A Bank
A Man
A Region

Federal Reserve Bank of Boston
Front cover and this page: Federal Reserve Bank building, completed in 1953 and occupied until 1977, featured large doors with a bronze seal of each New England state. A stone eagle soared high above the doors at roof height.
On a Brilliant Autumn Morning

In 1997, air as crisp as a New England apple, sun rising directly out of Boston Harbor, Federal Reserve President Cathy Minehan and a staff member were stuck in traffic on their way to an early meeting when the car phone rang. They both knew it was Eddie.

Although it was early, Eddie McCarthy, known to his colleagues as the Boston Fed's "eyes and ears" on the financial markets, had already been on the phone at his Milton home for more than an hour. He had just received word from a New York source that the previous day's half-point uptick on the Tokyo stock exchange was being viewed positively by movers and shakers on the Street.

Even though he had called 15 minutes earlier with information from the Street about the direction of municipal bond prices, Eddie was sure Minehan would be grateful for this additional information. The Federal Reserve President, after all, should not be blindsided by events on Wall Street. Minehan took the call with pleasure.

Today, Edward J. McCarthy, retired for close to 21 years after a 47-year career with the Boston Fed, still has his finger on the pulse of the world's financial markets. And as a part-time consultant to the Boston Fed's President, Eddie, as he is called by Bank colleagues of every rank, still faces each day with the same enthusiasm he brought to the Fed's Pearl Street office his first day on the job 69 years earlier, June 21, 1929.
Forced to drop out of Boston University at age 19 when his father lost his job, Eddie accepted a position at the Boston Fed as a messenger. His salary was $600 a year, and he was glad to have it. "It was a great chance," recalls Eddie from a distance of more than three score years. "Graduates from Harvard and Yale and Dartmouth were usually the ones who got those jobs."

Now age 88, and still as lean as many 19-year-olds, Eddie works reduced hours, two days each week in the office and the rest of the time on his phone at home. For most of the 47 years between his first day in 1929 and his retirement in 1976, he worked in the Fed's Loan and Credit Department, where he earned a reputation as the Boston Fed's resident expert on the arcane reserve requirements that member banks must meet.

As part of his duties in Loan and Credit, Eddie was called upon to serve as an intermediary between smaller member banks and sophisticated bond dealers in the purchase and sale of government securities. It was here that his talent for making friends served everyone well. Before long, Eddie was able to build relationships of mutual trust and respect with many of the key players in the world's financial markets. Over the years, their willingness to call him with thoughts on market conditions and to alert him to coming events would prove invaluable.

"It's important to know what the Street view is," said a Boston Fed executive who worked with Eddie for almost two decades. "We wanted to know what people [on Wall Street] were looking at because we didn't want the Fed's actions undone by the market if it could be avoided. It was a sensitive task, and Eddie handled it with tact."

The story of Eddie's career with the Federal Reserve Bank of Boston is as unique as the Bank's relationship with New England, the region it represents. Over a period of almost seven decades, a time that has included some of the most severe social and economic upheavals in the country's and the region's history, Eddie has witnessed firsthand the interaction between the institution and the district it serves.
THE EARLY YEARS

Trading phone calls with Wall Street financiers was not even a distant vision on that June day in 1929 when Eddie took up his job as a messenger. Perched behind a desk at the entrance to the Boston Fed's ornate but solid financial district headquarters, Eddie could not predict where his new work would lead. For that matter, in those early days, just 15 years after the signing of the Federal Reserve Act, it was difficult to see what lay ahead for the Boston Fed itself.

Along with the 11 other newly minted Reserve Banks, the Boston Fed opened for business on November 16, 1914, but its precise role on either the regional or the national stage was far from certain. In the spring of 1914, when the Federal Reserve Organization Committee announced the names of the 12 cities selected as regional Reserve Bank sites, critics howled over the apparent arbitrariness of some of the choices. Why two Banks in Missouri? Why Richmond and not Baltimore? Why not Cincinnati or Pittsburgh instead of Cleveland? For that matter, why not create one huge Bank in New York City with branches in Boston and Philadelphia?

