Federal Reserve Bank of Chicago

1978 Annual Report

Cover:

Enclosed within the pediment of the Corinthian temple front of the Federal Reserve Bank of Chicago is the seal of the bank. The building, erected in the early 1920s, has an exquisitely detailed design inspired by classical architecture. It is delicately decorated with dirt-streaked, highly stylized mouldings—running horizontally along the bottom and repeated below the top element is a leaf and dart. Tucked under the block-like dentils of the raking cornice is an egg and dart. Atop the crown of the pediment is a great acroterium of acanthus leaves and tendrils.

Photo and description courtesy of Carroll William Westfall.

Federal Reserve Bank of Chicago

1978 Annual Report

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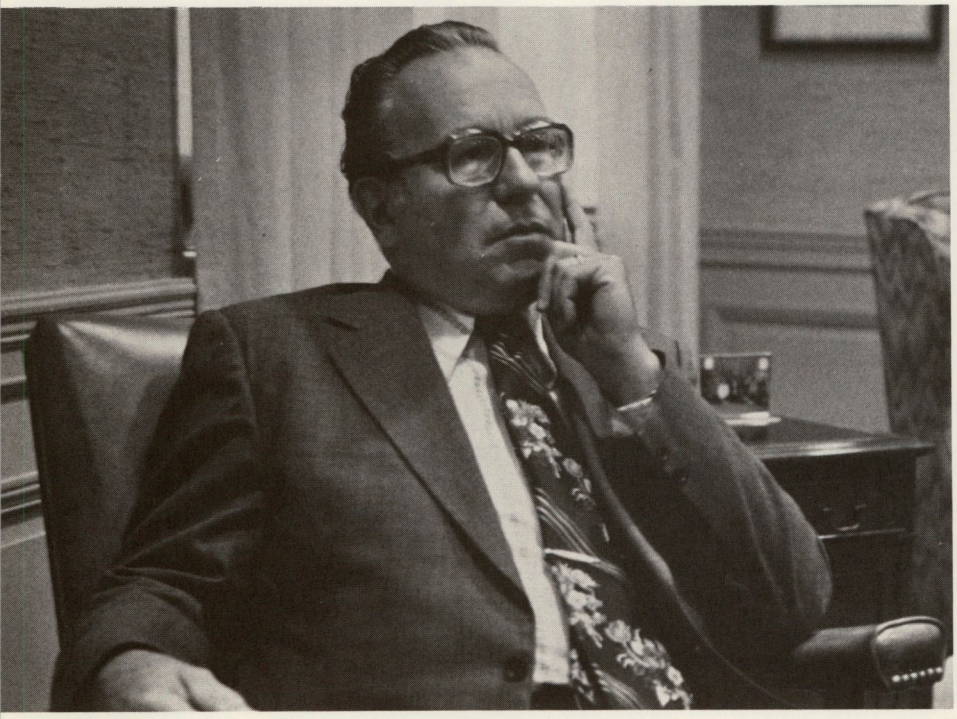
A message from the President—the year in review

As I look back on 1978, I see it as a year in which many milestones were reached, with few ultimate resolutions. Clearly, the year was marked by several events of major significance for the Federal Reserve, the banking and financial system, and the American economy generally. But in spite of these developments, some of the most difficult questions being raised as the year began remained unanswered at its close.



On the economic policy front, significant actions were taken by the Federal Reserve, and by the Administration as well, to deal with the interrelated problems of inflation and international weakness in the dollar. Fortunately, by year-end, there also was some evidence that our efforts to slow monetary growth were finally bearing fruit.

Even more importantly, I sensed that monetary policy would no longer be left to wage the battle against inflation alone. While opinion was hardly unanimous, there appeared to be broadening agreement that resolution of our economic problems was possible only if both the public and private sectors exercised more restraint. As the year progressed, growing numbers of public officials were recognizing the need to reduce both the level of government spending and the costly burdens imposed on business by government regulation. Correspondingly, private citizens, including representatives of business and labor, were more frequently expressing their willingness to moderate their wage and price demands as well as demands for increased government services.

