SPEECH

Introductory Remarks at the Museum of American Finance "The Fed at 100" Exhibit

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Remarks at the Museum of American Finance, New York City

Thank you all for being here to commemorate the opening of the centennial exhibit for the Federal Reserve System and the Federal Reserve Bank of New York at the Museum of American Finance, just a few blocks from the New York Fed's landmark head office at 33 Liberty Street. I would like to say thank you to our friends at the Museum for their work and interest in the Fed and for supporting us in organizing this event.

Before making some brief remarks about the centennial, I would also like to acknowledge some of the people in attendance tonight. We have two former New York Fed presidents here this evening: Jerry Corrigan and Bill McDonough.

I met Jerry, the seventh president of the Bank, when I was still wet behind the ears. I was just out of graduate school at the Board of Governors in Washington, but Jerry was already a force to be reckoned with and a part of Paul Volcker's inner circle. Jerry's tenure as president had many memorable moments, including the October 1987 stock market "break". Jerry, of course, was instrumental in working with then Chairman Alan Greenspan in devising a response to provide liquidity to the market, and an episode that could have ended in financial crisis soon passed. Jerry also tackled many other difficult issues during his tenure, including the Latin-American debt crisis and the development of the first Basel accord.

We also have Bill McDonough, the eighth president of the Bank, who built on the accomplishments of Jerry's tenure, and made great strides in connecting the New York Fed to the broader region. At the same time, he helped ensure that the Federal Reserve was prepared to face new, salient challenges presented by developments in the global economic and financial landscape. During his tenure, the city, the country and the Bank experienced a very significant crisis on September 11, 2001. Under Bill's leadership, New York Fed staff worked tirelessly on Liberty Street, supporting the efforts of first responders, while ensuring that financial markets continued to operate and serve their vital function in the U.S. and global economy.

A number of the members of our Board of Directors, including Chairwoman Rafferty, are with us, as is one of the Federal Reserve's friends from the international central banking community: Mervyn King, the recent head of the Bank of England. Mervyn and his wife recently moved to New York City, so we should extend a warm welcome to them. For Mervyn, I am guessing that one hundred years may not seem like a long time, given that the Bank of England is over 300 years old, but I am sure he will graciously allow us our moment. We are also joined by many other friends and associates of the New York Fed, and a great number of our current and former staff.

For 100 years the Federal Reserve has been an essential contributor to American economic prosperity and stability and that record is reflected in this fascinating exhibit. Rather than focus on its achievements during my brief remarks this evening, I thought I'd highlight what I think makes the institution that I have the honor of leading, the New York Fed, such a remarkable place within this extraordinary System.

First, we are a bank within government. That means we not only have researchers, supervisors and market analysts, but we also provide banking services and possess significant operational capabilities. We accept deposits, make loans and operate the System Open Market Account for the Federal Open Market Committee. When exigent and unusual circumstances require extraordinary operations, be it in a financial crisis or to implement unconventional monetary policies, we stand ready. Our operational capabilities complement our more conventional central bank policy role in a way that is, I think, very special within the Federal Reserve System.

Second, the New York Fed is a vital component of the international role played by the Federal Reserve System. This can be seen in our Central Bank International Account Services, where we have more than $3 trillion in foreign assets under our management. Some of those assets glisten on the bedrock of Manhattan. The gold vault at 33 Liberty Street remains the world's largest depository of monetary gold held on behalf of foreign governments, central banks and official international organizations. This international orientation was also very much in evidence during the crisis as we negotiated foreign exchange swap agreements with a number of foreign central banks and then operationalized the provision of dollar liquidity worldwide through a coordinated system of dollar auctions.

Third, and perhaps most importantly, we have an unusually talented and dedicated group of people working at the Bank who are committed to promoting the mission of the institution and serving the public interest. While we may not, on occasion, be as nimble as we might like, the attitude of our staff is to always find a way, to do whatever it takes (within the law and the scope of our responsibilities, of course), and to not rest until we have come up with the best plan of action. That attitude was most clearly and publicly evident during the Bank's response to the financial crisis, where we played a critical role within the System in preventing a financial panic from turning into a world-wide depression. We continue to display that spirit each and every day at the Bank.

And it is that attitude, ability and esprit de corps that will no doubt allow us and the System to meet the important challenges on the road ahead. I will focus briefly on a few such challenges:

The first will be on the monetary policy front. The Federal Reserve has engaged in a set of unconventional monetary policies in recent years. These policies have been necessary because the FOMC could not ease monetary policy further by conventional means—the federal funds rate was constrained by the so-called "zero lower bound". Exit from these unconventional set of policies is certainly feasible—the ability to pay interest on excess reserves gives us a viable tool to manage monetary policy even with an enlarged balance sheet, and the New York Fed is prepared to execute on this mission, as we always are. But we do have to be a bit humble about what we don't know. There will undoubtedly be communications and operational challenges and unexpected consequences. We will need to be sufficiently agile so that we can best achieve our dual mandate of maximum sustainable employment in the context of price stability.

The second challenge for us at the New York Fed, and within the regulatory community more generally, will be in staying the course and implementing a regulatory regime in which no institutions are "too big to fail" (TBTF). TBTF is wrong for several reasons. It creates an unfair disparity between large and small institutions. In addition to being unfair, it creates greater risks to financial stability by encouraging greater size and complexity. We have made considerable progress toward ending TBTF—raising capital and liquidity requirements for the largest, most systemic banks—but there is a ways to go. In particular, to paraphrase former New York Fed President Tim Geithner, while the single point of entry concept "beats no plan", significant barriers to achieving a cross border resolution remain, and there are still insufficient incentives in place for firms to take corrective actions early on to prevent their failure in the first place.

The third challenge for the Federal Reserve is to put financial stability on par with monetary policy. As our experience from 2007 to 2009 has demonstrated, monetary policy cannot work properly when there is financial instability. When financial instability occurs, it disturbs market functioning and can impair bank balance sheets in a way that disrupts their financial intermediation function, constraining the availability of credit for households and businesses. This, in turn, can lead to further reductions in aggregate demand that put additional stress on the weakened financial system. Financial stability cannot be subordinated to any other priority.

The fourth challenge is to sustain and enhance the capabilities of the New York Fed. This starts most obviously in continuing to attract, develop and retain the best people. But it also extends to tending to the so-called culture of the institution—for example, ensuring that good ideas rise to the top no matter where they originate, and that people feel comfortable to challenge the conventional wisdom.

These challenges are energizing, and that's why being president of the New York Fed is the greatest job in the world. And I am confident that, because of the talent and dedication of our staff, the New York Fed will succeed in surmounting the challenges it faces now and will face over the next 100 years.

And to drive home the point of our staff's dedication, I would like to highlight the efforts of one person, Rosemary Lazenby, who has made this exhibit possible. Rosemary is the longest tenured employee at the Bank—55 years—she is our resident historian and curator and she has delayed her retirement in order to develop this centennial exhibit. Her efforts are just another example of what really glistens at 33 Liberty Street (and I am not referring to the gold in our vault). Thank you Rosemary, and thank you all for coming out this this evening to enjoy the centennial exhibit.