Many prominent bankers argued for one mega-bank based in New York City, the nation's undisputed financial capital. But when that idea was scrapped in favor of 12 regional banks of roughly the same size, few questioned Boston's place in the group. When the Federal Reserve Organization Committee opened hearings in Boston in January 1914, local bankers were joined by leaders from New England's business, political, and academic communities in staking the region's claim to a bank of its own.

Even bankers who once favored the concept of a large central bank now had a change of heart. Moved by local pride and the belief that the region had unique financial problems best handled locally, New England's leading bankers argued forcefully for a regional Reserve Bank in Boston.

"If Boston were in the New York District, we should have a larger and better bank to rely on in time of stress," a director of one of Boston's major banks testified. "On the other hand,"

1914
The Boston Fed opened for business on November 16, 1914.
Boston's Financial district in 1916.
he said, showing remarkable prescience, "a local bank, even if not so strong, would perhaps be better acquainted with local matters and local credits, and would be more interested in helping out with local difficulties, and so might be just as useful as a stronger bank not so intimately connected with Boston."

The close connection between the region's bankers and its business, educational, and political components was emphasized in testimony by, among others, representatives of the Boston Chamber of Commerce and Harvard University. This display of unity among diverse segments of the community convinced the organizing committee that New England, with Boston as its hub, exhibited both the financial concentration and the geographical integrity to warrant a Federal Reserve Bank.

New England is one of the few multistate regions in the country, the organization committee was told, in which the residents of one state consider their economic affairs to be entwined with those of other states in the region. This unity is due in part to New England's geographical isolation and shared history in the formative events of the nation. But equally important, insisted those promoting Boston's case, financial relationships between New England's banking, mercantile, and industrial enterprises — some of them in place for more than two centuries — provide a binding economic foundation for the entire region.

Thus, a decision was made to place a Federal Reserve Bank in Boston and to have it serve the six New England states — Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont. Two years later, in 1916, a small change was made. The Federal Reserve Board moved Fairfield County, Connecticut, which borders New York, from the Boston District to the New York District. There was little opposition to the move since Fairfield County had always identified more closely with New York than Boston, and the adjustment was considered by most to be a logical redrawing of the financial map. The remainder of Connecticut, united with the other five New England states, made Federal Reserve District One among the most tightly knit,
economically interrelated, and philosophically compatible districts in the entire system.

Exactly what effect New England's unity would have on the Boston Fed's operations, and vice versa, was far from clear. In the coming years, the fledging Federal Reserve Bank of Boston, like most regional Reserve Banks, would struggle to find a proper balance between its role as a functioning arm of a national banking system and an active participant in the regional economy. Eventually, however, economic events and growing confidence in the Federal Reserve System would involve the Boston Fed deeply in New England's commercial, and at times, social development.

GETTING UP TO SPEED

During the early years of operation, the Boston Fed, like the Federal Reserve System in general, moved slowly. A clear mandate of the Federal Reserve Act was the creation of a central bank that would support, and improve, the nation's privately owned, profit-oriented, highly competitive commercial banking system.

But the Reserve Act recognized that the banking system strongly influences the nation's social structure and the financial security of its citizens. The framers of the Reserve Act created a System that would come to serve a unique role in American public life: on the one hand, promoting a free and aggressive economic system, geared toward innovation and expansion, and, on the other hand, guarding against harmful excesses that might be caused by overly rapid growth, excessive risk taking, and other destabilizing influences.

During the 1920s, the Federal Reserve System proved more adept at the former role than the latter. It supplied the liquidity American industry was clamoring for, but it could not control speculative investments that, among other factors, led the economy into a disastrous downturn.

Following the stock market collapse in 1929, the country entered into the most severe recession in its history. As banks failed and unemployment rose, the Federal Reserve System was reorga-
First building of Federal Reserve Bank of Boston was under construction from 1920 to 1922.
nized through legislative change to enable it to function more effectively in influencing the economy. In a significant organizational and symbolic adjustment, the site of monetary policy meetings was shifted from New York City to Washington, D.C.