I view these actions and reactions as highly significant—as necessary prerequisites for economic policy success. Nonetheless, they do not ensure that outcome. While we had grounds for optimism as the year closed, concrete results had yet to materialize. Indeed, we could not yet be fully confident that they would soon be forthcoming. And, of course, additional uncertainties were raised by OPEC's announced increases in oil prices.

Thus, as the year closed, it remained fair to ask whether we had laid the appropriate and sufficient foundation for reducing inflation and restoring the dollar to a position of integrity, and, further, whether these goals would be achieved free of the social costs of recession. Therefore, I feel it fair to state that although important milestones were reached in the economic policy area in 1978, resolution of our current economic problems remains a painfully slow process.

I take a similar view of the numerous events that occurred this past year relating to financial supervision and regulation, the payments mechanism, and other areas of financial institution operations. Among the many important developments in the operations area was the adoption of a proposal for the Federal Reserve to provide a system for nationwide interchange of automated clearing house payments data, a step that should provide substantial impetus for progress in the electronic funds transfer area. Implementation of the Treasury tax and loan investment program in 1978 not only enabled the federal government to earn interest on the balances it keeps at financial institutions but also eliminated one distinction between financial institutions by allowing depositories other than commercial banks to participate in the tax deposit system. And perhaps of greatest significance from my vantage point as president of a Federal Reserve bank, the first draft of a pricing schedule for Federal Reserve payments services was issued for public discussion, an action that I hope will spur the comprehensive analysis needed to resolve the interrelated issues of access to Federal Reserve services and Federal Reserve membership.

More numerous were significant developments in the area of supervision and regulation. Some of these developments clearly tend to subject financial institutions to more extensive restrictions on their operations. Primary examples are the International Banking Act and the Financial Institutions Regulatory and Interest Rate Control Act, both passed late in the year at about the time regulations implementing the Community Reinvestment Act were finalized.

On the other hand, a number of important developments of 1978 indicate some hope for reduced or simplified regulation and greater reliance on the marketplace to govern the operation of the financial system. While the 1978 Financial Institutions Act continued the regulation of interest rates that various types of financial institutions can pay on deposits, I also note four actions taken during the year that can be associated with a liberalization of restrictions in this area. Two, in fact, were provisions of this same act—specifically, the elimination of the commercial bank-thrift institution differential with respect to savings accounts linked to automatic transfer and the extension of NOW accounts to New York State. The two other actions were taken by regulatory agencies: the authorization of six-month money market certificates, which in effect introduced a floating interest rate ceiling, and the authorization of the automatic transfer service, a step that comes as close as possible under existing law to permitting depositors outside NOW account states to earn interest on transactions balances.

Along this same line of developments promising reduced or simplified regulation were efforts toward greater coordination between the federal

supervisory authorities, including their joint adoption of uniform bank rating systems and the provision in the 1978 Financial Institutions Act for a Federal Financial Institutions Examination Council.

Thus, as in the area of economic policy, we saw a number of important events affecting the American financial system. But although many of these developments touched on issues that have been debated throughout the 1970s, ultimate resolutions failed to emerge during the year.

We have yet to reach a consensus regarding several fundamental questions: How should electronic funds transfer systems be operated to make sure the public interest is served? Is the public benefited or harmed by the regulation of deposit interest rates? Do we need more or less regulation, particularly with respect to the financial industry? And how should our regulatory system be structured—would consolidation of the various agencies lead to more or less effective regulation? To meet social goals, do we want to continue to impose, by law and regulation, the traditional distinctions between financial institutions? Or, could we still meet our social and economic goals if we left their achievement more to those institutions—by allowing them to determine their own areas of operation and specialization—and to the interplay of market forces? And finally, what should be the relationship of our nation's central banking system, the Federal Reserve, to financial institutions? Is open access to its services warranted, and if so, how should it be accommodated? Should our present voluntary membership system be preserved? If so, what changes are necessary and can be adopted to preserve it? Alternatively, does our financial structure as it appears today call for a significant restructuring?

