Forces Shaping the 80s and 90s

The Federal Reserve Bank of Chicago, as part of the nation's central banking system, serves the Seventh District which includes major portions of Illinois, Indiana, Michigan, and Wisconsin plus all of Iowa. Its role is to foster a healthy financial system and economy by participating in the formulation and conduct of the nation's monetary policy, supervising banks and bank holding companies, and providing banking services to depository institutions and the U.S. government.

The decade of the 1980s was a remarkable period for our economy. It was a time of significant contradictions—there were very important economic achievements, but also the build-up of major imbalances throughout our economy, as well as episodes of turbulence and trauma.

We benefitted from the longest peacetime expansion in our history, but leveraged every sector of the economy in the process. We produced record numbers of new employment opportunities, but encountered one financial crisis after another. Our manufacturing output increased to record levels while productivity grew, yet our burgeoning domestic consumption was satisfied with rising imports, and a record trade deficit resulted. In the process, our external position shifted from being the world's largest external creditor to being the world's largest external debtor—servicing this debt will be one of the new decade's major challenges.

What accounts for these apparent contradictions in our economic experience, and more importantly what lessons does this experience provide us for the 1990s? While our economy is surely too complex for one simple answer, logic would suggest that contradictory economic results derive inevitably from contradictory economic policies.

Throughout the decade, our nation's fiscal and monetary policies operated along disparate paths. As the decade opened, monetary policy was poised first to bring, and then to keep, inflation under control. But also from the early 1980s, in the face of a recession, our nation chose to pursue a highly expansionary fiscal policy. Both policies were widely

supported and, incredibly, both highly successful. Inflation was brought down, the recession ended, and a sustained expansion ensued.

A key to that success was the increasing globalization of financial markets, which provided a conduit for funding our deficit and high rate of consumption. But as a result, we concluded the 1980s in a very distorted position. We now consume more than we produce, and rely on foreign savings for the difference. Through this process we accumulated a tremendous external debt, but since we continued to spend heavily on public and private consumption rather than investment, we have not provided ourselves with sufficient cash-generating means for debt service.

The deregulation and liberalization of the world's financial system also played a key role in the 1980s. Perhaps most particularly in the United States, freeing our financial system from past restraints added immeasurably to our positive economic experience. While we may understand that an unfettered market process produces the best results, we need to be reminded of this from time to time.

Clearly, we enter the 1990s facing critical issues. First of all, we will have to make more progress on the federal budget deficit. Our experience of the 1980s tells us that budget deficits do matter—they have profound effects on our trade and balance of payment positions, as well as on our rate of savings and investment.

We will need to recognize that continued reliance on foreign capital to finance our deficits has risks, and we will have to continue to make progress on our trade deficit. To do this it will be important to improve our competitiveness. We must also improve our low rate of personal savings and achieve a better balance between consumption and investment.

Finally, one lesson from the 1980s stands out clearly from the rest, namely the need to make continued progress in the control of inflationary pressures. Obviously, this is an issue of particular concern to the Federal Reserve. In the face of all the changes of the past decade, the need

to reduce inflation remains the one constant. Based on our own experience and that of other economies around the world, price stability remains for the Federal Reserve the single most important contribution we can make to future economic success.

The 1990s promise to be every bit as interesting and just as challenging as the 1980s. But our record as a nation in meeting challenges has been outstanding, and the Federal Reserve's commitment to dealing with the issues ahead is firm. So I am confident that we can achieve as much success in the next ten years as we have in the past decade.

For the Federal Reserve Bank of Chicago, too, the period ahead promises to be, like the recent past, a time of enormous challenge and change. Our success in meeting those challenges over the past few years is owed entirely to the enormous talents and commitment of many individuals associated with our Bank, but one deserves particular recognition.

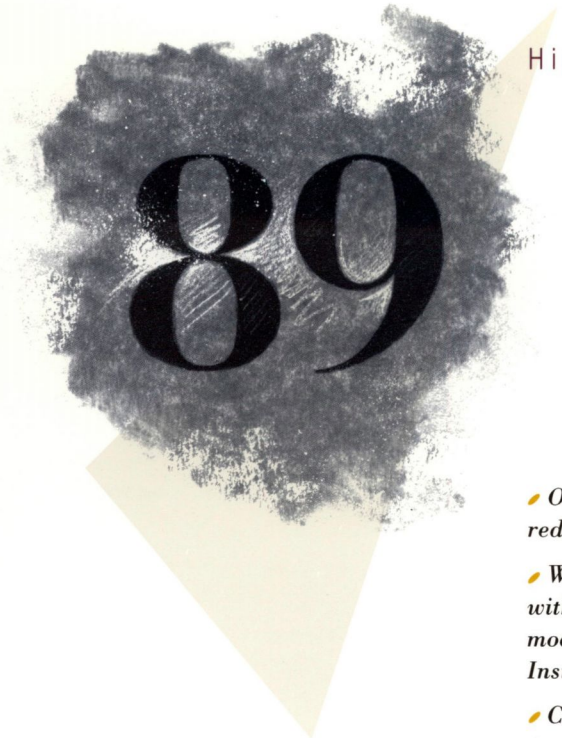
I would like to take this opportunity to pay tribute to Mr. Robert J. Day who has served our Bank so exceptionally as a member of our Board of Directors for the past six years, and as Chairman for the last four years. He guided our Bank with distinction and vision during a time of significant challenge and change. The Bank's accomplishments during this period are testimony to his leadership, plus his unstinting commitment of time, energy, and expertise.

