Remarks by
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Chairman
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before the
American Bankers Association’s
Virtual Annual Convention

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I am pleased to speak once again to an American Bankers Association
convention. This conference was rescheduled in respect for the loss of our colleagues
and fellow citizens in the tragedy of September 11. But the fact that the conference is
going forward in cyberspace is a testimony to American perseverance, to our technology,
and to our flexibility. It is a metaphor for the ability of our economy to circumvent
difficulties and innovate around obstacles and--most of all--for our decentralized and
diversified economic structure.

Our financial system has exactly such a structure. It still has thousands of banks,
with hundreds of foreign competitors, including some of the largest banks in the world.
In addition, market developments, regulatory relief, and, most recently, legislative reform
have ensured that the banks, the insurance companies, the securities firms, the finance
companies, and the host of other participants, from pension funds to hedge funds and
from trusts to mutual funds, are all, in effect, in each other’s business. And this listing
does not even take into account a capital market where lenders and borrowers deal
directly and where increasingly the instruments and risks originated by financial
intermediaries come to rest.

These activities could be done much more efficiently in a technology sense by far
fewer entities, but our seemingly crazy quilt structure creates a different kind of
efficiency--one that emphasizes constant cost minimization, innovation, and flexibility.
And that is exactly what we saw a couple of weeks ago, when literally within hours of the
attack on the World Trade Center--with many of the participants still grieving and with
the loss of extraordinary personnel and resources--our financial system was finding ways
to return to operation.
Some examples will clarify this creativity of our system. With borrowers and lenders uncertain whether the financial markets were open and with communications among issuers, their banks, and the settlement system impaired, there were difficulties in rolling over maturing commercial paper. The resulting shortfalls in the coverage of billions of dollars of maturing paper were managed by rolling fails into the next day’s settlement or by drawing on bank lines, causing bank assets to balloon for a few days. Similarly, disruptions in the connectivity of communication lines and the shift to backup sites caused delays in payments and settlements, with billions in funds building up at a small number of participants unable to send out funds covered by similar amounts of Federal Reserve open market operations, overdrafts, and loans to those who could not receive. To facilitate the channeling of dollar liquidity to foreign financial institutions operating in the United States and to meet all appropriate demands for dollar liquidity, thirty-day currency swap lines were arranged with major central banks, again in record volume. Fed and bank balance sheets ballooned with the maldistribution of reserves, and domestic and foreign operations, but there was no fear of either credit or liquidity risk. Fed funds borrowers and lenders, forced to deal directly because brokers were temporarily unavailable, quickly reached agreements to trade at the targeted federal funds rate. Similarly, in response to losses of personnel and equipment at some participants, dealers agreed voluntarily to extend settlement in the Treasury market to T+5. Crucially, lenders--banks in particular--stepped up to meet their commitments, real and implied, to avoid the disruptions that were a large part of the terrorists’ objective.

The list of adjustments and innovations goes on and on. But the point is clear that we are blessed with a financial system that is creative, that is flexible, that is innovative.
Banks—including the central bank—were there when they were needed and did what was required with dispatch. We should be proud of the banking system’s role in minimizing the economic fallout of that tragic day.