

Remarks to the Headliners Club



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The views expressed are my own and do not necessarily reflect official positions of the Federal Reserve System.

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I am delighted to be here at the Headliners Club and in Austin tonight. It is good to see so many people I have worked with and yet still admire: Frank Gavin and Jim Steinberg are but two. I am delighted and honored that Elspeth Rostow is here. It is even good to see George Shipley.

Coming in from the airport, I actually saw that fabled bumper sticker calling on voters to “Keep Austin Weird.” It reminded me of the old saw that Washington is 10 square miles surrounded by reality. Austin might be justly proud to consider itself 266 square miles surrounded by normality. But I know better. As George is well aware, about the only thing I accomplished when I ran for the U.S. Senate in 1994 was that I managed to have a dip cone in every Dairy Queen in Texas. I know almost every nook and cranny of this state. And I know there is nothing normal about Texas.

Take my wife’s family, for example. Her great-great grandfather was William Miles. He hailed from Nip ’n Tuck, Texas, a little town near what is now Longview in East Texas. He served gallantly in the Mexican Wars and then, after a substantial interlude, joined the 14th Regiment of the Texas Unmounted Cavalry—they had no horses but called themselves “cavalry” nonetheless—and went off to fight for the Confederacy. He had his arm shot off in battle, was discharged and sent home. To get back, he swam across the Mississippi—no small feat for a one-armed man. He is memorialized by the nickname “Sidestroke” in the family annals. Old William Miles walked back to Nip ’n Tuck and became a dirt farmer.

He was a tough old bird. Having come home from the “War of Northern Aggression,” he could not afford a mule, so he hitched a plow to his six daughters—there was a seventh but she got smart, married a Yankee and was promptly disowned. William Miles never spent a dime; he saved every penny he earned and prospered handsomely. He died in 1910. His will instructed an executor to auction off all he had accumulated—his house, his equipment, everything but his remaining daughters—so his net worth could be calculated in hard currency.

All this is captured on his tombstone in the Gum Springs graveyard near Longview. His stone records the dates of his and Nancy Miles’ births and deaths, and the dates of his service in both the Army of the U.S.A. and the Army of Jefferson Davis. On the back of the stone, for all the world to see, are carved the words “Value of my estate \$44, 378.34.” That’s roughly \$956,000 in today’s dollars. That’s the good news. He died a rich man. The bad news is that his will required his daughters to buy everything back that was sold in his estate sale.

You cannot tell me that Austin has a corner on the market for being “weird.”

Every now and then, I like to pick up T. R. Fehrenbach’s wonderful little tome *The Seven Keys to Texas*. It contains keen insights about our culture, even if he was a Princetonian and it was written in 1983. One of his essential points captures the bottom line of iconic Texas characters like William Miles. If memory serves—and I am paraphrasing here—Fehrenbach argued that the rest of the country used to be characterized by faceless men running big organizations, whereas Texas was operated by big men running faceless organizations. Update this for gender, and I

think the remnants of that culture still remain, embodied in people like Ann Richards, Jim Baker, Bob Bullock, Lyndon Johnson, Elspeth Rostow and countless others, past and present, in the public and private sectors, in arts and academia and elsewhere. Many of them may be a bit too strong for some and a little quirky for outside observers, but they embody a spirit that is uniquely and beautifully Texan.

Fehrenbach defined Texas as a state of mind. As his book jacket noted, it may not be an entirely rational state of mind, but it sure as heck works. It is what makes Texas so fantastic. It forms the cultural yeast that makes for a vital and vibrant economic engine.

And vibrant it is.

In 2005, Texas generated more than \$1 trillion in output. Measured in dollars, it is more than Brazil produced and a smidge less than Canada did. It is 25 percent more than India produced. Imagine that. The 24 million people of the Lone Star State produced \$200 billion more in output than the 1.1 billion people of India.

We export more than California. We manufacture more than New York. We have more Fortune 500 companies headquartered here than either of them.