The period of Bob Day's stewardship has been one of major transformation—in the environment in which the Bank operates, in many of the Bank's activities, and fittingly, even in the Bank's headquarters building. By successfully guiding it through this eventful period, Bob Day has prepared the Bank to meet the many challenges that surely lie ahead.

From left: seated, Deputy Chairman Marcus Alexis, Chairman Robert J. Day; standing, President Silas Keehn, First Vice President Daniel M. Doyle.

Silas Keehn

SILAS KEEHN, *President*



Highlights

- *Overall, the Bank met a very ambitious management plan while reducing annual expenses in real terms.*
- *We completed our multi-year $89 million building project on time, within budget, with no service disruptions, providing us an efficient modern facility and winning for the project's architects an American Institute of Architects award.*
- *Chairman Greenspan helped rededicate our building as we marked our 75th Anniversary with our employees, their families, and members of the community.*
- *We fully recovered the costs of our priced services for the sixth straight year by stressing cost containment and productivity, allowing us to again reduce prices for many of our products.*
- *Economic Research supported current public policy decisions with highly regarded studies on a variety of issues including public sector investment, imperfect capital markets, the term spread of interest rates, risks of expanded powers, deposit insurance reform, and regional input-output modeling.*
- *We joined forces with the University of Illinois to establish the Regional Economic Applications Laboratory (REAL), a center for research on the changing nature of the District economy.*
- *Our expanded contacts with local futures market participants proved particularly helpful as we assessed October's stock market turbulence.*
- *The Bank's 25th annual Conference on Bank Structure and Competition,* Banking System Risk—Charting a New Course, *and two special conferences,* Visions of the Midwest Economy, *and* Financial Globalization: Private and Public Strategies, *stimulated public debate on important policy issues.*
- *We expanded our community outreach with the opening of a computerized interactive lobby display explaining the Bank's role.*
- *We provided staff to other agencies and districts as needed to resolve thrift problems.*
- *Supervision and Regulation staff conducted 1,058 bank, bank holding company, and related examinations and inspections, and processed 602 applications, the heaviest work load in the Fed System.*
- *Check Services implemented new return item processing software to meet increased volume and time requirements associated with the Expedited Funds Availability Act.*

- *We instituted the Intermingled Return Item pilot in Wisconsin in cooperation with the Ninth District to speed and simplify the processing of returned checks.*
- *Our Des Moines Office achieved the number one productivity performance ranking in the Fed System.*
- *The Detroit Branch implemented an innovative pilot program, the System's first electronic connection for over-the-counter sales of savings bonds at financial institutions.*
- *Fiscal Agency implemented EZ Clear, improving the collection of matured savings bonds.*
- *Cash operations were improved by adding a second shift in high-speed currency processing and using new high-security currency shipping bags developed by Bank staff.*
- *The Bank began converting District institutions to Fedline II which provides on-line access to a broad array of electronic services.*
- *We made preparations to serve as the System pilot test site for EPP (Electronic Payments Processor) project hardware and software.*
- *Our Automated Clearinghouse processed over 100 million commercial items for the first time, indicative of the increasing popularity of electronic payments with consumers and businesses.*
- *The Bank instituted additional data security and disaster recovery measures to ensure the reliability and integrity of critical electronic functions.*
- *We built a state-of-the-art Network Control Center where our staff monitors both the Seventh District and the Fed System communication networks round-the-clock.*
- *We continued to play a leadership role in many System initiatives including the development of FRCS-90, an electronic network that will meet the requirements of the coming decade.*