A legal limit on the Fed's ability to ease credit was also addressed through legislative change. The Glass-Steagall Act of 1932 permitted the Reserve Banks to use government securities as partial backing for currency issues. Previously, only gold and "eligible paper" could be used, and this was sometimes too restrictive. The Act also let the Reserve Banks make loans to member banks on any security the Reserve Banks considered satisfactory. In unusual circumstances, the Banks could even make loans to nonbank borrowers.

By 1933, when Eddie McCarthy was well into his fourth year at the Boston Fed, the Bank was in a reactive mode, trying to cope with the fallout from a spate of bank failures and near-failures caused by runs on banks by their depositors. The governor of Massachusetts declared a bank holiday on Saturday, March 4. Newly inaugurated President Franklin Delano Roosevelt then extended the bank holiday nationwide through the following week.

"Bankers, businesses, and the public were in a state of shock," recalled Eddie, who, along with his colleagues in the Discount Department, was working every weekend and past 9:00 p.m. most nights during the week. Occasionally, they slept overnight in the Bank.

"Rumors of all sorts circulated in all areas. Within a matter of an hour [following Roosevelt's order], all banks in New England closed their doors, and all leading stock and commodity exchanges shut down. Business in the nation was at a standstill," Eddie recounted.

When banks began reopening on the Monday following the bank holiday, it was evident the panic had eased. Boston Fed workers returned to more normal hours, although, Eddie recalled, "it was still most unusual for any of the staff to finish much before 6:30 p.m."

As the decade progressed, the Boston Fed became more
active in the regional economy. The Bank implemented the lending authority contained in the Glass-Steagall Act to make loans directly to nonbank borrowers. Bank failures and lack of confidence in the economy had created a shortage of working capital for otherwise healthy businesses. Numerous creditworthy industrial and commercial enterprises needed the assistance the Bank could provide.

A five-member advisory panel, composed of business executives from throughout New England, was set up to serve as a loan committee. The committee members, who served without compensation, reviewed the thousands of applications that began pouring in as soon as word of the Fed's new powers reached corporate boardrooms.

"The news that the Fed was making loans was well received," Eddie reported. "Some of the best-known companies in New England came to us for loans." Among 130 New England companies that received direct loans from the Boston Fed were American Writing Paper, Anderson Little Company (a men's clothier), and Raytheon Corporation, companies that survived the Depression and contributed to the New England economy for many years.

THE POSTWAR YEARS

The mood of goodwill and optimism that swept the country when World War II ended was short-lived. The specter of a return to prewar hard times entered the nation's psyche. Reflecting the general foreboding, the federal government passed the Employment Act of 1946, explicitly acknowledging the government's obligation to promote an economy that produced jobs for everyone willing to work.

In New England, employment was clearly an issue. The late 1940s and early 1950s were watershed years. Textile and shoe manufacturers had begun closing up shop and moving to the South even before the war began. The pace accelerated when the nation returned to a peacetime economy, and along with the jobs went the people who relied on them. The population shift from the older industrial
centers of the Northeast to the low-wage labor markets of the South became more pronounced each year.

With passage of the Employment Act of 1946, the Federal Reserve Banks were expected to take a more active role in regional economic affairs. But finding an appropriate vehicle for this participation was a complex task.

Boston Fed officials knew that major economic shifts were occurring in New England, and they recognized the need for detailed information and data capable of describing the dynamics of this changing economy. Without reliable information, Fed officials realized, New England's business and political leaders could do little to counteract the region's deteriorating economic conditions.

In the early 1950s, researchers in the fledgling field of economics at New England's many colleges and universities began attracting the attention of Boston Fed officials. Their scientific approach to measuring the production, distribution, and consumption of goods and services was yielding useful economic models. With increasing frequency, the Boston Fed began to tap into this pool of local talent.

In 1949, George Ellis was a graduate student at Harvard University working on his doctoral dissertation in economics. "I was doing my thesis on firms that located in New England. The Boston Fed invited me to come to the Bank and complete my research on the state of the New England economy," he recalled.