That these questions remain unanswered—that the membership issue was not resolved by the time 1978 came to a close—was for me, personally, the greatest disappointment of the year. The lack of a solution to this problem means not only that the Federal Reserve and its member commercial banks will continue to bear undue burdens but also that little progress can be made on the related issues of access to and pricing of Federal Reserve services. The various membership proposals considered during the year encompassed almost every imaginable approach to the problem—from making membership a more attractive alternative to effectively eliminating the concept of membership altogether. But none of the proposals garnered enough support for adoption, and each met strong opposition from interested parties.

At the same time, I remain hopeful that what was not accomplished in 1978 can be achieved in 1979. After all, more serious discussion of the problem and possible solutions to it took place in 1978 than in any previous year. Clearly some unanimity of opinion has emerged; financial industry officials and Congress now appear to share with the Federal Reserve the view that the membership problem must be addressed expeditiously.

So I hope that when 1979 closes, I will be able to say that this major issue has been put behind us.

Robert C. Mayo

1978 financial statements

The financial statements of private enterprises—balance sheets and statements of income—are statistical indicators of current and future capacity to generate earnings. They provide a basis for evaluating performance. By contrast, Federal Reserve banks do not operate under an earnings objective although substantial earnings are incidental to the functions performed. Changes in their major asset, liability and income items reflect developments in the economy and actions undertaken in support of System monetary objectives. Income consists mainly of interest on each bank's share of the System's portfolio of Treasury securities. Most of this is returned to the Treasury after expenses and statutory dividends to member banks are paid.

Through purchases of securities and loans to member banks, the Federal Reserve banks increase the base for expansion in currency and deposits in accord with the economy's growth needs. Additions to member bank reserve deposits that result from this process are either withdrawn as currency or used to support the public's deposits at commercial banks.

During 1978 this bank's share of securities held in the System Open Market Account increased by $1.3 billion, as System monetary policy actions were aimed at providing reserves to the banking system sufficient to finance moderate expansion in the nation's economy while resisting inflation and contributing to a sustainable pattern of international payments. The increase in Reserve Bank credit outstanding was primarily absorbed, however, by the payout of currency (Federal Reserve notes outstanding) in response to public demands. Member bank reserves increased last year as a result of increased total deposits and higher reserve requirements on large time deposits.

Increased interest income from the larger portfolio of loans and securities as well as higher market interest rates more than offset this bank's share of losses on sales of securities and sizable foreign exchange losses entailed in currency stabilization operations. Net earnings rose by over $173 million, producing a record payment of over $1 billion to the U.S. Treasury.

Statement of condition

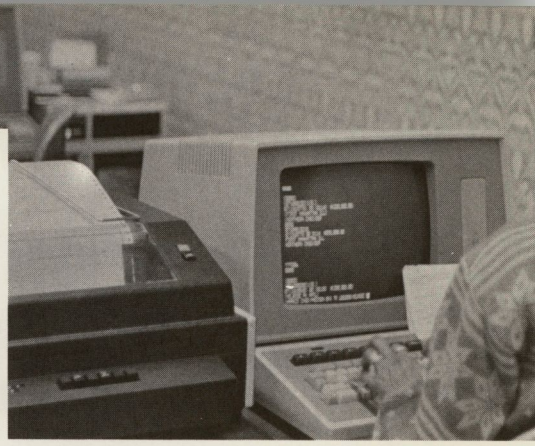
(in thousands of dollars)