	DOLLAR AMOUNT		VOLUME	
	1989	1988	1989	1988
CHECK AND ELECTRONIC PAYMENTS				
Checks, NOWs, and share drafts processed	1.1 *trillion*	1.1 *trillion*	1.9 *billion*	2.0 *billion*
Fine sort and packaged checks handled	242.4 *billion*	198.7 *billion*	502.2 *million*	406.4 *million*
U.S. government checks processed	55.8 *billion*	52.1 *billion*	57.1 *million*	59.3 *million*
Automated Clearinghouse (ACH) items processed	1.1 *trillion*	1.0 *trillion*	234.8 *million*	211.1 *million*
Transfers of funds	29.0 *trillion*	25.7 *trillion*	11.1 *million*	10.4 *million*
CASH OPERATIONS				
Currency received and counted	24.0 *billion*	21.8 *billion*	2.0 *billion*	1.9 *billion*
Unfit currency destroyed	4.9 *billion*	4.4 *billion*	550.6 *million*	513.8 *million*
Coin received and counted	515.3 *million*	589.0 *million*	4.1 *billion*	4.3 *billion*
SECURITIES SERVICES FOR DEPOSITORY INSTITUTIONS				
Safekeeping balance December 31:				
Definitive securities	11.8 *billion*	14.1 *billion*	377.8 *thous.*	425.2 *thous.*
Book entry securities	244.0 *billion*	215.6 *billion*	—	—
Purchase and sale	3.2 *billion*	3.6 *billion*	22.7 *thous.*	22.2 *thous.*
Collection of securities and other noncash items	1.1 *billion*	1.2 *billion*	231.2 *thous.*	251.1 *thous.*
LOANS TO DEPOSITORY INSTITUTIONS				
Total loans made during year	3.3 *billion*	4.6 *billion*	1,990	2,195
SERVICES TO U.S. TREASURY AND GOVERNMENT AGENCIES				
Issues, redemptions and exchanges:				
U.S. savings bonds	1.2 *billion*	1.2 *billion**	3.1 *million*	4.2 *million**
Definitive government securities	0.7 *billion*	1.2 *billion*	27.1 *thous.*	100.5 *thous.*
Book entry government securities	4.0 *trillion*	2.7 *trillion*	1.7 *million*	1.2 *million*
Government coupons paid	103.2 *million*	140.8 *million*	100.2 *thous.*	137.0 *thous.*
Federal tax deposits processed	116.5 *billion*	107.4 *billion*	874.9 *thous.*	863.5 *thous.*
Food stamps redeemed	1.5 *billion*	1.4 *billion*	301.7 *million*	312.4 *million*

**Restated to exclude EE bond sales by issuing agents.*

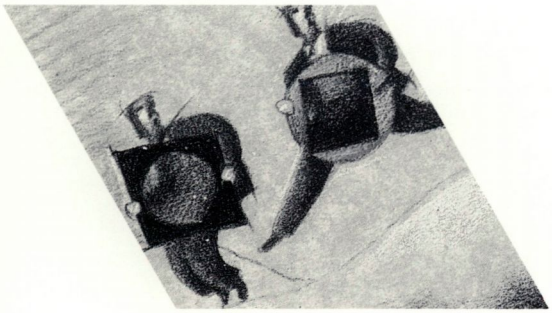
"Is Capitalism Working?" So asked a *Time* magazine cover story in 1980. The answer was a qualified yes. Capitalism was working, but not very well. "Price spurts once associated with profligate banana republics are now common...," *Time* declared, "and threaten the foundations of democratic society." Record high interest rates, sagging productivity, and a depressed stock market added to the U.S. economic woes at the beginning of the decade. The gloomy economic outlook was not limited to news magazines. A bipartisan Congressional committee reported in 1979 that unless productivity improved, the nation "will face a dramatically declining standard of living in the 1980s" with prices up to "almost incredible levels such as $5.80 for a gallon of gasoline and $2.06 for a loaf of bread."

Capitalism, of course, made a comeback in the 1980s. Following a severe recession in late 1981 and 1982, inflation declined dramatically and the U.S. embarked on a peacetime record seven years of expansion. The economy created nearly 20 million jobs and manufacturing productivity rebounded. It was a decade of economic contradictions, however. The 1980s also featured massive trade and budget deficits, soaring private and public debt, and a series of financial strains including widespread thrift failures and the largest decline in the stock market in more than 50 years.

The decade's one constant was the assurance of continued change, a trend that helped produce the unpredictable and contradictory economy of those ten years. The following pages highlight five "forces of change" that helped to mold the economy in the 1980s: Technology, Globalization, Financial System Restructuring, Deregulation, and Industrial Restructuring. All of these forces were intertwined and interrelated; each was both a cause and an effect; each helped to shape the others and accelerated the overall pace of change. We review these forces from the Federal Reserve Bank of Chicago's perspective and include some thoughts from the Bank's senior executives on the implications of these changes for the 1990s—a decade that promises to be, like the 1980s, a challenging and eventful ten years.

Technology—in all of its many forms—was pervasive in the 1980s. Advances in electronics led to an influx of products, such as the VCR, that changed Americans' buying habits. Personal computers proliferated—there are about 45 million in the U.S. today—and improvements in microchips sparked a wave of miniaturization. As technology developed, the cost of processing information dropped precipitously—according to one estimate the computational power a dollar can buy has increased a thousandfold in the past two decades.

For U.S. manufacturers, technology became a tool for fighting foreign competition. Robotics, automated processes, and computer-aided design and manufacturing (CAD/CAM) gave traditional industries the means to boost their sagging competitiveness. The financial services industry concentrated on computer and information processing technology. The use of Automated Teller Machines (ATMs), for example, exploded. Today, some 75,000 ATMs are woven into a variety of regional and national networks. But even as technology enabled banks to offer more services more efficiently, it also smoothed the path for new competitors to enter the financial services industry.



AUGUST '81-IBM INTRODUCES ITS FIRST PC.

