

NEW ENGLAND GOVERNORS CONFERENCE -- REMARKS

LAST WEEK THE BOSTON FED HELD A PRESS CONFERENCE -- SOMETHING I KNOW EACH OF YOU HAS SOME EXPERIENCE WITH -- TO ANNOUNCE THAT I HAD BEEN APPOINTED PRESIDENT. DURING THE QUESTION AND ANSWER SESSION, A REPORTER ASKED ME WHAT IMPACT WOULD I, IN MY NEW JOB, HAVE ON THE LIVES OF THE PEOPLE OF NEW ENGLAND?

THAT QUESTION HAS STUCK IN MY MIND, AND REALLY PROVIDES A PERSPECTIVE ON WHAT MY NEW JOB IS ALL ABOUT.

SO, I'D LIKE TO SPEND JUST A COUPLE OF MINUTES DESCRIBING WHAT THE BOSTON FED DOES THAT AFFECTS THE PEOPLE THAT EACH OF YOU REPRESENT IN YOUR PARTICULAR STATES.

AND I WOULD LIKE TO THEN DISCUSS BRIEFLY HOW I HOPE WE CAN WORK TOGETHER.

a THE FEDERAL RESERVE HAS THREE MAIN FUNCTIONS; WE LIKE TO CALL IT A THREE LEGGED STOOL:

- *Bank affects people in three ways* CONTROL OF THE MONEY SUPPLY *interconnected*
- REGULATION OF BANKS *Supervision & Regulation of Banks*
- OPERATION OF THE PAYMENTS SYSTEM

In fact, these functions are so interconnected we refer to them as a three legged stool.

In the area of Monetary Policy, the Federal Reserve constantly
~~IT IS PRETTY CLEAR HOW THE FIRST ROLE AFFECTS PEOPLE: CONTROLLING~~ *balance*
~~THE MONEY SUPPLY MEANS CONTROLLING INTEREST RATES. THE RECOVERY~~ *the need to*
~~WE ARE NOW EXPERIENCING HAS BEEN AT LEAST PARTIALLY DRIVEN BY THE~~ *Control*
~~ACCOMMODATIVE MONETARY POLICY OVER THE PAST SEVERAL YEARS WHICH~~ *inflation*
~~LED TO SOME OF THE LOWEST LONG-TERM INTEREST RATES IN THE POST-~~ *with the*
~~WAR PERIOD. IN RECENT MONTHS THE FED HAS MOVED TO A MORE NEUTRAL~~ *effect*
~~MONETARY POLICY AS ECONOMIC GROWTH HAS PICKED UP.~~

that higher interest rates have on short-term growth. Inflation hurts low-wage people and destroys the value of savings; lower rates of growth means fewer jobs. Everyone has a stake in how this balance works out.

And here in New England we may have a perspective that is different from the rest of the country. It's up to me to represent the District in national policy setting.

That translates into better credit availability for the small and medium-sized businesses in your States, just where we've been seeing a lot of job growth in recent months.

WITH REGARD TO BANK REGULATION, IN THE RECENT PAST ALL OF US HAVE HAD FRONT ROW SEATS TO SOME OF THE MOST TURBULENT TIMES THE NEW ENGLAND BANKING INDUSTRY HAS EVER SEEN. THE FAILURE OF A LARGE NUMBER OF INSTITUTIONS, THE MERGERS AND ACQUISITIONS THAT HAVE RESHAPED THE INDUSTRY, AND THE MANY CONSUMER ISSUES THAT HAVE ARISEN AND CONTINUE TO ARISE WITHIN THE BANKING INDUSTRY ARE ALL SITUATIONS IN WHICH THE FED IS HEAVILY INVOLVED. FORTUNATELY, TODAY WE ARE LOOKING AT A BANKING INDUSTRY THAT HAS RETURNED TO GOOD HEALTH, AND I AM SURE THAT YOU ARE SEEING THE BENEFITS IN YOUR STATES.