	As of December 31	
	1978	1977
Assets		
Gold certificate account	1,762,680	1,735,954
Interdistrict settlement account	183,836	89,375
Special drawing rights certificate account	215,000	198,000
Coin	13,865	24,371
Loans and securities:		
Loans	67,175	41,575
Federal agency securities	1,259,214	1,282,151
U.S. Government securities	17,460,051	16,166,456
Total loans and securities	18,786,440	17,490,182
Cash items in process of collection	1,624,385	1,366,649
Bank premises	15,637	15,686
Other assets	588,584	261,533
Total assets	**23,190,427**	**21,181,750**
Liabilities		
Federal Reserve notes	17,189,680	15,427,599
Deposits:		
Member bank reserves	4,090,893	3,591,303
U.S. Treasury—general account	427,940	704,511
Foreign	31,013	41,355
Other	107,306	90,167
Total deposits	4,657,152	4,427,336
Deferred availability cash items	757,482	834,240
Other liabilities	260,909	178,509
Total liabilities	22,865,223	20,867,684
Capital accounts		
Capital paid in	162,602	157,033
Surplus	162,602	157,033
Total capital	325,204	314,066
Total liabilities and capital	**23,190,427**	**21,181,750**

Statement of earnings

(in thousands of dollars)

	Year ending December 31	
	1978	1977
Current earnings:		
Interest on loans to member banks	8,003	2,763
Interest on Government securities	1,325,213	1,082,419
Interest on investments of foreign currencies	297	422
All other	248	239
Total current earnings	1,333,761	1,085,843
Current expenses:		
Operating expenses	81,679	79,726
Cost of Federal Reserve currency	8,412	7,370
Total current expenses	90,091	87,096
Less reimbursement for certain fiscal agency and other expenses	7,307	7,726
Current net expenses	82,784	79,370
Current net earnings	**1,250,977**	**1,006,473**
Additions to (or deductions from) current net earnings:		
Net profit (or loss) on sales of securities	(20,792)	(7,994)
Net profit (or loss) on foreign exchange transactions	(77,369)	(21,958)
Assessment for expenses of Board of Governors	(8,130)	(7,153)
All other—net	(36)	2,141
Net additions (or deductions)	(106,327)	(34,964)
Net earnings before payments to U.S. Treasury	**1,144,650**	**971,509**
Distribution of net earnings:		
Dividends paid	9,603	9,144
Payments to U.S. Treasury (as interest on Federal Reserve notes)	1,129,478	953,290
Transferred to surplus	5,569	9,075
	1,144,650	**971,509**




LOAN
PROCESSING


FED
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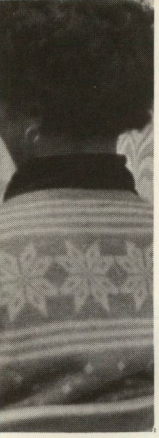
making money work



Summary of operations

	Dollar amount		Number	
	1978	1977	1978	1977
Clearing and collection operations				
Commercial bank checks collected	991.8 billion	906.4 billion	2.0 billion	2.0 billion
U.S. Government checks collected[1]	60.0 billion	46.8 billion	90.3 million	96.3 million
Automated payments processed	4.7 billion	3.1 billion	14.0 million	10.0 million
Wire transfers of funds	7.9 trillion	7.1 trillion	4.2 million	3.7 million
Corporate and municipal bonds, coupons and other noncash items collected	1.9 billion	1.8 billion	563.3 thous.	538.5 thous.
Currency and related operations				
Currency received and counted	7.5 billion	7.1 billion	936.2 million	894.3 million
Unfit currency withdrawn	1.4 billion	1.2 billion	274.4 million	302.6 million
Coin received and counted	262.1 million	215.5 million	2.0 billion	1.6 billion
Food stamps received and processed	858.6 million	873.1 million	224.0 million	226.0 million
Loans to member banks				
Total loans made during year	15.0 billion	6.3 billion	5,870	2,001
Banks accommodated	—	—	299	209
Services to U.S. Treasury				
Marketable Government securities issued, serviced and redeemed:				
Definitive securities	3.2 billion	4.9 billion	304.3 thous.	326.7 thous.
Book entry securities	1.0 trillion	0.7 trillion	327.5 thous.	268.8 thous.
U.S. savings bonds issued, serviced and redeemed	4.1 billion	3.7 billion	62.2 million	60.2 million
Federal taxes processed	56.9 billion	48.6 billion	0.8 million	0.8 million
Member bank "service" operations				
Safekeeping of securities:				
Definitive, balance December 31	9.7 billion	8.2 billion	1.7 million	1.5 million
Book entry, balance December 31	43.2 billion	42.3 billion	—	—
Securities purchased and sold for member banks	1.8 billion	1.3 billion	25.9 thous.	12.4 thous.