Last year, employment grew twice as fast in Texas as it did in the rest of the United States. Construction payrolls grew at five times the U.S. rate. We added 26,000 net new factory jobs in 2006, while the nation's manufacturers posted an overall loss of 110,300 jobs. The energy sector grew its workforce by over 13 percent, well outpacing the rest of the country's 7.5 percent rate. Our energy sector still only employs about 2 percent of our workforce. Texas excels at the high-value-added end of the equation: Our output per worker in computers and electronics has overtaken California's.

With the nation's economic growth slowing, you would expect ours to tamp down a bit. Yet our latest Texas Manufacturing Outlook Survey, released yesterday, showed that momentum is continuing to build in Texas factories and that businesses headquartered here remain optimistic about the future.

In December, the state's unemployment rate was 4.5 percent, the lowest it has been since 1982. Employment is robust in Texas. And it will remain so, assuming the Perez sisters and the good people who work at Las Manitas—in my book the best eatery west of the Maginot Line—continue operating.

At last count, the state's population grew by more than 579,000 souls in a year. That's 65 percent of a Detroit, three-quarters of a San Francisco, almost the entire population of Minneapolis and St. Paul combined, an entire Denver, a Kansas City, a Boston proper, a Washington, D.C., and more than the entire population of functioning OU alumni. In one year. And yet we created enough jobs to bring unemployment down to 4.5 percent.

We are blessed with being participants in a remarkable economic machine. So, what role do the 1,300 employees at the Federal Reserve Bank of Dallas and its branches in Houston, San Antonio and El Paso play in all this?

First, we run a business that keeps the payments system and our district's banks working to meet the needs of our citizens. We pump money through the veins and capillaries of Texas' cardiovascular system, so that her economic muscles can flex and grow.

Last year, the Dallas Fed processed 940 million paper checks worth over \$1 trillion. We processed more than 700,000 electronic checks per day.

Also, 6.1 billion banknotes—ones, twos, fives, tens, twenties, fifties and hundreds—passed through our vaults and onward to banks and ATMs last year. That's \$105 billion in cash. The notes are scanned by machines that sort 90,000 of them a minute and pluck out \$517 million worth of worn currency each month for shredding.

A dollar bill, by the way, costs 5.4 cents to make at the Bureau of Engraving and Printing. It lasts 18 months before we shred it and send it to money heaven. A \$20 bill lasts four years. A \$100 bill lasts nine years.

We store all those bills in our five-story-deep vault under the 1,204,000 square feet that is the footprint of our Dallas property and in the newly constructed vault in Houston. And we handle a lot of coins. If you ever need to wash your car or do your laundry, call me. We have some 209 million quarters in our vaults.

In addition to processing checks and cash, the Dallas Fed supervises and regulates 38 state member banks, 450 bank holding companies, and 29 agencies and representative offices of foreign banking organizations in our district. Our bank "sup and reg" people in Dallas are some of the most experienced in the nation. You know why, if you have even a modicum of memory of the banking debacle of the 1980s.

One of the best folkloric moments in Fed history came about when my predecessor two iterations ago, a wonderful man named Bob Boykin, told then Fed Chairman Paul Volcker of the massive excavation taking place in Dallas for building the Crescent Court complex. "Mr. Chairman," Bob said, "in Dallas, we have just dug the deepest hole in American history." To which Volcker responded: "Literally or figuratively?"

In addition to feeding the payments system and making sure the banking system is sound, we work hard to promote financial literacy in our district, conducting workshops for high school teachers and educators and supplying straightforward reading and interactive materials with titles like *Building Wealth*, so that Texans will be better equipped to manage, safeguard and grow their money. We also expend a great deal of effort promoting and encouraging community development throughout our district.

And we conduct research on the U.S. economy and on the effects of globalization on the gearing of the economy and its consequences for monetary policy. Our researchers make up one of the nation's finest in-house teams of economists, a team that includes Finn Kydland, the 2004 Nobel Prize-winning economist who has been an associate of our Bank for some 14 years now.

