INTRODUCTORY REMARKS
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Good afternoon! I am pleased to be able to add my own words of welcome to those you heard earlier today from Jack Guynn. We are happy to be hosting this System Business Development Conference and hope you will find your stay here comfortable and the program as stimulating as it would appear to be from a glance at the agenda of speakers. I know you will profit not only from the formal presentations but also through the opportunity to visit among yourselves.

Another reason why it is good for you to get together is to reinforce your confidence in the remarkable way in which you accomplish a tough and often thankless job. Of course, all of us in the U.S. central bank labor in relative obscurity compared to our counterparts in other countries. I find it somewhat ironic that even though the Fed is the single most important central bank in the world, people in this country probably have vaguer ideas about what central banking is than in any other country.

I am always struck when I travel abroad how deferential people are to me. In Great Britain, Germany, and Japan, for example, I am given the kind of reception that is usually reserved for a visiting Senator or Cabinet member. Here at home, though, when people learn you work for the Federal Reserve Bank, it is quite possible that they will ask what interest we charge on 30-year mortgages. It is true that people know at least a little about our monetary policy role--they have heard of Alan Greenspan and the discount rate. But they have almost no awareness of those of you in the Fed's "back office" in spite of the fact that the economy would stop functioning without you. For that reason, you should take a moment to pat each other on the back for your good work as you discuss ways to develop more business opportunities for the future.

As you all know, the notion of "business development" tends to bring out another kind of identity crisis for Fed. We find ourselves being very careful about the words we use to describe what we are doing in encouraging depository institutions to use our services. We have a mandate to be in the market, yet we cannot appear too aggressive. We tread gingerly around the notion of competition, treating even the word "marketing" as if it were taboo.

Such ambiguities come with the turf, of course, as a consequence of our unique blend of public and private elements. Like commercial enterprises in the private sector, we aim for the rewards in market share that come from the kind of efficiency and quality we provide. At the same time, however, we have certain functional and public-policy reasons for being a player in the financial-services market. Sometimes these place constraints on our engaging in all-out competition. Fortunately, the Federal Reserve has a long history of accomplishing such feats of public-private balance. Our efforts to achieve this balance have nurtured one of our greatest strengths--our consistent ability to adapt to changing business and economic conditions. As a basis for assessing the Fed's prospects in the area of business development, therefore, I would like to mention a few elements of our experience that I think will continue to make this flexibility and responsiveness possible.

Adapting to Changing Conditions

Tomorrow is, coincidentally, the 75th anniversary of the opening of all the Federal Reserve Banks. This Bank has recently completed a history of its first 75 years, and as I have read it, I have been struck by the number and magnitude of changes that have taken place at the District level since November 16, 1914. In their early days, the various Feds were primarily sources of liquidity for member banks in their Districts. Rediscounting was their main business, and one for which they competed with other secondary-market investors. At the time, check-clearing activity, which was provided free to member banks, was negligible. The Atlanta Bank, for example, cleared an average of only 400 checks a day during its first year. Bank examinations were even less important.

Obviously, we are a vastly different institution today. Some of the changes in our makeup have occurred gradually. The volume of checks cleared in Atlanta has grown steadily from those 400 daily items to about 2 1/2 million in Atlanta and 10 million all told in our six offices today as the use of demand deposits has increased among the public and more depository institutions have turned to us for collections.

Other changes have been even more dramatic--some would say revolutionary--like those that came with the Banking Acts of 1933 and 1935. The Great Depression made it clear that the U.S. economy needed a mechanism for a national, as opposed to a regional approach to regulating the amount of money and credit available to the economy. These statutes moved control of policy from the District Banks to the FOMC, giving the Board more authority. From that time on, the original rediscounting business of the Banks diminished in importance, although the Regional Banks retain an important role both in monetary policy-making and in supervising the regulatory framework governing the banking industry that was evolved in the 1930s.