Within a few years, Ellis became the Boston Fed's Director of Research, and under his leadership, the department grew from six to twenty researchers. They began by facing squarely the realities of the region's economy. The days of New England as a traditional manufacturing center were clearly numbered, but in which direction lay the region's economic future?

"We had unique problems as a region," recalled Robert Eisenmenger, who joined Ellis's research staff in 1955. He would later succeed Ellis as Director of Research and eventually be named Chief Operating Officer of the Bank. "We were losing 1,000 jobs each month in the textile and shoe manufacturing industries. The way it was going, people were asking,
A display created in 1948 highlighted the Fed's role and the role of banks in New England.
‘Why should New England even exist? Why not just wither and drop away?’ Our response was to ask another question: ‘Why do flowers grow in alpine settings?’

High wages, a high cost of living, and geographical isolation clearly impeded the success in New England of labor-intensive industries, but the region was not without assets. It was endowed with a high concentration of educational institutions and a deep pool of intellectual talent. A more subjective, but no less important, attribute was New England’s physical beauty and quality of life, which made it a desirable place to live. “Early on, we began to promote the idea that the region should specialize in high-value-added companies,” said Eisenmenger. “People who came to school here wanted to stay here. This highly educated work force was a solid resource for New England.”

If it was clear, as it seemed to be, that the region’s economic engines of the past were in steady decline, the sooner this fact was acknowledged, the sooner it would be possible to shift attention and resources to areas with greater potential.

During the 1950s, the Boston Fed commissioned studies to determine which types of jobs had the best chance of prospering in New England. The region already had a head start in more sophisticated fields such as insurance and financial services, medical care, and education. And these fields could be bolstered and expanded by the graduates of New England’s colleges and universities, who brought with them seemingly inexhaustible entrepreneurial energy.

The Bank focused its efforts on research and analysis, staying clear of policy prescriptions. “We were very concerned about becoming too political,” said Ellis, who was elected President of the Boston Fed in 1961. “We were aware of our influence [on political matters], but there was a real danger of being perceived as taking sides.” The Boston Fed’s influence on regional issues, Bank officials realized, would be in direct proportion to the quality and objectivity of the research it produced.
The Boston Fed's Credit and Discount Department was a busy place in 1953.
When we strengthened our research function, the effect was that our presidents became more vocal and aggressive. That made it all the more important to make sure that our [research] products were without bias, they had integrity, and every fact was verified, and every conclusion was well documented,” said Eisenmenger.

EDDIE ON THE JOB

In the 1950s and 1960s, Eddie worked in what is today the Loan and Credit Department, holding positions as manager and assistant to the Vice President of the department. It was then that he developed the long-standing relationships with senior executives of member banks and Wall Street traders that would prove invaluable to a succession of Boston Fed Presidents.

Eddie worked closely with member banks, processing requests for credit accommodations and executing orders for the purchase and sale of U.S. government and agency securities. He also became the Boston Fed’s resident expert on the federal funds market, the national market for overnight interbank loans. His ability to explain in simple terms the complex workings of the federal funds market placed him in great demand as a lecturer. He regularly addressed the senior staffs of member banks, advising them on strategies to make the best use of their reserve position. His book, Reserve Position: Methods of Adjustment, first published in 1964, went through multiple editions. Twenty years after initial publication, it was still considered the authoritative source on the subject.

For 25 years, Eddie taught a course on the reserve position and the money market at the New England School of Banking at Williams College, which awarded him the Edward R. Tufts outstanding faculty award. He also taught at the American Institute of Banking (now the New England College of Finance) and frequently addressed gatherings of state treasurers. His success as a lecturer and teacher stemmed, in part, from his implicit acknowledgment that the intricacies of reserve position maneuvering can make eyes glaze over. He peppered his lec-
tures with amusing historical trivia and pertinent personal anecdotes that helped make the information memorable.

Another of Eddie’s duties was purchasing securities from New York traders on behalf of the Boston Fed’s smaller member banks. As he conducted these transactions, he began to develop relationships with traders and analysts at influential New York brokerages. “I got to know a lot of interesting people in New York who had a lot of interesting things to say. And I thought people at the Boston Fed should hear them,” said Eddie.