Technology

At the beginning of the decade, the Bank took a leading role in developing an improved communication network for the Federal Reserve System. The Federal Reserve Communication System of the 1980s (FRCS-80) was implemented in 1983 under the direction of a project team based in Chicago and is still operated by the Bank. FRCS-80 utilizes a series of inter-connected processors, rather than a central switch, a more flexible, reliable, and efficient approach that enabled the Fed to handle the huge increase in electronic volumes in the 1980s.

One of the major reasons for this increase in electronic volumes was the development of new and relatively inexpensive computer equipment. The new equipment, combined with price incentives, encouraged institutions with relatively low volumes of wire transfers to switch from the inefficient process of telephone transfers to an electronic computer connection with the Fed. The number of institutions completing "on-line" computer transfers through the Chicago Fed rose from a handful in 1980 to more than 900 by 1989. The use of the Automated Clearinghouse (ACH), also aided by new processing and communication technology, soared in the 1980s. ACH volume in the Seventh District increased from 28 million payments in 1980 to 235 million in 1989. As funds transfer volumes increased, the Bank offered information services that helped institutions manage their funds positions.

The Bank also stepped up its data security efforts. By 1988, all of the Bank's wire transfers were encrypted—or encoded—to prevent an unauthorized third party from understanding or altering the message.

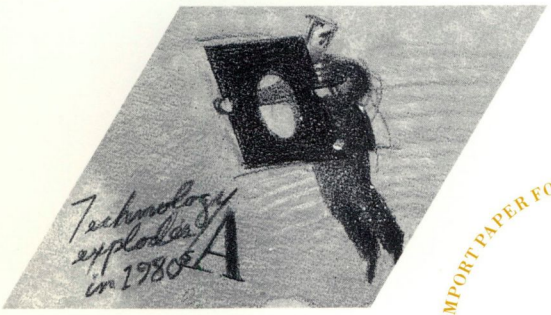
The Bank automated the process of issuing government securities with the introduction of *Treasury Direct*. The Chicago Fed, along with the other 11 Fed Banks, implemented the system in 1986. Under *Treasury Direct*, nearly all government securities were converted to book-entry form, which resulted in simplified recordkeeping for customers and eliminated the possibility of lost or stolen securities. Another advantage was cost savings—it was estimated that *Treasury Direct* would save taxpayers $46 million in its first seven years of operation.

The Bank also improved its automated check-sorting equipment throughout the decade and in 1988 automated the labor-intensive process of handling return checks, a move that facilitated bankers' compliance with the Expedited Funds Availability Act.

At the end of the decade, the Federal Reserve was exploring a number of ways to use technology to improve services including check truncation, digital image processing, and an all-electronic ACH.

William C. Conrad (left), Automation and Electronic Services

Carl E. Vander Wilt, Financial and Management Services



AUGUST '84-ADVENT OF ELECTRONIC TICKER TAPE FORCES NEW YORK TO IMPORT PAPER FOR PARADE.

Bill Conrad: "From my perspective, there's been a dramatic change in our technology and automation efforts. Our services today are more time critical—virtually 100 percent availability and reliability is required. Take checks—the emphasis now is not just delivering them to institutions. Moving the MICR data faster than the paper and providing the information in a time-critical manner is a necessity.

As the characteristics of our services change, we need to make sure that our production and delivery systems can accommodate the new demands. The Federal Reserve System is preparing to make some significant changes in our communications networks to assure their continued reliability. We're looking at the network that connects the Fed Banks as well as the networks that connect customers to Fed offices. As the operator of the System's communication network, the Chicago Fed has been actively involved in this effort. The Fed is also investigating the use of fault-tolerant minicomputer technology. Our interest is in finding out if this technology would improve reliability, availability, and our ability to remotely back-up our services.

With the changes in banking structure and the increasing need for our customers to do business with more than one Fed District, we're also taking steps to provide more uniformity and standard access to our core Federal Reserve services. It's technically possible to provide automation support for payments services from fewer than 12 locations. Such an arrangement could actually improve access, uniformity, and flexibility in responding to change and be more efficient. This is something we're seriously looking at—for payments processing and probably even additional applications."

Carl Vander Wilt: "Our accounting operations interface with all institutions that have accounts with us—about 1,700 in the District. We provide them with a daily statement either electronically or in paper form. We also have a service that provides information on nighttime activity such as check or ACH that affects the management of their account on the current day.

Technology and geographic deregulation have created a definite need for us to be more standardized. For example, take a bank holding company headquartered outside our District that buys a bank in our District. The marketplace drives them to do things efficiently—often this means doing them electronically or in a combined or standard way within the holding company. So standardization becomes important for the Federal Reserve. An institution doesn't want to develop more than one system in order to interface with additional Fed offices. We're working very actively now to see what the standards should be; to see what framework is most desirable.

