

Address by

Frank E. Morris, President
Federal Reserve Bank of Boston

at the

50th Annual Meeting of the Stockholders

Statler-Hilton Hotel
Boston, Massachusetts

October 10, 1974

Welcome to the 50th Annual Stockholders' Meeting of the Federal Reserve Bank of Boston. In the long history of these meetings, this is the first occasion in which the meeting is being held outside the Bank. The reason is that our former auditorium has been converted to a computer room. We will have to hold the meeting outside the Bank again in 1975, but in 1976, it will be held in our new building.

Due to strikes this summer, we are now one month behind our original construction schedule for the new building. We now expect to occupy the low building, which will house all of our high-security functions, toward the end of 1975, and to occupy the tower in the spring of 1976. In the meantime, our pressing need for space has required us to lease space in four other buildings around town and to build a temporary annex to our present building to handle the greatly increased demand for coin and currency. Oddly enough, our need for space has come about primarily through our continually increased space requirements for computers and related equipment, rather than people.

Looking back 30 years, I find that our current employment in Boston is only 18 people higher than it was at the peak of the Bank's World War II employment in July, 1974. It is the computer which has enabled us to handle 30 years of growth without a significant increase in staff. But it is also the computer which has required us to move this meeting to the Statler-Hilton.

1974 has been a year in which great strains have been placed on our financial system. I think it was clear to everyone when we met last year that we could not begin to deal with an inflation that had many sources unless the money supply and bank credit were kept in close check in 1974. I think we have succeeded in our objective. During the first 9 months of 1974, M_1 has grown at about a 4-1/2% rate, with M_2 growing at about a 7% rate. Under normal conditions, these numbers would suggest a moderately expansionary monetary policy, but in the economy of 1974, with the price levels rising at a rate in excess of 10%, these rates of monetary growth have represented perhaps the most restrictive monetary policy of the post-war period.

While the Federal Reserve was committed to a restrictive policy, we were also committed to deal with any severe liquidity problems of the sort which might impair the New England economy. We were geared up, and prepared to use, our emergency lending authority should the need for it arise. But I am happy to say that we have not had to make a single emergency loan in the New England area. This is a tribute to the level of management skills of our New England financial institutions.

In our Bank operations, the major improvements of 1974 have been in the payments mechanism area. They have been expensive improvements to implement but in the long run, we are confident that they are going to result in lower cost service to our members and to the public which the Federal Reserve System serves.

In June, the Boston District Communications Switch for processing Wire Transfer of funds became operational. This has increased our capacity for making such transfers five fold and reduced the time needed for the transfer. Member banks in Boston, Hartford, Springfield, Worcester, Providence, Portland, and Lewiston have begun on-line operations on this system. Other banks will be connected in 1975.

For member banks who don't have the need for direct on-line data communications, we are offering an improved wire transfer facility by telephone.

In July, the Boston Fed's Automated Clearing House facility became operational, processing paperless electronic funds transfers on magnetic tape. Right now, the 90 banks in the Boston metropolitan area have access to the system. By October 31st, an additional 90 banks in Southeastern Massachusetts, Worcester County, Rhode Island and Southeastern New Hampshire will have access.

Last month our ACH facility in Boston was linked to a data transmission terminal in our Windsor Locks, Connecticut office. Through this terminal we will be able to transmit ACH magnetic tapes received there directly to our Boston ACH.

On December 1, 95 additional banks in Connecticut and Western Massachusetts will have access to the ACH via the terminal at Windsor Locks.

At this point, our ACH volume is very small. But we now have 106 banks who are members of the New England Automated Clearing House Association. Through their marketing efforts, we expect to have a significant volume of paperless transfers flowing through this system by the time we meet next year.

Finally, the Northwest New England RCPC--
On September 13, we announced the establishment
of this new service. Operating through facilities
at White River Junction, we can now offer overnight
clearing to banks in Vermont and the northern and
western sections of New Hampshire. With this in
place, we are the first Federal Reserve District to
offer a district-wide RCPC service.

With our data communication and ACH services
operational and the RCPC system now district wide,
we can offer our member banks the most sophisticated
money transfer system in the United States.

Concern over burden of membership in the
Federal Reserve System--