts and oversaw coordination of the CFTC's work with implementation by other financial regulatory agencies. Additionally, I supervised the CFTC's efforts to harmonize its regulations with those of the Securities Exchange Commission and coordinated other joint CFTC–SEC projects.

Before joining the CFTC, I was a general commercial litigation partner at the law firm of Skadden, Arps, Slate, Meagher & Flom LLP, where, all told, I practiced law for more than a dozen years. My principal focus was in antitrust and securities litigation. In addition to my law practice, I served as a faculty member for the Practicing Law Institute's annual Consumer Financial Services Litigation program.

If confirmed, I look forward to working closely with you to take the necessary steps to building and maintaining a financial system that can reliably sustain a growing, prosperous economy over the long term for all Americans.

Thank you.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SHELBY FROM ALAN B. KRUEGER

Q.1. To build support for the Obama administration's stimulus bill, the CEA created an estimate of the number of "jobs saved" by the bill. A number of well-respected economists have criticized the "jobs saved" estimate as being non-measurable. For example, Dr. Allan Meltzer said "The Council of Economic Advisers . . . shamefully invented a number called 'jobs saved' that has never been seen before, has no agreed meaning, and no academic standing." What is your professional opinion about the accuracy and validity of the CEA's "jobs saved" estimate? Do you believe that it is appropriate for the CEA to create highly speculative statistics designed solely to support the Obama administration's political agenda?

A.1. In my view, the role of the CEA is to provide the best objective evidence available based on relevant economic theory and data, and to present the President with a range of views. The CEA should attempt to quantify only that which can be reasonably quantified, based on existing, commonly accepted methods and data. That said, there are a range of questions and issues that CEA addresses, and economists have more confidence in the precision of some estimates than others, by the nature of the issue addressed and underlying data and models.

Measuring the impact of fiscal policies on growth and employment is inherently difficult because one typically cannot directly observe economic activity in the absence of the policy. It is my understanding that CEA's estimates of the employment effects of ARRA were similar to those of a range of other analysts, including the Congressional Budget Office (CBO) and Macroeconomic Advisers, who used similar forecasting methods. However, forecasts can be inaccurate because of the inaccuracy of the underlying data, as well as for other reasons. In the forecast to which the question referred, the revisions to the initial Bureau of Economic Analysis (BEA) GDP growth data showed that the economy was contracting at a much greater rate than had been appreciated at the end of 2008, which affected the accuracy of many analysts' estimates.

If confirmed, I intend to hold to a standard of only releasing estimates that rely on mainstream economic methods and reliable data.

Q.2. Do you think that higher energy prices in the short term would be good for spurring the development of clean energy?

A.2. Mainstream economic principles would suggest that, all else being equal, if higher short-term energy prices are expected to last only for a short period of time, they would be expected to have relatively little impact on investments in all forms of energy production, including alternative energy development.

Q.3. In December 2009, you testified before the Finance Committee about the Obama administration's views on energy policy. In your testimony, you endorsed an excise tax on offshore oil and gas development, higher tax rates for the industry, and an economy-wide cap-and-trade regime. Is that still the energy policy that you think the United States should pursue?

A.3. The President's FY 2010 Budget stated that the Administration was developing a proposal to impose an excise tax on certain oil and gas produced offshore. That budget also proposed a cap-and-trade program that would provide incentives for firms to reduce greenhouse gas emissions. It is my understanding that these particular proposals have not been included in the Administration's FY 2012 Budget. From an economic perspective, sound energy policy is supported by a balancing of the benefits and costs of energy production and use, within the context of its broader macroeconomic, environmental, and international and security consequences. Affordable, secure and reliable energy supplies are critical for our economic performance, and I believe that policies that are consistent with these objectives should be pursued.