There are a lot of issues to be sorted through in the '90s. Standardizing might satisfy certain customer requirements but it might also result in systems with less flexibility to meet local needs. On the other hand, it's arguable that a standard system could result in even greater flexibility. Will there be more standardization? Absolutely yes...the trick will be to do it in a way that best serves our constituents' needs."

Globalization

Globalization, a burgeoning trend in 1980, was a reality by the end of the decade. An instantly-connected, intertwined, interdependent world emerged in the 1980s. Trade issues became increasingly important and a quicksilver 24-hour global market developed. Every day, hundreds of billions of dollars in currency and securities transactions flashed across national borders.

A painful reflection of globalization was our nation's deteriorating international position. The world's largest creditor in 1980, the U.S. was the largest debtor nation just five years later. The payments deficit grew in the next three years, hitting a record $532.5 billion in 1988. U.S. manufacturers were battered by the increased foreign competition reflected in the deficit, and their share of the domestic markets in certain products dropped precipitously. But as competition intensified, it became more difficult to differentiate between a U.S. product or company and a foreign one. With multinational corporations producing more goods overseas and joint ventures commonplace, the traditional distinctions became less clear-cut.

Globalization

Globalization highlighted the need for the Federal Reserve and other central banks and regulators around the world to communicate and coordinate their actions. It was no longer enough to keep your own house in order. As the concept of a global village became more of a reality, the actions, and reactions, of your world neighbors could be all-important. In monetary policy, the actions of foreign countries became an important factor. International efforts, such as the attempts to affect the value of the dollar and to contain the LDC debt crisis, became much more common.

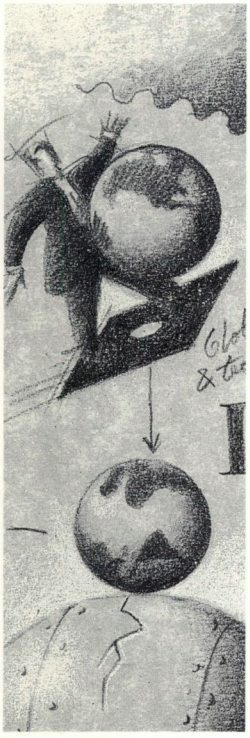
One of the most significant examples of the increased trend toward cooperation was the adoption of international risk-based capital guidelines. The project began as a cooperative effort among the U.S. federal agencies and then expanded to include eleven other major industrial nations. The guidelines, which will be phased in over the next three years, are designed to make capital requirements more sensitive to risk. In addition, the guidelines should help "level" the international playing field by encouraging international banks to hold strong capital positions and by reducing competitive inequities that are due to varying supervisory regulations.

Another effect of globalization was a decision by the Federal Reserve Board to end its policy of discouraging banks in the U.S. from offering deposits denominated in foreign currencies. The Board's policy was intended to limit volatility in the foreign exchange markets. The Chicago Reserve Bank initiated a review of the policy noting that the globalization of financial market transactions had eliminated many of the original reasons for imposing the restriction. The change in policy, effective at the beginning of 1990, should help small investors and small companies doing business overseas.

As globalization increased, so did volatility and risk. As hundreds of billions of dollars in electronic payments crossed national borders every day, the Federal Reserve increasingly studied the risk associated with large-dollar wire transfer networks. Systemic risk—a chain reaction of failures triggered by a participant's inability to settle its debt on a network—became more of a concern. In 1986, the Fed implemented a policy to reduce risk on large-dollar networks by placing a cap, or a limit, on the amount of funds overdrafts that an institution could accumulate during the day. The Chicago Fed played a key role in implementing the policy by coordinating the development of educational programs and materials on behalf of the System. In 1989, the Board proposed to expand the policy by charging a fee for overdrafts on the Fed's wire transfer system—Fedwire. The proposal would use market forces to help contain the risk that could result from the increasingly integrated economy of the next decade.

SEPTEMBER '87-HONDA ANNOUNCES PLANS TO EXPORT 50,000 U.S.-PRODUCED CARS TO JAPAN.

Roby L. Sloan, Detroit Branch



DECEMBER '81-CHICAGO MERCANTILE EXCHANGE BEGINS TRADING EURO-DOLLAR FUTURES.

Roby Sloan: "Distance is no longer the crucial factor that it used to be. With technology and a reduction in country barriers, it's a reduced impediment in what we do—whether it's trade, travel, or communication.

Clearly we have a worldwide financial market. Even those not directly involved are kept abreast of changes in the global market and fluctuations in foreign currencies on most any morning newscast. There's a tremendous volume of funds that move very quickly across the globe based on an expected rate of return. While this presents opportunities and leads to greater efficiency, more capital is turning over more rapidly and increased velocity inherently increases risk. New instruments have been spawned for the purpose of risk spreading, but it's not always clear who bears the risk that's spread. And I'm not sure that the people who are bearing the risk are fully aware of it. That's an issue the Bank has been studying much more closely.

From a more operational standpoint, globalization has also affected the use of Fedwire. Right now there's active discussion regarding a 24-hour Fedwire or at least extending hours. It's a discussion that's been ongoing for a while. Here in Chicago, the commodity markets create the need for extended hours. In New York, it's the international wire system, CHIPS.

