Speeches by Bob McTeer

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If yesterday hadn't happened, I might have opened today by saying what a difference a year makes. But yesterday did happen. What a difference a day makes!

Preparing remarks on the economy this morning seemed inappropriate. The economy is important, but not that important. It's way down on the list today.

Let me begin with the mundane—some housekeeping details. The Federal Reserve System—all 12 Federal Reserve Banks, 25 branches and the Board of Governors in Washington—is fully functional. That includes the New York Fed, which was just around the corner. It did lose some power, but its backup generators and systems are working.

Cash remains available to the public through the banking system, which is open. There is no shortage of cash and no reason to expect any. Fedwire, our facility for the electronic transfer of funds and securities, is operational. The ACH payments system is working. For the nonbankers, ACH stands for automated clearinghouse transactions. Closed airports will delay the physical transportation of paper checks somewhat, but that should not be a problem for the public since we are giving credit for checks deposited with us based on normal schedules rather than actual physical delivery. It will be a temporary problem for the Fed, but not for the public.

Our discount window is open and available to provide liquidity to the banking and financial system as needed.

To summarize, there is no reason to expect the direct damage done to the financial infrastructure in New York to be compounded by secondary glitches in the payments system or the banking system. The Fed will do everything it can to keep the plumbing of the payments system running.

On a personal note, our director of research, Harvey Rosenblum, was in a meeting in the World Trade Center Marriott when the first plane hit. He's okay. He was attending a conference of the National Association of Business Economics. Shortly after the first impact, firemen came and cleared the room, just in time. Many of the country's top economists were spared. On any other day, I would probably make a joke about that. Maybe later.

By the way, yesterday at lunch, Harvey was to be designated the new president of that group—the National Association of Business Economics. He's assumed the reins anyway and is hiding out somewhere in New Jersey this morning.☺

Another personal note: Yesterday was Marci Rossell's first day on the job as CNBC's economist. What a first day. Marci is a special friend of mine. She's a former economist at the Dallas Fed who got her Ph.D. in economics from SMU. Two weeks ago she worked for Oppenheimer Funds—in the World Trade Center.

Ironically, we at the Dallas Fed were hosting a group of high school students at breakfast yesterday, under the sponsorship of the city's Office of International Affairs as part of its pilot international education program. My assignment—as the breakfast keynote speaker—was to convince them of the importance of things international, including international trade, travel and international business. I think they may have learned something about the importance of international issues.

Obviously, it's far too early to assess the macroeconomic impact of yesterday's events. The impact is yet to be determined. It won't depend on what has happened as much as on how we react to what has happened. Whatever the impact, it is not yet baked into the cake. In that regard, I might just remind you of a line in the president's address to the nation last night:

"The economy is open for business."

While yesterday's events are unique, history suggests that initial adverse market reactions to crises tend to be short-

lived. They are usually reversed or partially reversed within a few days. The closure of most U.S. financial markets yesterday and today should help make that process as orderly as possible.

The economy, as everyone knows, was weak, even before yesterday. The slowdown began in last year's third quarter and became more pronounced at year-end. So we've now had a year of sluggish growth, below potential. Until last week, the unemployment rate had remained surprisingly favorable, having increased from 30-year lows of 3.9 to 4 percent to only 4.5 percent.

The increase in unemployment in August announced last Friday should not be considered a worsening of the situation, in my opinion. Rather, it was largely a catch-up of the household survey of employment to the payroll survey. The numbers up to that point were too good to be true. Unemployment is a lagging indicator rather than a coincident indicator or a leading indicator of economic activity. The strong market reaction to that number was—in my opinion—a double counting of bad news.

The forecasting group within the NABE organization of economists that I mentioned earlier had reduced their collective forecast of the economy this year before yesterday's events. They reduced it, but it remained positive. Hence, before yesterday, at least, they were not expecting the U.S. economy to slip into recession.

Let me mention another conference of economists that I attended recently—the Jackson Hole conference sponsored by the Kansas City Fed. Given its location, it attracts the top economists in the world and a good many central bankers as well.

These heavyweight economists are smart enough to understand the limitations of short-term economic forecasting, so there was very little discussion of when the current slowdown might end or how strong the recovery is likely to be when it begins. Instead, they focused on longer term issues.

The theme this year was the new information economy and whether the increase in productivity that made the economy so favorable was likely to resume. Their collective viewpoint on that score was very positive—especially so since they come from universities that don't have good football teams. The kick-off speaker, for example, was Larry Summers, former treasury secretary and now president of Harvard.

Larry and most others, I think, felt that high productivity growth would resume once the slowdown is behind us. Perhaps not the heady growth rates of the latter half of the 1990s, but certainly growth rates well beyond the anemic growth rates of the early 1970s to the mid-1990s.

That was especially gratifying to me because I and the Dallas Fed have been among the most vocal cheerleaders for the New Economy. I personally have been out on a new-paradigm limb. It is good to be joined in my views—watered down just a little bit—by such distinguished company. Maybe we can have a coalition between universities that don't have good football teams and those that do—usually.

I am somewhat concerned, however, that all these heavyweights out on a limb with me may cause it to break off. That would not be pretty.

A note of caution at this heavyweight conference was expressed, however, by Alice Rivlin—former head of the Congressional Budget Office, former head of OMB and former vice chair of the Board of Governors of the Fed. Alice is a heavyweight herself, although she probably weighs about 95 pounds.

Alice didn't necessarily disagree with the optimism expressed, but she did say that most of it was based on hunches and hopes. That's true. But I, too, have a hunch that we're going to be all right. We all hope so.

Thank you. And God bless America!