Q.4. In December 2009, you testified before the Finance Committee about the Obama administration's proposals for higher taxes on the oil and gas industry. You repeatedly justified higher tax rates by saying that:

> To the extent that current tax subsidies for the oil and gas industry encourage the overproduction of oil and natural gas, they divert resources from other, potentially more efficient investments and they are inconsistent with the Obama administration's goals to reduce GHG emissions and build a new, clean energy economy.

You qualified that statement in a number of ways, but you clearly suggest that our current tax structure leads to at least some overproduction of those resources. On a net basis, however, our Nation imports about 9.2 million barrels of oil per day right now. Do you believe the United States overproduces oil and gas?

A.4. I testified in December 2009 as Assistant Secretary for Economic Policy and Chief Economist of the Treasury on certain provisions in the Administration's FY 2010 Budget relating to the oil and gas industry. This is not an area in which I have conducted original research as an academic economist. I tried to focus on economic aspects of the Administration's proposals in my testimony. As I noted in my testimony, my aim was to evaluate, from an economist's perspective, the Administration's budget proposals relating to oil and gas with regards to standard economic principles of tax policy.

My testimony was intended to be in the narrow confines of tax policy, and, in particular, an economic evaluation of specific tax provisions. The question of determining the optimal amount of U.S. oil and gas production is a much broader and more complicated issue. On the one hand, in the absence of other factors, certain provisions of the tax code could lead to higher production than would otherwise be the case. On the other hand, many factors other than the tax code also influence domestic energy production, including policies governing development and production of State and Federal lands, energy infrastructure siting, and permitting. Because of

the ambiguity inherent in these issues, I included many qualifications and caveats in my testimony, as the question noted.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR VITTER FROM ALAN B. KRUEGER

Q.1. In the Treasury Department's Green Books (2010 and 2011), you make repeated references to oil and gas industry "tax preferences" and "tax subsidies," yet the oil and gas sector pays a significantly higher effective tax rate than most other industries (41.1 percent vs. 26.5 percent for the rest of the S&P industrials). How can a sector that pays a higher effective tax rate be receiving "preferences?"

A.1. In my role as Assistant Secretary for Economic Policy and Chief Economist at the Treasury Department, I did not participate in drafting the Greenbook. The Greenbook is produced by the Office of Tax Policy in the Treasury Department.

However, my understanding is that tax preferences or subsidies are commonly defined as provisions of the tax laws that allow a special exclusion, exemption, or deduction from gross income, or that provide a special credit, a preferential rate of tax, or a deferral of liability. It is my further understanding that this is in keeping with the Administration's definition of tax expenditures.

Q.2. The President has called for all sectors of the economy to "pay their fair share." Do you believe it is "fair" to raise taxes on a sector that is already paying a significantly higher tax rate than others?

A.2. Given the budget situation, very difficult choices have to be made regarding spending and revenues. As an economist, I look at these questions through the lens of tax principles in the field of public finance, and, in particular, the concepts of vertical and horizontal equity. The President has emphasized the need for comprehensive reform of the tax code. The principles that he has proposed are reforms that: 1) lower tax rates; 2) cut wasteful loopholes and tax breaks; 3) reduce the deficit by $1.5 trillion; 4) boost job creation and growth; and 5) comport with the "Buffett Rule" that people making more than $1 million a year should not pay a smaller share of their income in taxes than middle-class families pay. These principles strike me as consistent with principles of taxation that are standard in the economics field of public finance, and, in particular horizontal and vertical equity.

Q.3. How can you reconcile the Nation's energy security goals with your contention that the current tax code encourages "overproduction" of domestic oil resources? With no alternatives readily apparent, how could your policy recommendations not result in greater reliance on foreign energy sources?

A.3. In December 2009 I testified, as Assistant Secretary for Economic Policy and Chief Economist of the Treasury, on certain provisions in the Administration's Budget relating to the oil and gas industry. This is not an area in which I have conducted original research as an academic economist. I tried to focus on economic aspects of the Administration's proposals in my testimony. As I noted in my testimony, my aim was to evaluate, from an economist's per-

spective, the Administration's budget proposals relating to oil and gas with regards to standard economic principles of tax policy.