Globalization has also increased the trend toward a closer-knit financial community. In Europe, the integration of commercial banking and securities activities is already happening. Europe 1992 will drive the process forward. In order to be a full-service organization in Europe, a U.S. bank will have to provide the same service. I think that will result in a spillover here in the U.S.

Certainly the increased foreign competition has affected the economy in Detroit and Michigan. Competition, especially on the global level, has forced restructuring. The pace of change complicates the process. There's a whole variety of factors that are more unstable and less predictable—from volatility in the financial markets to rapid advances in technology. In a broad sense that's what drives restructuring—the need to quickly react to change.

There are few industries affected by global competition that are as visible as the auto industry. It's a complicated process—it raises questions about what's a U.S. car and what's a foreign car. A Honda may have more U.S. content than some Ford nameplates. As economic sectors become more integrated, it's crucial that the Bank understand the implications of the global economy. At the same time, this integration has made it more difficult to gauge individual sectors. So our understanding needs to be broader and more specific at the same time. One thing the Bank has done to increase its understanding of individual sectors is strengthen its contacts with various firms in the District. And certainly our directors in Chicago and Detroit will continue to play a key role."

The commercial bank—traditionally the most stereotyped member of the business community—faced an identity crisis by the early 1980s. Spurred by market forces, legislation was blurring the distinctions between banks, thrifts, and credit unions. The carefully compartmentalized financial services industry was turning into a maze of new competitors, new products, and new markets. Financial institutions faced a growing number of competitors—foreign banks, general merchandise retailers, investment banks and security dealers were suddenly a threat. The bank's traditional role as a financial intermediary was undermined by developments such as the expansion of the commercial paper market.

Financial institutions responded to the changes. One major trend was consolidation—the number of banks declined and the number of large banks increased. As interest-rate spreads narrowed, institutions ventured into areas that provided fee income such as loan securitization, letters of credit, and interest-rate swaps. Banks also cut overhead expenses, reallocated resources, and focused on their areas of strength, whether it was "one-stop financial shopping" or specialized lending. At the end of the decade, most banks were holding their own in a much more competitive marketplace.

Financial System Restructuring

MARCH '87-CHASE MANHATTAN SELLS CD'S WITH INTEREST TIED TO S&P 500 INDEX.

As financial restructuring continued, the Bank's supervision and regulation of bank holding companies and state member banks evolved in response to the changing environment. Previously, problems at a bank were usually linked to poor management or to local or regional economic problems. With increased competition and globalization, it became more difficult to anticipate and detect problems at a bank. More complex products, such as interest-rate swaps, made it difficult to measure credit exposure as well as credit quality. The difficulties that examiners might encounter were less homogeneous; the process became more subtle.

The Bank responded to the shifting environment in several ways. One key step was increasing the number of examinations and concentrating more on key factors that might affect a bank's safety and soundness. A bank's interest-rate position, asset/liability management, and organization and structure were examined more closely. The Bank also focused its efforts. There was more emphasis on larger banks or banks that were experiencing troubles.

In addition to increasing examinations, the Chicago Fed focused on monitoring banks on an ongoing basis. To enhance off-premise surveillance, the Federal Reserve Board revised reporting requirements for bank holding companies so that Fed Banks could obtain more data more frequently. By studying these statistical reports, the Chicago Fed obtained a better sense of when a bank might be facing problems. This early warning system helped the Chicago Fed spot potential difficulties before they became significant problems.

As the supervisory process became more complex, the Bank increased its staff and hired more experienced examiners. As part of the same effort, the Chicago Fed upgraded its training procedures. The changing environment also required increased communication among regulators. As the distinctions between financial institutions disappeared, and geographic barriers crumbled, Bank representatives met more frequently with other federal and state regulators and increased communication with other Fed Districts.

While the Bank increased its supervisory efforts, it also began to develop a comprehensive plan to revamp the regulatory system. The plan, which was introduced in 1988, is designed to promote market discipline and expand bank holding company powers without extending the federal safety net to nonbank activities. While not fail-safe, the plan can serve as a starting point for regulatory system reform.

Franklin D. Dreyer (left), Supervision and Regulation and Loans

William H. Gram, Office of the General Counsel

Frank Dreyer: "One very apparent trend is the increasing interdependence of the various elements of the financial system. You can see this in the interactions between banks and thrifts, although it's less true for credit unions. Certainly the securities industry is more intertwined in the overall financial system.

There's also increasing interdependence on a global scale, which raises some questions. Suppose a British bank branch in Tokyo dealing in Eurodollars has a liquidity crisis. The first choice would be to turn to the bank's head office in England. If necessary, it would be supported by the Bank of England. But there could be a practical problem. What if the British head office is closed when the Tokyo branch is open? How far do you go with your ideal solution when you have financial markets opening in different time zones in all parts of the world? Certainly communication is essential. There's much more interaction among the U.S. supervisors and the major industrial countries than there was just ten years ago. The information network is much stronger.