He regularly invited his New York contacts to lunch at the Boston Fed for an informal exchange of news and ideas. “Eddie was responsible for keeping Boston connected to New York City, and that was extremely helpful and important,” said Richard Syron, a Research Department employee in the 1960s and 1970s who would become the Boston Fed’s President in 1989. “One thing’s for certain,” Syron added, “you only get good information through personal relationships. And Eddie was a master at developing relationships that kept him and us abreast of the latest events. It’s safe to say, if Eddie didn’t know about it, it probably wasn’t going on.”

Role of Research

In 1968, Frank Morris succeeded George Ellis as President of the Boston Fed. At this time, the transition of the New England economy from a manufacturing to a service orientation was not yet complete. Business and political leaders continued to debate the best use of public resources in facilitating the transition. Some felt state
governments should do more to encourage the creation of high-value-added companies, while others clung to the hope that once-thriving manufacturing industries could be revived.

With increasing frequency, the Boston Fed was asked to participate in these debates and to contribute relevant research. “Before the late 1960s, the Boston Fed emphasized micro-research, but after that time, the community began asking us to look at the macroeconomic picture,” recalled Morris. “They knew our research had no bias, and that we didn’t have an axe to grind.”

In 1969, for the first time, a Boston Fed President was asked to join the Vault, a committee of influential Boston-area business leaders who met informally to advise government officials on business and economic issues. Also at this time, the Bank began publishing an increasing number of research studies on the region’s economy, and many of these studies found their way into New England’s larger newspapers.

The Boston Fed’s messages were not always well received. Although it had been apparent for decades to most observers that low-wage manufacturing jobs had a limited future in New England, the manufacturing industry’s roots reached back to the earliest days of the region’s history, and the economies of many cities still depended on now-struggling manufacturing facilities.

Invited to address a caucus of the New England Congressional delegation that was mapping strategies to revive the moribund shoe manufacturing industry, Boston Fed President Frank Morris delivered an unwelcome message. “I made myself unpopular by saying the shoe business could not survive in a high-wage region. It was anathema to say forget about the shoe industry, but it had to be said,” Morris explained.

Although it was clear that the Boston Fed would publish research findings even on controversial issues, there was still an unwillingness to jeopardize the Bank’s authority by engaging in debate on every issue that arose. “We tried to pick our spots,” said one Fed executive who participated in the decision-making process. “We wanted to save our ammunition for the bigger targets.” At times, however, the Bank was reluctantly drawn into political controversies, especially...
those with an economic component that could benefit from comprehensive research and data.

One example of such an issue was the proposed law in Massachusetts requiring the return of disposable containers, the so-called “bottle bill.” In 1976, a coalition of Massachusetts environmental groups sponsored a referendum on whether the state should require a deposit on beer and soft-drink cans and bottles that would be redeemable upon return of the container to a retail outlet. At the time, the Massachusetts economy was in recession. Bottle and can manufacturers, vehement opponents of the proposed law, raised voters’ fears by contending the bottle bill would result in the loss of thousands of jobs. An analysis by the Boston Fed’s Research Department, however, painted a different picture.

Although the precise effects were difficult to measure, the Fed study said that experience in other states with bottle-return laws showed job losses did not occur. In fact, the study suggested, the new law would create a need for handlers and processors of returned containers that could well result in a net job gain. “We were a bit nervous about publishing the study. We thought we would get everyone mad at us. But the research clearly showed that bottlers had a weak argument,” said a member of the Research staff.

The bottle bill referendum passed by an overwhelming margin in the fall election, and some observers cited the influence of the Fed’s research. “The Fed study eased voters’ fears by showing the bottle bill would not make things worse and could make them better,” said a political analyst.