My testimony was intended to be in the narrow confines of tax policy, and, in particular, of specific tax provisions. The question of whether the United States overproduces oil and gas is a much broader and more complicated issue. On the one hand, in the absence of other factors, certain provisions of the tax code could lead to higher production than would otherwise be the case. On the other hand, many factors other than the tax code influence domestic energy production, including policies governing development and production of State and Federal lands, energy infrastructure siting, and permitting. Because of the ambiguity inherent in the issue, I included many qualifications and caveats in my testimony.

As part of the Administration's plan for a secure energy future, President Obama has set a goal of reducing U.S. oil imports by one-third by 2025 relative to 2008. As part of its strategy to achieve this goal, the Administration is committed to increasing safe and responsible development of domestic oil and gas resources. I think about energy security in terms of both supply and demand. On the supply side, over the past 2 years, domestic oil and gas production has increased, thanks in part to recent technological advances such as hydraulic fracturing to extract energy resources from shale formations. On the demand side, I agree with President Obama that we also need to enhance our energy efficiency to reduce our economy's reliance on imported oil, improve our energy security, and protect consumers and the economy from the adverse impacts of volatile oil prices.

As an economist, I am convinced that having secure, reliable, and affordable energy supplies is critical for the economy. I also believe that the oil and gas industry, as well as other sectors of the energy industry, provide a great many American workers with well paying, high quality jobs.

Q.4. Most Americans would agree that we need to reduce our dependence on foreign oil. One of the easiest ways to do so would be to increase domestic production. The net effect would be increased jobs, increased production and supply, and accordingly a lower price for the cost of fuels as a result of increased supply. Please indicate if and why you disagree.

A.4. I agree we need to reduce our dependence on foreign oil. Among other things, reducing our dependence on foreign oil would improve our energy security and insulate our economy from fluctuations in the price and supply of oil. There are a variety of ways to accomplish these goals. As an economist, I think in terms of supply and demand. Increasing supply of domestic energy production and increasing energy efficiency will help achieve these goals.

Q.5. The 2010 Green Book opines that oil and gas industry tax credits divert funds from "more efficient" investments in the economy. As the Administration has demonstrated, through your time in Treasury and beyond, a steadfast preference for renewable energy Government investments, explain how these less cost-effective renewable investments are "more efficient" than oil and gas. Please also describe the success of each program over the last 3 years, both in tax revenue and job creation terms. Please also indicate the

average amount of Federal taxpayer dollars that was required to create each full-time renewable energy job now in existence as a result of programs under the Obama administration.

A.5. As the Assistant Secretary for Economic Policy and Chief Economist at the Department of the Treasury, I did not draft the Greenbook.

As a general matter, however, economic theory implies that private market decisions can be inefficient when market prices do not reflect the full cost to society of market transactions. This would occur, for example, if the price of a good does not reflect the potential environmental effects associated with consumption of the good, or if it does not reflect potential security risks associated with the foreign supply of the good. Standard economic principles imply that policies that are designed to correct positive or negative externalities, such as these, can require subsidies or taxes as a way of increasing the efficiency of the economy.

Q.6. In 2009 you testified before Congress that the earth would heat by 7 degrees by the end of the century without action such as cap and trade. Now that cap and trade has failed, and given China and other growing economies increase in greenhouse gas emissions, what is your new estimate of global average temperature rise over the next 10, 20, 30, 50, and 100 years?

A.6. I should first note that I am not a climate scientist, and have neither the background nor the training to make my own climate predictions. When I testified as an economist on the Administration's Budget in 2009, I was not citing my own personal view, but rather referring to an estimate provided by the Intergovernmental Panel on Climate Change (IPCC), which at the time was their most current estimate available.

Q.7. Please discuss generally how Spain's renewable energy programs have both succeeded and failed.