[1]Includes postal money orders.

Executive changes

Directors and Council member

Robert H. Strotz, president of Northwestern University, was redesignated chairman of the board for 1979. John Sagan, vice president-treasurer of Ford Motor Company, was redesignated deputy chairman. Both are Class C (nonbanker) directors appointed by the Board of Governors. Formerly a director of the Detroit branch, Mr. Sagan was named to the board of the Federal Reserve Bank in 1978.

The other Class C director is Edward J. Brabec, business manager for the Chicago Journeymen Plumbers, Local 130. Mr. Brabec, who joined the board in 1978, was reappointed to a full three-year term beginning in 1979.

Arthur T. Decio, chairman of Skyline Corporation in Elkhart, began a three-year term in 1978 as a Class B (nonbanker) director.

Member banks in the Seventh District elected two new Class B (nonbanker) directors of the Federal Reserve Bank. Beginning in 1979, Mary Garst, manager of the Cattle Division of Garst Company in Coon Rapids, Iowa, will replace Paul V. Farver, retired vice chairman of Rolscreen Company in Pella, Iowa. Dennis W. Hunt, president of Hunt Truck Lines in Rockwell City, Iowa, will replace Oscar G. Mayer, retired chairman of the executive committee of Oscar Mayer and Company, Madison.

Three new members joined the board of the Detroit branch during 1978. Howard F. Sims, president of Sims-Varner and Associates in Detroit, was appointed by the Board of Governors as a replacement for Mr. Sagan. L.A. Johns, president of Isabella Bank and Trust at Mount Pleasant, Michigan, and Rodkey Craighead, chairman of Detroit Bank Corporation, were appointed by directors of the Federal Reserve Bank as replacements for Harold A. Elgas, president of Gaylord State Bank at Gaylord, Michigan, and Benjamin H. Paddock III, president of City National Bank of Detroit.

Joining the board at the Detroit branch in 1979 will be James H. Duncan, chairman of First National Bank and Trust Company in Kalamazoo. He was appointed by the bank's board to replace Joseph B. Foster, chairman of Ann Arbor Bank and Trust Company .

Roger E. Anderson, chairman of the board of Continental Illinois National Bank in Chicago, was appointed to represent the Seventh District on the Federal Advisory Council in 1979.

Official changes

Official changes included the promotion of Fred A. Dons to the senior vice president level. He continues to serve as general auditor.

William H. Gram was promoted from assistant general counsel to vice president, associate general counsel, and assistant secretary. Also in the Legal Department, William M. Lloyd was appointed assistant counsel.

Thomas C. Tucker, assistant vice president, was promoted to vice president in Automation Services .

Rose M. Kubush and James A. Bluemle were made assistant vice presidents in the Supervision and Regulation Department.

Daniel P. Kinsella, assistant vice president, was made vice president in charge of cash operations, beginning in 1979.

William C. Conrad, vice president and manager of the Detroit branch, was promoted to senior vice president. Glen Brooks was appointed assistant vice president.

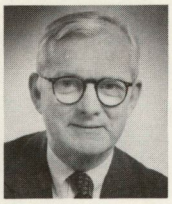
Frederick S. Dominick, vice president at Chicago, was assigned to the Detroit branch with responsibility for accounting, cash, loans, and the fiscal agency operations there.

Robert M. Fitzgerald, assistant vice president at the branch, was promoted to vice president. His new responsibilities include check processing and wire transfer as well as personnel and support services.