Although the Boston Fed entered reluctantly into the bottle bill debate, it did not hesitate to involve itself in a fiscal crisis that beset Massachusetts in 1976. A national recession had hit Massachusetts especially hard, and the state’s budget had ballooned out of balance. Concerns about the state’s economic prospects and its fiscal management capabilities had called into question its ability to service its debt. It was difficult for the state to raise much-needed capital. Bond dealers were looking for evidence that the state had the capacity to put its fiscal house in order.
"At that time, the Massachusetts economy was at a low point," recalled Morris. "The big issue was whether the [Governor Michael] Dukakis administration would balance the budget." At the state's request, two members of the Boston Fed's Research Department with experience in state government examined the budget and the administration's plans to balance it. Satisfied that the state's plan was sound, a team of Boston Fed researchers and executives traveled to New York City to report their findings at a meeting attended by influential Wall Street bond dealers.

They assured the wary dealers that the state recognized the severity of the problem and had implemented appropriate cost-saving and revenue-generating measures. "We assured them that the state's plan was not smoke and mirrors and that the steps they were taking should balance the budget," said one member of the Fed's delegation. The bond traders were convinced, and the crisis was eased.

NEW BUILDING

During the 1970s, the Boston Fed had the opportunity to demonstrate its support for the New England region in a way both symbolic and practical. By 1969, the Bank had outgrown its stately headquarters on Pearl Street in the heart of Boston's financial district. A decision had to be made about the design and location of a new building. Several Federal Reserve officials, emphasizing that it was important for the Bank to remain in the center of the city's financial district, advocated demolishing the old building and constructing a new one on the same site.

At the time, Boston's financial district formed a tight cluster in the center of the city, flanked on the east and south by steadily deteriorating manufacturing buildings and warehouses, many of them abandoned. Among the most distressed areas was the neighborhood surrounding South Station, a formerly grand railroad terminal that by 1970 had fallen into disrepair. Although located less than a half mile from the center of the financial district, the South Station area was bypassed by de-
President Frank Morris with the architects surveying the new building in 1974.
velopers, fearful that major tenants would not locate in such a run-down neighborhood.

The Boston Fed's decision to build its gleaming new 32-story headquarters directly across the street from South Station sent a strong message to both real estate developers and the financial community. "This was an important decision for the Bank and for the city of Boston," said Herbert Wass, a Boston Fed Vice President for Public Services. "It showed confidence in the future of the city and was instrumental in expanding the boundaries of the financial district."

By 1976, when the architecturally distinctive, aluminum-veneered building was completed, the South Station area was beginning to show signs of revival. Today, the Boston Federal Reserve building has been joined by a growing number of new and renovated office buildings that, as anticipated, have expanded the financial district's narrow boundaries. South Station itself has undergone an award-winning rehabilitation and is once again a bustling commuter terminal.

EDDIE RETIRES

As the Boston Fed was preparing to move into its new building, Eddie decided to end the first chapter of his career with the Bank. In 1976, after 47 years with the Boston Fed, Eddie, then 65, formally retired. The problem was, President Morris was not ready to see him go.

"Ed was my intelligence service. He seemed to know everybody, and he kept me posted with useful information he picked up," recalled Morris. "When it came time for him to retire, I asked him to stay on part time."

Living in Milton, Massachusetts, with his wife, Martina, Eddie quickly acceded to Morris's request. "My son was grown and working in the financial markets, and I was reluctant to leave the Bank after so many years, and after making so many good friends," he said. "I was offered a job at a bond trading house, but I really didn't want to do that. I saw this [part-time consultant position] as a way to keep in touch with all the people I got to know over the years."
So retirement for Eddie meant that, three days each week, he would begin his telephone conversations from his Milton home instead of from his Fed office. But the calls still went both ways. "Bankers would still call me with their problems. They would ask me to speak to their staffs and meet them for lunch. I did a lot of speaking. I enjoyed it," he said.

Eddie also maintained his Wall Street contacts. "If there was going to be an auction of a bond the next day, Eddie could tell you what kind of reception it would get on the Street. This was important information, and, as far as I can remember, he was never wrong," said Wass, the Public Services Vice President.

Eddie initiated a twice-yearly seminar at the Boston Fed to which he invited "the sharpest guys on Wall Street and the trading desks in Boston."