A.7. As a CEA nominee, my expertise is mainly in the areas of unemployment and jobs, and general principles of microeconomics, macroeconomics, and econometrics. I am not familiar with Spain's renewable energy programs. However, I have been informed that this is an area of recent policy activity in Spain. I am not in a position to render judgment on the successes or failures of particular policies adopted by Spain, given the variety of economic, political, and other factors that are pertinent to evaluating whether a specific policy is successful or not, and given my lack of familiarity with relevant Spanish data and experiences.

However, given the varied approaches to promoting renewable energy that have been adopted both within the United States and abroad, I am of the opinion that policymakers would want to examine these experiences to look for lessons that might be applicable to the development of any Federal policies, with consideration of any specific factors and circumstances present in Federal policy that may or may not be present in State or foreign policy.

Q.8. Please discuss generally how California's renewable energy programs have both succeeded and failed.

A.8. As mentioned in my response to the previous question, as a CEA nominee, my expertise is mainly in the areas of unemploy-

ment and jobs, and general principles of microeconomics, macroeconomics, and econometrics. I am not familiar with the details of California's renewable energy programs and I am not in a position to render judgment on the successes or failures of these programs.

Q.9. As you are aware, there exists no Federal programs for grants, loan guarantees or other financing for hydraulic fracturing similar to what we do for renewable energy. Please discuss the net economic effects on the U.S. economy as a result of hydraulic fracturing over the last 5 years. Please identify all known shale resources and generally the cumulative known shale resource base in the United States. As well, please discuss generally the jobs, salaries and revenue to local, State, and Federal treasuries that has been generated over the last 5 years as a result of hydraulic fracturing.

A.9. Consistent with the Administration's Blueprint for a Secure Energy Future, I believe that we need to deploy American assets, innovation, and technology so that we can safely and responsibly develop more energy here at home and be a leader in the global energy economy. Over the last 2 years, domestic oil and natural gas production has increased. In 2010, American oil production reached its highest level since 2003, and total U.S. natural gas production reached its highest level in more than 30 years. Much of this increase has been the result of growing natural gas and oil production from shale formations as a result of recent technological advances utilizing hydraulic fracturing. Although I do not know where all U.S. shale resources are located, these resources, when combined with appropriate safeguards to protect public health and the environment, have played—and will continue to play—a critical role in enhancing domestic energy production in the coming decades.

Hydraulic fracturing has led to particularly significant increases in domestic natural gas production. Production of natural gas from shale formations has gone from a negligible amount just a few years ago to being almost 30 percent of total U.S. natural gas production, and this share is expected to continue to rise in the coming decades. This increase in domestic production conveys significant economic benefits. First, increased domestic production has led to increased employment; the Secretary of Energy's Advisory Board recently concluded that "well over 200,000 jobs (direct, indirect, and induced) have been created over the last several years by the development of domestic production of shale gas, and tens of thousands more will be created in the future." Second, the price of natural gas has dropped by roughly half since 2008, lowering electricity and heating costs for consumers and businesses, and supporting job growth and general economic activity. Third, the low price of natural gas in the United States has also benefited U.S. firms that use natural gas as an input in production, notably petrochemicals, which have recently increased investments in the United States significantly. Fourth, reducing our reliance on imported natural gas improves our net energy trade balance, and there may also be potential export opportunities for U.S. shale production technology and services.

The development of hydraulic fracturing technology is an example of the type of technological innovation, combining private entrepreneurial ingenuity and risk taking and Government investment in basic research (*e.g.,* Department of Energy investments), that will likely be required for the United States to have strong economic growth going forward.

Q.10. Do you believe the proposed new ozone standards, that were recently withdrawn by the President and EPA, would have created jobs and been a net positive for our economy? If so, please fully discuss the economic theories by which the new standards would have created jobs and been a net positive for the U.S. economy?

A.10. I was not part of the Administration at the time that the ozone standards were being considered, and have not studied this particular issue. Therefore, I am not in a position to render an opinion on this particular regulation.