

A Message from the President and First Vice President

We are pleased to present the Bank's *Annual Report* for 1998. The Federal Reserve System faced important challenges in 1998, including considerable turbulence in domestic and international financial markets in the second half of the year, continued rapid consolidation in the banking industry, and strong demand from depository institutions for efficient and innovative financial services. Ensuring that data processing and communications systems make a smooth transition to the next century and that the general public is provided with clear and useful information about System activities and accomplishments were also priorities throughout the year.

We believe this Bank made important contributions to the System's efforts to meet these challenges, as highlighted in the "Year in Review" section of this *Report*. The Bank opened a new supervision and regulation office in Charlotte to enhance supervisory oversight; some of the largest banking organizations – the result of the latest wave of bank mergers – are based in North Carolina. Our financial services activities fully met their cost recovery and quality objectives for priced services in 1998, and several Bank staff members played leadership roles in Systemwide efforts to improve payments and other services to depository institutions and the U.S. Treasury. In an effort to increase our communication and interaction with new constituencies, our Community Affairs Office formed a new Community Development Advisory Council comprised of community group leaders from across the District. Also, a member of our Public Affairs staff was instrumental in establishing a new national center for economic education for the hearing impaired at Gallaudet University. Finally, in 1998, the Bank achieved all of its benchmark objectives with respect to its preparation for the century date change.

The approach to the new millennium provides a particularly appropriate occasion to review, in broad perspective, the long discussion over what monetary policy can and cannot accomplish. During the past three centuries, a succession of events, episodes, and policy controversies reveal that certain classical theories of monetary policy have stood the test of time far better than other theories whose superficial, albeit fallacious, logic makes them perennially popular with the general public. It is important to distinguish the robust from the fallacious theories and to lock the former into place so that past policy errors will not be repeated. We are pleased to have Tom Humphrey, arguably the world's leading historian of the quantity theory of money, review the debates between mercantilist and classical theories of monetary policy in the feature article.

J. Alfred Broaddus, Jr.
PRESIDENT

Walter A. Varvel
FIRST VICE PRESIDENT