One indication of this interaction, both on a national and an international basis, is the risk-based capital guidelines. They are called risk-based, although the only risk that's addressed is credit quality. Of course, there are other kinds of risks such as interest-rate risk. It's a process that's never-ending. As soon as a standard has some age, then some new product or other pressures will tend to lead to corrosion in the capital ratios. The next area of tension is likely to be adopting a common definition of asset quality. If you have risk-based guidelines, then you have to define asset quality."

Bill Gram: "When I came here 24 years ago, we were dealing with a series of laws and regulations created as a result of the Crash of '29 and the Great Depression. Today, of course, there's a totally different environment.

How should regulators respond to a financial industry that's restructuring? I think you need to look at three aspects: supervision, regulation, and accountability. By accountability, I mean having a system in which a key decision-maker at an institution is accountable for his or her action, or lack of action. The banking industry seems to have adequate regulation and accountability. Perhaps there should be more supervision and a reduction in regulation to facilitate competitiveness.

In broad general terms, I think we're still moving toward deregulation in the banking industry because it's subject to fairly extensive oversight. In other areas of the financial industry, I think the pendulum is swinging back to more regulation. Possibly deregulation will continue in banking because some other areas have become weaker. The banking industry was allowed to pick up troubled S&Ls and maybe one day they'll be able to purchase financially troubled brokerage firms or take over some of their activities.

We could see the Glass-Steagall wall crumble. With adequate firewalls and adequate supervision, it can be done. At some point, some brokerage firms may need the strength of the banking industry. But are we seeing a triumph or a failure of deregulation? Maybe a little of both."

FEBRUARY '85-SEARS ANNOUNCES PLANS FOR DISCOVER CREDIT CARD.

Rather than sweeping the nation in a wave of change as some envisioned, deregulation in the financial industry proceeded in spurts and dribbles. Various sources initiated change in a piecemeal fashion—the courts, regulators, Congress, and state legislators all played a part. The one constant was the role of market forces in prodding forward the unwieldy deregulation process.

For financial services, the centerpiece of the deregulation effort was the Monetary Control Act of 1980, which phased out interest rate ceilings and introduced NOW accounts. Two years later, Congress passed the Garn-St Germain Act which expanded powers for the embattled thrift industry and authorized the Money Market Deposit Account. Financial institutions were given more freedom to share in the rewards—and risks—of the marketplace. At the same time, geographic barriers began to fall. By year-end 1989, only four states banned interstate banking.

As geographic limitations fell, the focus of deregulation shifted to product barriers. Although Congress failed to repeal the Glass-Steagall Act, some of the barriers were chiseled away by rulings from federal banking agencies. At the end of the decade, banks were still nervously eyeing their competition and seeking permission to engage in a variety of activities or expand their range of services.

Deregulation

Like commercial banks, the Federal Reserve was exposed to the potential profits and perils of the marketplace with the passage of the Monetary Control Act of 1980 (MCA). The Fed was required to price most of its services, which it had previously provided to member banks for free, and to offer them to all depository institutions. As one of a number of competitors in the marketplace, the Bank was to recover "in the long run" the cost of providing services.

The MCA had a tremendous effect on the Chicago Reserve Bank. Its customer base of 900 member banks suddenly ballooned to 7,000 institutions ranging from several thousand small credit unions to a handful of major correspondent banks. A crucial first step was to shift to a stronger marketing orientation. To gain a better understanding of its customers, the Bank established a department to research its new markets. The Bank also worked to change its service strategy. Previously, the Fed Banks provided a fairly basic, operationally prudent, array of services. Competing institutions that charged fees retained a share of the market by being more flexible and customer oriented. With the advent of pricing, the Chicago Fed offered more services at a relatively low price. Responsiveness to customer needs became more of a priority.

The Bank did not experience strong competition in electronic services because of the lack of close substitutes in the market. In check services, however, the Bank faced a number of strong competitors. As expected, the Bank lost business in its check services following the introduction of pricing in 1981. During the next two years, the Chicago Fed failed to turn a profit; it was forced to cut costs and to restructure. A new organization was developed. The Bank shifted from a functionally oriented structure to one in which there was responsibility for an entire product. By 1984, the Bank was recovering the costs of providing services.

Like commercial banks, the Fed's experience with deregulation led to more explicit pricing of products. Labor-intensive services, such as telephone wire transfers, were priced to reflect their real costs. As part of the same effort the Fed unbundled many of its services, a strategy that provided more alternatives to customers.

The experience also led to a more efficient payments mechanism. Check processing schedules were shortened, new check services were introduced, and relatively low prices were maintained. The MCA also gave the Bank the flexibility to use price incentives to encourage institutions to use more efficient electronic services such as "on-line" wire transfers and ACH.

At the end of the decade, the Bank was leaner, more efficient, and better able to meet the challenges of the 1990s.