"The meetings were very helpful," said Morris. "They were informal. Basically we just sat around the table and listened to what the traders had to say. We got a good idea from these meetings what the mood was on the Street, so we were seldom surprised."

TUMULTUOUS TIMES

October 19, 1987, was a busy day for Eddie. After recording steady increases for more than a year, the Dow Jones Industrial Average on that day plummeted 508 points, losing 22.6 percent of its value. Panic was in the air, and information was at a premium. Eddie worked the phones from both his home and his office, interpreting the fast-paced maneuvers in the money markets and reporting back to Boston Fed President Frank Morris.

"Credit immediately dried up, and several of the money market bankers were reluctant to extend credit. The markets
faced a grave situation,” Eddie wrote. “On orders from the Federal Reserve Chairman, the discount window was thrown wide open.”

When the immediate crisis ended, the mood on Wall Street was a mixture of relief and gratitude for the Federal Reserve System’s prompt intervention. Eddie concluded his report with a sample of the Street’s reaction. “David Jones at A.G. Lanston made the following comment: ‘The Fed opened the floodgates of liquidity.’”

In 1989, Frank Morris retired. He was succeeded by former Fed Vice President and Economist Richard Syron. One of the new President’s first acts was to ask Eddie to stay on in his consultant position. “Eddie was always important as an information check, and I wanted his help,” recalled Syron.

Syron quickly found himself needing all the help he could get. The so-called “Massachusetts Miracle,” a five-year period of virtually unprecedented prosperity that helped lift the entire region, had turned into a nightmare. Speculative real estate building, rampant throughout the mid 1980s, had continued far longer than economic fundamentals could justify. When the speculative bubble burst in 1989, the reverberations rocked the banking structure of the entire region.

Federal regulators descended on struggling banks, demanding that they tighten lending criteria and clear their portfolios of questionable assets. Small banks and thrift institutions began failing with regularity, and even the region’s largest banks were reported to be in difficulty. With the failure of the huge Bank of New England, the situation reached crisis proportions. “It was a hectic time,” Syron recalled. “We got involved in decisions about who would take over whom. What we were doing was a major rehabilitation of the region’s banks.”

Although the recession and banking crisis were national in scope, New England was far more affected than most other parts of the country. The region’s failing banks took with them a legion of small businesses that depended on them for operating capital. Bankruptcy filings increased by more than 50 percent in one year alone.
The recession and its fallout chastened the region’s bankers. By 1991, although the banking situation was beginning to stabilize, bankers were naturally cautious about new lending, and regulators were insistent that banks impose the highest possible lending criteria. The result was predictable: Credit tightened to the point that start-up capital for new ventures was extremely scarce. Even established businesses found it difficult to obtain operating capital in amounts sufficient to support growth.

The problem was most acute among small businesses. A substantial segment of the failed Bank of New England’s portfolio had consisted of small business loans. With the bank’s demise and the increased caution among surviving lenders, the situation became acute for owners of small businesses. Without personal knowledge of a company’s history, bankers were reluctant to take even modest risks.

Again, there was a role for the Boston Fed to play. The Bank worked with local businesses and their trade associations to assess the extent of the problem. The Fed’s analysis indicated that an unintended consequence of a regulatory approach requiring troubled banks to increase their capital ratios was to force banks to shrink their loans. With so many banks in the same position, the reduced availability of credit was a serious brake on the economy.

The Boston Fed took this message to Congress and to the federal supervisory agencies. Among the outcomes was an interagency program to increase credit availability. The Boston Fed’s warnings about a New England credit crunch also sensitized the Federal Open Market Committee to the dangers of such a “head wind” spreading beyond the region and holding back the national recovery.

“New England is a unique Federal Reserve District. It has geographic integrity. And this has allowed the Boston Fed to become involved in the economy of the region to an extent that may not be possible in other Districts,” said President Syron.
INNER-CITY LENDING

In January 1989, the Boston Globe obtained a preliminary draft of a Boston Fed study on the efficacy of the Community Reinvestment Act. The study included data on loan originations that suggested a pattern of racial discrimination in Boston's inner-city neighborhoods.

