

Remarks by Cathy E. Minehan  
Community Bank League of New England  
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Good morning. It is a pleasure to be here with you today. I want to thank Don Glass for inviting me to speak with you this morning about my perspectives on the economy and the role of the Boston Federal Reserve Bank. I also want to congratulate you on the formation of the new Community Bank League of New England. As you know, we at the Boston Fed serve all of New England and I have often felt lucky to have a region with such a unique identity and history. I'm sure it will be enormously helpful to community banks throughout New England to have a single organization to work with, thereby leveraging the resources of the entire region.

I am closing in on the completion of my second month since being formally named President of the Federal Reserve Bank of Boston. If you add the three months that I was Acting President, then it totals five months. I prefer to keep it at the two months, though, because that way I can only be blamed for a 50 basis point increase in the federal funds rate rather than 175 basis points if you count the full five months. Given some of the looks I've been getting from my neighbors, believe me, that is an important distinction.

In fact, the thought has occurred to me that maybe I should move into an elderly housing complex -- I might be more popular there.

Despite the looks I'm getting, it really has been a very exciting time to serve on the Federal Open Market Committee. This

has been a period of change and I must say its been enormously instructive for a new comer to monetary policy formation like myself.

Between the spring of 1989 and February of this year, the only monetary policy moves the Fed made were to lower interest rates. That extended period of easing was in response to the cyclical recession of the late 80's and a constellation of factors that collectively had become known as the credit crunch -- increased debt burdens, weakness in underlying collateral, and erosion of bank capital.

Lower interest rates produced a sharp decline in debt service charges to consumers and businesses, and encouraged widespread refinancing and restructuring of debt. The result was an alleviation of the drag on the economy associated with the credit crunch and a stimulus to spending in interest sensitive sectors.

The economy began to expand again. The lowest borrowing rates in a quarter century resulted in soaring housing construction and substantial investment in business equipment in late 1993. Accompanying this improved economic climate was a pronounced recovery by the banking industry and greater availability of credit.

Meanwhile, the inflation rate for 1993 as measured by the consumer price index was 2 and 3/4 percent, the lowest rate of increase since 1986 and reminiscent of the low rates of inflation of the 50's and 60's.

So , if inflation appeared to be well under control for 1993, why did the Fed move to tighten in early 1994? Simply put, the deliberate effort to counter the headwinds that were inhibiting economic growth appeared to have been successful, so there was no longer any purpose in maintaining an accommodative monetary stance. Continuing that

accommodative position would run the risk of rekindling inflationary pressure.

Subsequent tightening actions taken by the FOMC are intended to support sustainable patterns of noninflationary economic growth. The most recent tightening of 50 basis points in both the discount rate and the federal funds rate on August 16 were taken against a background of evidence of continuing strength in the economic expansion and high levels of resource utilization, particularly in labor markets. It may be that this tightening is enough, at least for the time being as more recent data seems to point to a gradual slowing--or as they say a "soft landing" with the economy growing closer to potential.

The New England economy continues to chug along fairly steadily, although some signs suggest that like the U.S. as a

whole the pace may moderate somewhat in the remainder of the year.

Unemployment in the six New England states has bounced around a fair amount lately, but the rate for the New England region was only slightly higher than the national average in August. Services industries continue to account for most of region's employment growth. Among the states, Massachusetts and New Hampshire have shown the fastest job growth in the last 12 months, while Connecticut still shows the weakest job growth. Vermont has also seen only gradual job growth in the last year, but is the closest of the states to reaching its pre-recession job levels, largely because its recession decline was much less severe.

Now let me turn to my own role as President of the Federal Reserve Bank of Boston. As most of you who've read the newspapers know, I am not an economist, though with 20

odd years of Federal Reserve experience behind me I can certainly claim a lot of understanding about how the economy works. No, my experience and training is in the business and payments operations sides of the Fed--one of the three major roles of the Federal Reserve system. I think you can look to me for pragmatic decision-making, based on what I plan to be an intensive interaction with all sectors, and regions, of New England.

In monetary policy, the Boston Fed has maintained a very strong research department with close ties to the academic community in the Boston area and throughout New England. As I'm sure you all know, we have some of the most talented and respected economists in the world in our local universities, and it is my intention to broaden and deepen their interaction with the District's Reserve Bank.

As the First District's representative on the Federal Open

Market Committee, I want to bring to those meetings a clear sense of what is happening economically in New England, based not only on economic data, but also on the experience and day- to- day transactions of the businesses throughout the region. There is no substitute for the firsthand knowledge of those who are engaged in the marketplace each and every day. I plan to visit every state in the region to meet with lenders and business leaders, and I am expanding the Bank's New England Advisory Council to incorporate more views. I will be meeting with bank boards and business associations as often as I can to maintain the most up- to- date assessments from the front lines of our regional economy.

In the area of supervision and regulation, I want to expand the Boston Reserve Bank's contribution to the formulation of national regulatory policy as we take on emerging financial issues. At the moment we are actively involved in the development of policy and procedures dealing with bank

mutual funds, as more banks and consumers are turning to mutual funds as vehicles for retirement savings and education savings. The proliferation of derivatives throughout the financial system has raised a number of important regulatory questions that are being addressed and we are devoting resources to some of those. With the expected passage of interstate banking legislation, we will be increasingly vigilant about mergers and acquisitions strategies as they affect banks in the First District. And we are actively involved at this time in the reformulation of Community Reinvestment Act regulations, an area in which the Boston Fed has gained national prominence for our expertise and research.

Finally, I hope to enhance the understanding and appreciation for the payments system issues that are so critical to the stability of our financial system. For the financial markets to continue to innovate, there must be an unquestioned confidence in the capabilities of the payments system to

process funds quickly and safely. Technological innovation, consolidation of the banking industry, and an increasing focus by banks big and small on back-office efficiency should create demand for increasing efficiency in our nation's payment system. At the Fed, we believe a critical role we can play is to focus industry attention on the kind of payments system this country needs in the future--highly electronic, less expensive with access equitably provided for all banking institutions big and small. The Boston Fed will have a lead role in the further development of the backbone of the financial system.

And perhaps most important of all, I plan to stay in close communication with the customers of the Federal Reserve Bank of Boston, those institutions that we serve on a daily basis through our financial services operations. With new horizons opening in the area of electronic payments that could alter much of the way we do business today, I can think of no

more important relationship for the Fed than the relationship with institutions such as the ones represented at this meeting. Just as your institutions are constantly striving to keep pace with the changing needs of customers and the opportunities created by new technology, so too are we at the Boston Fed striving to deliver financial services to depository institutions in New England that meet the ever evolving environment.

I am eager to work closely with you to meet the challenges ahead, and I am very grateful for the opportunity to speak to you today.