

Women's Economic Round Table

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Thank you Karen. It's hard to believe but just about 17 years ago this past May, a very pregnant Assistant Vice President of the Federal Reserve Bank of New York was showing a similarly pregnant new Fed President around the staid executive floor of 33 Liberty Street. We must have looked pretty strange at that time and in that place. Karen's son was born July 1, mine on June 30. So

there are many ties that bind us, not solely being Reserve Bank Presidents.

I am extremely honored by this wonderful recognition from the Women's Economic Round Table. Many of my personal heroes—Paul Volcker, Alice Rivlin, just to name two—have been honorees, and they are very tough acts to follow. I am close to completing my fifth anniversary as President of the Boston Fed, and that milestone and this honor have prompted me to spend a bit of time in reflection. What can I possibly

share with you about these five years, with all that they have done to expand my own intellectual and public service horizons? I keep coming back to three lessons—(1) do your homework; (2) listen carefully, and (3) don't forget the past. Let me start my short remarks with lesson one.

Do your homework. For a regional Reserve Bank President such as myself that means first and foremost know your District and know it well. The framers of the Federal Reserve Act in the early

years of this century intended this country's central bank to have distributed as well as centralized power. Many aspects of how the System works have changed over the years, but the importance of District leadership and economic input to policy formation remains. That is why in my first couple of years in this job, I spent a tremendous amount of time in ^{District} outreach, giving numerous public appearances for example, as a way of getting to know the issues and concerns of people and

businesses in New England. Thankfully, that pace has tapered off a bit, but keeping up a solid knowledge about District activity remains high on my agenda.

Reserve Banks develop their own cultures over time, not unlike other sizeable organizations. Ours in Boston tends to focus not just on Reserve Bank knowledge of the regional and national economies, bank supervision and payment systems, but on our role as a corporate citizen as well. Thus it was

that my two predecessors established a leadership role for the Bank in private-public efforts aimed at improving public education, and I have tried to follow in their footsteps. This has been an enormous source of satisfaction for me, for in a time of challenge in the Boston public schools we have been able to play a role in identifying new leaders, putting together new programs, measuring results, and demonstrating that student achievement has changed for the better as a result.

Doing your homework also means intensive investigation into how the economy works today and how it might work tomorrow. The Boston Fed has a fine staff of research economists who help me with this, but I must admit the range of uncertainty of late has been considerable. Our forecasts, like those of many others recently, have erred on the side of predicting too little growth, and too much inflation. The economy simply has performed better, grown more and had less price pressure for

longer than we would have thought possible. Are the reasons for this temporary or permanent? Do we have a new economic process at work, that is the result of technologically-driven productivity improvements, or will strains on labor capacity start to bite in the form of rising costs and prices as growth outside the U.S. picks up, much as the standard theories would predict? I must say that not a day goes by without another voice speculating on this subject.

This reminds me of an experience I had this year with my daughter Melissa, who was in her freshman year in college. She took her first course in macroeconomics, and called me to complain about her textbook. I thought I knew what was wrong—not enough real world examples to illustrate the theory. So I sent her my copy of a new book which I think does a good job with examples—and it also comes with a CD ROM for her computer as well as a web site. A day or so later, I ran into another

textbook author, who is often at the Bank, and he was aghast at my selection. He sent her his book complete with CD ROM and web site. So now she had three texts, 2 CD ROMS, and two web sites to consult. The next day I got an email from my daughter. Two words—Mom, enough!!

Second lesson, listen carefully. This is particularly important when attending Open Market Committee meetings. As you all know, every six weeks or so the Committee meets to assess the stance of

monetary policy. The media seems to view this as solely the purview of the Chairman, and certainly the leadership of Paul Volcker and Alan Greenspan have been absolutely vital. But the other members of the Committee—the other Governors and the Reserve Bank Presidents—have an important role to play as well. We must all opine on the state of our regions and the nation, on where the risks to the economy lie, and on what the stance of policy should be, and to do so we have to listen to each

other. There are different economic philosophies represented—the monetarists of the St. Louis Fed for one—and there are different approaches to economic forecasting and different perceptions of the importance and relevance of certain economic data. It's important for people to understand that the Committee's decisions are not preordained. They are made in a process of discussion and debate at the meeting. Clearly, listening carefully is vital.

Finally, don't forget the lessons of the past. Inflation is important, and maybe asset prices are as well. Now I did not have to learn over these 5 years that inflation is to be avoided. I, of course, knew that as a matter of training, and as a citizen living and working in the '70s. It was clear then that high rates of current and expected inflation affected business and personal plans—that almost nothing could be considered or executed without taking expected rates of future inflation into account. That this

was a sizeable deterrent to productive investment goes without saying; that it had enormous economic costs goes without saying as well. So when Chairman Volcker and the FOMC took the courageous steps in the late '70s and early '80s to break the back of inflation, the foundation was laid for the remarkable period of growth and prosperity we have experienced virtually uninterrupted for 17 years. Now the FOMC must continue to ensure that the hard choices made in those years were

not made in vain. One thing about the current state of the U.S. economy is very clear to me; economic growth would not be as strong, productivity would not be as vibrant, nor our competitive strength as real without low rates of inflation. So the premium in my view is on keeping them low.

Which takes me to the issue of asset prices. It is particularly difficult to judge the appropriate level of asset prices, especially in an environment of low inflation. But it is clear that when prices

of assets, particularly broadly held assets like real estate, only seem to go up, imbalances can build and ultimately impact financial health and economic growth. Texas in the '80s, New England in the '90s, and numerous countries in all stages of development offer examples of the problems inherent in asset price inflation. We may not be at that point, but we should not forget the past.

Caution and vigilance are favorite words of central bankers, and they certainly apply here.

In closing, let me put these three lessons in perspective. Most organizations have some way of remembering the CEOs of the past—portraits, perhaps. In our case, a large album is maintained containing studio photos of each President of the Federal Reserve Bank of Boston. At times, when I'm on a long conference call, I thumb through this album, wondering what the rather severe gentlemen from earlier times would think of this newcomer in their midst. But most of all I hope that

**one day they would be as proud to have
me there, as I am proud to follow in their
footsteps.**

Thank you.