Publication of the study sparked a firestorm among community leaders, who for years had charged that lending institutions were neglecting inner-city needs. "We were attempting to evaluate the CRA [Community Reinvestment Act] process and recommend changes. The study wasn't designed to examine discriminatory lending patterns," said Lynn Browne, the Boston Fed's Director of Research since 1993. Nevertheless, the home mortgage lending practices of banks became the focus of attention.

Bankers joined community groups in expressing outrage over the study. Although they would later work closely with the Fed, Boston-area bankers initially criticized the study, denying the existence of institutional policies that fostered, let alone condoned, lending discrimination based on race.

The Boston Fed knew that more research was needed. "We didn't want the first report to come out [in the press] the way it did, but when it was leaked and its findings were criticized, we thought it best to do another study that specifically targeted the problem," said Browne. A second study, published in 1992, documented with greater precision the role that race played along with economic factors in the large discrepancy in home mortgage approvals in Boston's neighborhoods.

Massachusetts bankers accepted the thrust of the research findings and, as a group, committed themselves to reform. With the Boston Fed serving as mediator, the Massachusetts Bankers Association and a coalition of community organizations convened a series of public forums that addressed not only mortgage lending but also other community grievances. The outgrowth of these discussions was the formation of three new partnership corporations to deal with the availability of basic banking services, affordable housing, and the start-up of mi-
the System's understanding of these activities, initiating studies focusing, in particular, on risk management and crisis containment and resolution.

While giving attention to its unusual financial environment, the Bank continued its community focus and concern for the region's economic development. In its relationship with the region, the Bank made a determination to emphasize education. The companies that dominate the New England landscape today — software developers, financial services firms, biomedical research companies, and health care providers — all employ highly trained, highly skilled workers.

Central to New England's economic health, the Boston Fed realized, was the challenge of providing residents of the region the education and training needed to be a part of this highly paid, highly skilled work force. Meeting this educational challenge would be important not only for individual growth and fulfillment but also in assuring that high-value-added companies remain potent engines for growth in New England. Businesses relocating to New England often cited the availability of a skilled, motivated work force as a major factor in their decisions.

The Boston Fed has joined with business and government organizations throughout the region to increase access to educational and training opportunities for low- and moderate-income students. Under Frank Morris, the Bank became involved in the first Boston Compact, an arrangement among Boston public schools, city government, the private sector, and higher education to improve public education and postgraduate work opportunities for Boston public school students. The Boston Fed is an active member of, and Cathy Minehan has chaired, the Boston Private Industry Council, a group responsible for managing Boston's vibrant school-to-career program and career centers for adult job training and retraining.

In 1994,
Cathy Minehan succeeded
Richard Syron
as President
of the
Boston Fed.
The past 69 years have seen the development, strengthening, and flourishing of two unique relationships, Eddie McCarthy’s with the Boston Fed and the Boston Fed’s with the New England region. Over the years, the Boston Fed has evolved from uncertain beginnings to being a significant force in New England’s economic and social affairs. Its progress on all fronts has been aided immeasurably by the loyalty, enthusiasm, and unique talents of Eddie McCarthy. Eddie’s service to the Bank is as special and meaningful as the Bank’s service to the region.

A common thread to the two relationships is easily discerned: The standards of integrity and professionalism symbolized by Eddie McCarthy have also guided the Bank in its relationship with the region. The Bank has endeavored to serve the region with the same tact, insight, and honesty that Eddie has always brought to his service to the Bank.

“Eddie McCarthy is the personification of everything that is good and right about the Federal Reserve System,” said former President Syron. “He embodies the spirit of loyalty that makes the Fed such a special place.”

Today, Eddie still keeps close tabs on Wall Street for President Mnehan, and when he comes into the office in his well-tailored, three-piece suits, a gold watch chain looping out of his vest pocket, he is, hands-down, the best-dressed man at the Bank. “Looking back,” said Eddie, “I feel very fortunate to have been able to work my entire career for such a prestigious organization as the Federal Reserve. I am a very lucky man.”
Credits

A Bank, A Man, A Region
was authored by
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Photo Credits:
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Printed: February 1999