We run these business lines at a cost that is less than what we earn in fees and on our allocation of the returns on the \$35 billion in assets on our balance sheet. You are looking at one of the few people on the planet—there are 12 such men and women serving as presidents of the Federal

Reserve Banks scattered around the nation—who is privileged to run a government business that handed over \$1 billion to the U.S. Treasury last year after covering our expenses and paying dividends to our shareholders.

Of course, the sexiest part of what we do—judging by the amount of voyeurism it incites in the press corps, bloggers and other observers—is the policymaking process. As I mentioned, there are 12 Federal Reserve Banks. Eight times a year, we sit at a table with the seven governors of the Federal Reserve System in what is called the Federal Open Market Committee, or FOMC. That is where the base interest rate—the federal funds rate—is chosen and where monetary policy is set. It is done by consensus, with each participant taking part in a discussion presided over by the chairman, Ben Bernanke, who is as good and fair and smart a man as I have had the pleasure to know.

Each person at the table, starting with the 12 Reserve Bank presidents, is called on to give his or her view of the economy from their various perches. Then another round ensues, and each is asked for a recommended policy course of action: Should we hold rates steady or raise or lower them, and why? We debate language for a written statement that expresses the committee's view. And then a tally of the preferences of the voting members is taken, and the deed is done. The vote and the statement on the vote are released by 2:15 in the afternoon.

What guides us in those discussions? An earnest intention to deliver on our congressional mandate to conduct monetary policy so as to provide sustainable noninflationary employment growth.

Of course, some people cast negative aspersions on the Fed. They think we are a collective of sourpusses who get some perverse pleasure out of being tight with money, like old William Miles was.

One of our fabled chairmen, William McChesney Martin, addressed this perception when he was nominated on the Alfalfa Party ticket to run for the presidency of the United States.

Some of you may not know about this group. It is a club that meets once a year in Washington to drink and be merry, so called because the alfalfa plant will drink anything, anywhere. They nominate a presidential candidate every time they meet, who, without having to wait for the inevitable outcome, is immediately inducted into the Harold Stassen Society—a tribute to the perfect presidential election record of Mr. Stassen. Candidates are expected to live up to the motto “Veni, Vidi, Defici”: I came, I saw, I lost—kind of like my Senate experience. Some great Texans have headed up the Alfalfa ticket. Among them were John Connally, Bob Strauss, Lloyd Bentsen, and both Bush “41” and “43,” well before they were elected president in the real deal.

This year, it was a former cowgirl named Sandra Day O'Connor. In 1966, it was Bill Martin, who had been chairman of the Federal Reserve System for 15 years by then, who received the Alfalfa nomination.

In his acceptance speech, which is on file at the LBJ Library by the way, Martin said that as Federal Reserve chairman he had long taken his cues from the German philosopher Goethe, who, he pointed out, said that “people could endure anything except continual prosperity.” Therefore,

Martin announced, if he were to adopt a political platform as a presidential candidate, he planned to “make life endurable again, by stamping out prosperity.”

“I shall conduct the administration of the country,” Martin said, “exactly as I have so successfully conducted the affairs of the Federal Reserve. To that end, I shall assemble the best brains that can be found at home and abroad, ask their advice...and completely confound them by following all their conflicting counsel.... I say to you that America is at the crossroads. And I shall do everything I can to keep it there.”

I assure you that those of us who have the privilege of providing “conflicting counsel” at the FOMC table, including yours truly, have no desire to keep our economy “at the crossroads.” Day in, day out, we strive to keep it moving, faithful to our dual mandate, so that we might engender prosperity both for Texas and for the nation.

With that, I rest my case. I thank you for the dinner and drinks you are about to serve. And I conclude with a quote from John O’Connor, Justice O’Connor’s husband, who once reminded me, “You need not drink to enjoy yourself, but why take the risk?”