More recently, the Monetary Control Act brought no less of a revolution by returning us to the marketplace, this time in financial services rather than in lending. The changes demanded by MCA 80--including establishing prices for our payments services and serving a broader customer base--have been compounded by the astonishing pace of technological advances in the past ten to twenty years. In this environment, the Fed has responded by modifying our equipment as well as our management techniques. In turn, our corporate culture has undergone a major transformation. Our entry into the marketplace led us to raise the level of competition among District Banks as we work to distinguish ourselves within the System. Judging by our experience here in Atlanta, this spirit of intra-System rivalry has encouraged us to evaluate our performance in our other "businesses"--monetary policy and supervision and regulation--as well. While we must guard against carrying standards and measurements to an extreme, I believe we are a better organization for this intensive self-scrutiny we now conduct as a matter of course.

In addition, we have been able to compete almost as fervently as twelve totally separate corporations with individualized goals while still sharing information System-wide and developing new products and strategies as a team. Combined with the sensitivity to customers' needs our 1980s experience has fostered, this System-wide capacity for cooperation and coordination should equip us well for the future, whether by finding new ways to improve delivery of services or inventing new products in response to market demands.

As this historical capsule suggests, our hybrid public-private nature and our decentralized structure have combined to promote competition without sacrificing coordination. I think this combination keeps us well positioned to meet whatever challenges lie ahead in the industry we serve.

Potential Developments in the Financial Services Industry

Your speakers this morning no doubt gave you a good review of factors that will likely influence the financial services industry over time. I would simply like to emphasize the important role I expect further pressures toward both geographic and product deregulation in this country to play in the years ahead. I am sure you are aware that markets for goods and services are becoming global in scope with increasing momentum. Financial services providers, who have been among the first to capitalize on new opportunities in this expanded market, seem certain to become even more active in the global economy in the future.

As our institutions expand their horizons, however, the need to establish full nationwide interstate banking in the U.S. and the elimination of Glass-Steagall restrictions is becoming more essential for their continued competitiveness. I think we will see both these developments in the next decade, and, with them, new implications for Fed operations. Broader geographic and product privileges should allow some of our banks to grow larger. If they do, they might present even stiffer competition than at present for some of our priced services like check-clearing. Larger banks doing a greater volume of business in the global market could also bring increases in the volume and size of transactions over Fedwire with all that implies for payments-system risk. Such demands promise to require still greater operational efficiency and effectiveness from the Fed. In addition, we have heard concerns for some time that, in the age of interstate banking, Federal Reserve District boundaries--and different pricing policies in different Districts--create difficulties for firms whose businesses cross our lines. Already we are experimenting with national account representatives in a few Districts. Another possible offshoot of geographical deregulation may be additional pressures to move to a more standardized pricing structure and even to consolidate some of our technology and operations.

I would like to add that from the perspective of my colleagues at the Conference of Presidents and myself we are keenly interested in the work that is being done in the System in the latter regard. Clearly we get the best results when we take the initiative to assess ways to evolve solutions for potential problems before changes are imposed on us from outside the System. Such outside ideas for changing the Fed's structure have been much in the news lately. As you know, the Conference of Presidents wrote a letter to Representative Stephen Neal of North Carolina supporting the objective of his bill to establish a formal inflation, or, more correctly, non-inflation goal for the Fed. Other proposals have aimed at bringing the Fed more under political control. These include revisiting District boundaries as well as the now withdrawn--and in my view, misguided--notion to place the Treasury Secretary on the F.O.M.C. Of course, it is entirely appropriate that Congress and the public take inventory of what we are doing--as we do ourselves. However, I am concerned that some of these ideas would undermine the objectivity we need to conduct policy and operations in the nation's best interest. Still, I remain optimistic that our strong record of responding to new challenges and remaining accountable to our public mandate over the past 75 years will give us sufficient credibility to maintain the independence we need to function effectively.

Conclusion

Thus, the outlook for business development holds numerous challenges as well as opportunities. We will be called on, no doubt, to expand present activities and create new services. We also face the prospect of heavier loads on our facilities, hence, increased risks, and perhaps greater competition from larger commercial banks. Given our experience over the last 75 years and especially since MCA 80, however, I think we should approach the next decade with the confidence that we will succeed in meeting these challenges as we have in the past. We will succeed because our attitude toward business development derives from our unique institutional structure and our status as an entity that is at once public and private. Working from our traditional combination of competition and cooperation, I am certain we will continue to contribute to making the U.S. payments system the most modern and efficient in the world.