Officers *(as of December 31, 1978)*

ROBERT P. MAYO, *President*
DANIEL M. DOYLE, *First Vice President*


Robert P. Mayo


Daniel M. Doyle

WARD J. LARSON, *Senior Vice President, General Counsel, and Secretary*

JAMES R. MORRISON, *Senior Vice President*

KARL A. SCHELD, *Senior Vice President and Director of Research*

HARRY S. SCHULTZ, *Senior Vice President*

BRUCE L. SMYTH, *Senior Vice President*

RICHARD D. ABRAHAMSON, *Vice President*

PAUL J. BETTINI, *Vice President*

GEORGE W. CLOOS, *Economic Adviser and Vice President*

FRANKLIN D. DREYER, *Vice President*

WILLIAM H. GRAM, *Vice President, Associate General Counsel and Assistant Secretary*

RODERICK L. HOUSENGA, *Chief Examiner*

JOSEPH G. KVASNICKA, *Economic Adviser and Vice President*

RICHARD A. MOFFATT, *Vice President*

WILLIAM T. NEWPORT, *Vice President*

DOROTHY M. NICHOLS, *Economic Adviser and Vice President*

LOUIS J. PUROL, *Vice President, district offices*

WILLIAM ROONEY, *Vice President*

RAYMOND M. SCHEIDER, *Vice President*

ROBY L. SLOAN, *Vice President and Associate Director of Research*

ADOLPH J. STOJETZ, *Vice President*

THOMAS C. TUCKER, *Vice President*

CARL E. VANDER WILT, *Vice President*

EUGENE J. WAGNER, *Vice President*

ALLEN G. WOLKEY, *Vice President*

JAMES A. BLUEMLE, *Assistant Vice President*

HARRIS C. BUELL, JR., *Assistant Vice President*

CHARLES W. FURBEE, *Assistant Vice President*

CAROL P. KASPAR, *Assistant Vice President*

DANIEL P. KINSELLA, *Assistant Vice President*

ERICH K. KROLL, *Assistant Vice President*

ROSE M. KUBUSH, *Assistant Vice President*

WILLIAM M. LLOYD, *Assistant Counsel*

LARRY R. MOTE, *Senior Economist and Assistant Vice President*

JAMES H. NASH, JR., *Assistant Counsel*

RICHARD H. RAMSDELL, *Assistant Vice President*

HARVEY ROSENBLUM, *Senior Economist and Assistant Vice President*

WALTER A. SIENKO, *Assistant Vice President*

DAVID R. STARIN, *Assistant Vice President*

ARTHUR G. STONE, *Assistant Vice President*

HILBERT G. SWANSON, *Assistant Vice President*

WARREN J. TAUBMAN, *Assistant Vice President*

PATRICK J. TRACY, *Assistant Chief Examiner*

RUTH F. VILONA, *Assistant Vice President*

CARL C. WELKE, *Assistant Vice President*

ROBERT W. WELLHAUSEN, *Assistant Vice President*

PATRICIA W. WISHART, *Assistant Vice President and Assistant Director of Research*

THOMAS L. WOLFE, *Examining Officer*

Detroit branch

WILLIAM C. CONRAD, *Senior Vice President and Manager*

FREDERICK S. DOMINICK, *Vice President*

ROBERT M. FITZGERALD, *Vice President*

WAYNE R. BAXTER, *Assistant Vice President*

GLEN BROOKS, *Assistant Vice President*

ROBERT W. COOK, *Assistant Vice President*

Des Moines office

THOMAS P. KILLEEN, *Assistant Vice President*

Indianapolis office

RICHARD L. SIMMS, JR., *Assistant Vice President*

Milwaukee office

RUSSELL O. LANGAN, *Assistant Vice President*

Directors *(as of December 31, 1978)*

Board of Directors, Federal Reserve Bank of Chicago, from left to right: (standing) Messrs. Abboud, Spies, Sagan, Brabec, DeLay; (seated) Messrs. Mayer, Strotz, Farver; (not shown) Mr. Decio.