Supervision and

being a lot of job growth in recent months.

provides the map by which

THE THIRD LEG OF THE STOOL IS THE PAYMENTS SYSTEM -- THE BACKBONE OF THE FINANCIAL SYSTEM THAT TRANSPORTS FUNDS FROM BANK TO BANK AND FROM ACCOUNT TO ACCOUNT. I KNOW THAT GOVERNOR SUNDLUN HAD SOME FIRSTHAND EXPERIENCE WITH THE INTRICACIES OF THE PAYMENTS SYSTEM DURING THE RISDIC CRISIS. WITH THE CLOSING OF RHODE ISLAND CREDIT UNIONS, TENS OF THOUSANDS OF CUSTOMERS FACED POTENTIAL DELAYS IN RECEIVING THEIR DIRECT DEPOSIT PAYMENTS INTO

social security and other direct deposits

THEIR ACCOUNTS, AS WELL AS POSSIBLE SHORTAGES OF CASH. BUT WITH THE GOVERNOR'S HELP, THE FED WAS ABLE TO IMPLEMENT SOME EMERGENCY PROCEDURES THAT KEPT THE SYSTEM FROM BREAKING DOWN. CRISIS SITUATIONS ASIDE, CITIZENS HAVE A RIGHT TO EXPECT THAT THEIR BANKING SYSTEM IS DEPENDABLE, AND THAT THE FUNDS THEY DEPOSIT INTO THEIR ACCOUNTS WILL ACTUALLY BE THERE WHEN THE CHECKS THEY WRITE ARE CLEARED. THE PAYMENTS SYSTEM IS THE AREA WHERE I HAVE SPENT THE BULK OF MY CAREER IN THE FEDERAL RESERVE SYSTEM, AND

expect the Boston Fed will continue its leadership in this area.

FOR THIS REASON I HAVE A STRONG APPRECIATION FOR ITS IMPORTANCE IN ADDITION TO EACH OF THESE THREE ROLES, THE FED IS DEEPLY CONCERNED ABOUT THE OVERALL ECONOMY IN NEW ENGLAND. OUR MANDATE IS TO PROMOTE SUSTAINABLE ECONOMIC GROWTH, AND WE PURSUE THAT IN SEVERAL WAYS:

Now I think it's clear that the people in your states will be affected by how The Boston Reserve Bank, and I as its president, do our job.

Looked at another way, if the Federal Reserve is successful at maintaining stable, non-inflationary economic growth, if the banking industry ~~can~~ contributes to the health of our local businesses and communities, and

- OUR RESEARCH CONSTANTLY MONITORS AND CONDUCTS ANALYSIS OF THE REGIONAL ECONOMY.
- WE ARE ACTIVELY ENGAGED IN PROMOTING ECONOMIC DEVELOPMENT BY PROVIDING ANALYSIS AND CONVENING PUBLIC AND PRIVATE PARTICIPANTS IN THE DEVELOPMENT PROCESS
- THE BANK HAS A LONG HISTORY OF CORPORATE CITIZENSHIP AND INVOLVEMENT IN COMMUNITY PROJECTS.

if the plumbing of the PMT system works without fail you job are easier.

~~In that regard, I hope we can reach to you. IF THERE IS ONE THING THAT I CAN COMMUNICATE TO YOU HERE TODAY, IT IS THAT I WOULD LIKE VERY MUCH TO WORK WITH YOU IN THE AREA OF ECONOMIC DEVELOPMENT. THE NEW ENGLAND STATES HAVE UNIQUE OPPORTUNITIES, BOTH INDIVIDUALLY AND COLLECTIVELY.~~

~~IN THE MONTHS AHEAD, I AM PLANNING TO VISIT EACH OF THE NEW ENGLAND STATES TO CONVENE BUSINESS LEADERS TO DISCUSS THE CONDITIONS THEY FACE. IT WOULD BE A TREMENDOUS HELP IF WE COULD WORK WITH YOU AND YOUR ADMINISTRATIONS IN PULLING TOGETHER THESE MEETINGS.~~

next 6 months to a yr.

(meet ~~privately~~ with business leaders to discuss the economic conditions they face. I hope you and your economic development staff will help me with these meetings and that we can develop a permanent liaison. The Boston Reserve Bank is committed to adding value to the communities it serves - not just in the event of crises like RISDIC or the credit crunch - but also over the long run.

the Boston Reserve Bank is successful on these matter of mutual interest.