ROBERT H. STROTZ, Chairman
President
Northwestern University
Evanston, Illinois

JOHN SAGAN, Deputy Chairman
Vice President-Treasurer
Ford Motor Company
Dearborn, Michigan

A. ROBERT ABBOUD
Chairman of the Board
The First National Bank of Chicago
Chicago, Illinois

EDWARD F. BRABEC
Business Manager
Chicago Journeymen Plumbers, Local 130
Chicago, Illinois

ARTHUR J. DECIO
Chairman of the Board
Skyline Corporation
Elkhart, Indiana

JAY J. DeLAY
President
Huron Valley National Bank
Ann Arbor, Michigan

PAUL V. FARVER
Vice Chairman
Rolscreen Company
Pella, Iowa

OSCAR G. MAYER
Chairman, Executive Committee
Oscar Mayer & Co.
Madison, Wisconsin

JOHN F. SPIES
President
Iowa Trust and Savings Bank
Emmetsburg, Iowa

Directors of Federal Reserve banks and branches

Directors of the Federal Reserve Bank, under the general supervision of the Board of Governors of the Federal Reserve System, supervise the operations of the bank and ensure that the affairs of the bank are administered fairly and impartially. Drawing on their broad experience and knowledge of regional conditions, the directors provide the president of the bank and the Board of Governors information for use in formulating monetary policy. And because of their association with the Federal Reserve, they contribute to better public understanding of the Federal Reserve System and its actions. At least once every 14 days, they establish the discount rate charged member banks borrowing from the bank, subject to the review and determination of the Board of Governors.

Each Federal Reserve bank has nine directors serving three-year terms. Three Class A and three Class B directors are elected by member banks in the district. Three Class C directors are appointed by the Board of Governors. For the election of Class A and B directors, member banks are classified by the Board of Governors into three groups according to their capitalization. Each group elects one Class A and one Class B director.

Class A directors are representative of the member banks. Class B and C directors represent the public; they cannot be officers, directors, employees, or, in the case of Class C directors, stockholders of a bank. These nonbanking directors are

Detroit branch

JORDAN B. TATTER, Chairman
President and Chief Executive Officer
Southern Michigan Cold Storage Company
Benton Harbor, Michigan

RODKEY CRAIGHEAD
Chairman of the Board
Detroit Bank & Trust Company
Detroit, Michigan

HERBERT H. DOW
Secretary
The Dow Chemical Company
Midland, Michigan

JOSEPH B. FOSTER
Chairman of the Board
Ann Arbor Bank & Trust Company
Ann Arbor, Michigan

LAWRENCE A. JOHNS
President
Isabella Bank and Trust
Mount Pleasant, Michigan

CHARLES R. MONTGOMERY
President
Michigan Consolidated Gas Company
Detroit, Michigan

HOWARD F. SIMS
President
Sims-Varner & Associates, Inc.
Detroit, Michigan

Board of Directors, Detroit branch, from left to right: (standing) Messrs. Johns, Foster, Sims, Montgomery, Craighead; (seated) Mr. Tatter; (not shown) Mr. Dow.

Federal Advisory Council Member

EDWARD BYRON SMITH
Chairman of the Board
The Northern Trust Company
Chicago, Illinois

Auditors (reporting to Bank's Board of Directors)

FRED A. DONS, *General Auditor*

RICHARD P. BUSH, *Assistant General Auditor*

ROBERT A. LUDWIG, *Assistant General Auditor*

chosen with due but not exclusive consideration to the interests of agriculture, commerce, industry, services, labor, and consumers.

One Class C director is designated by the Board of Governors as chairman of the board of directors and Federal Reserve Agent. Another is appointed deputy chairman.

Branches of Federal Reserve banks have either five or seven directors. (The Detroit branch has seven.) A majority of the branch directors are appointed by directors of the parent Federal Reserve bank. They meet the same qualifications as Class A or B directors at the head office.

The other branch directors are appointed by the Board of Governors. They are selected according to generally the same criteria as Class C head-office directors, the difference being that they can be stockholders in banks.

The chairman of the branch board is selected from directors appointed by the Board of Governors using a method prescribed by the parent Federal Reserve bank. The directors of the Detroit branch, for example, elect their chairman. The directors of the branch assist the bank's board of directors in overseeing the operations of the branch. In addition, just as with directors of the bank, they provide two-way communication between the Federal Reserve and the public, ensuring participation by regional representatives in the formulation of monetary policy.

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