Richard P. Anstee (left), Support Services

Charles W. Furbee, Operations and Check Services

Chuck Furbee: "Where will we be in the next ten years? If you assume that it's important that the Fed have a presence in the marketplace—and I do—then the next issue is how best to provide services. How do you remain a viable enterprise in a mature market such as check collection?

First you become more efficient, which we have—you can see it in our productivity statistics. You also improve the service and maintain or lower your prices. We've reduced our prices and enhanced our service levels several times in the past few years. But you reach a point where prices reflect efficiencies.

In financial services with low—or even declining—volume trends, a logical next step could be consolidation. In savings bonds, for instance, original issues and payroll are centrally processed in Chicago; all reissues are processed in Detroit. Similarly, all of our government check operations take place in one location.

There have already been some instances of consolidation across District and functional lines. We've already seen some of this in definitive securities. This trend is in its infancy, but I think we can expect it to continue. Also, interstate banking is creating multi-District constituents. For the Fed Banks this means responding to different operational and financial needs. I think we'll probably see more uniform service levels within, and across, the Districts as well as the consolidation of selected functions."

Dick Anstee: "The MCA resulted in a lot of changes for the Bank. We needed different people and different skills. There was a greater demand for professional workers or information workers. We hit a transition point in 1987—for the first time more than half of the Bank's staff in Chicago were managerial and professional workers.

Given the steadily increasing demand for skilled information workers, I think there's a real conflict in supply and demand looming. We've got a strong demographic trend working against us. With the baby boomers aging, the growth of people entering the work force will slow down. Current shortcomings in our educational system present another significant problem for the '90s. The lack of skills of some entry-level workers puts a burden on employers. How much training can we provide to teach basic skills to employees? We're already training our existing work force to keep up with the pace of technology. But we're concerned that we may have to provide basic reading and math skills to new employees before they can even join the work force.

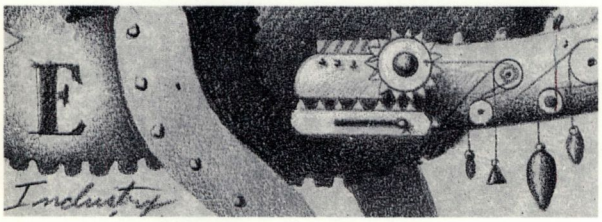
Another trend is the move toward a more horizontal organization. In order to be more competitive, we really had to—and have been able to through attrition and early retirement programs—reduce layers of management. It's resulted in a much flatter, more efficient organization. As that trend continues, the career motivation that used to exist in the form of promotions to intermediate supervisory or management positions is just not there. Our challenge is to replace that kind of career progression with more training and development opportunities that will give an employee more skills, a sense of accomplishment, and a better chance for advancement."

FEBRUARY '83-MMDA BALANCES SURPASS $242 BILLION SEVEN WEEKS AFTER BEING INTRODUCED.

"Free enterprise," Lee Iacocca observed in 1980, "is going to hell." The U.S. auto industry, and many others, faced wrenching changes at the beginning of the decade. Intense foreign competition, inflation, aging facilities, and a general shift in growth from manufacturing to services—all contributed to force a painful restructuring process. Companies' responses were as varied as the problems they faced. Some followed the example of American Can Company which shifted into financial services, changing its name to Primerica in the process. Others, such as Inland Steel, elected to follow the "lean and mean" route—stripping away nonrelated business, modernizing facilities, and cutting costs. For others the response was less desirable—bankruptcy.

The restructuring process, as painful as it was, showed results by the end of the decade. Although U.S. companies lost ground in many areas to foreign competitors, the manufacturing output per worker increased by more than 3 percent annually as compared to 1.8 percent in the last half of the 1970s. And in the Midwest, which lagged national growth through most of the decade, manufacturing productivity outpaced the country by a significant margin by 1989.

MAY '85-INTERNATIONAL HARVESTER PRODUCES LAST TRACTOR AT ROCK ISLAND, IL PLANT.



Industrial Restructuring

As the Midwest underwent long-term structural changes in the 1980s, the Chicago Fed intensified its efforts to study the regional economy. An important part of this effort was providing support for economic development policies. As the Midwest economy staggered following the high inflation and interest rates of the early 1980s, there was a wave of cooperative public/private projects combining the efforts of state governments, universities, labor, and business. While economic development plans in the past had often lacked coordination and a clear purpose, the efforts in the 1980s stressed a long-term approach to studying the structural changes in the economy and how to adjust to them. Such efforts could not alter structural changes, but they might soften the blows of the painful adjustment process.

A key first step in devising a development plan was understanding how the regional economy was changing. With its unusual combination of objectivity, staff expertise, and access to economic data, the Chicago Fed was well suited to this task. The Bank's first collaborative effort involved working with the Commercial Club of Chicago—a long-established group of the city's business leaders. The Bank joined with the Commercial Club and representatives from government, labor, academia, and community groups in 1983 to develop a metropolitan area economic plan with an emphasis on creating and maintaining jobs. The Bank's role was to develop a data base of economic information to support the project. This information, which the Chicago Fed has updated through the decade, has become part of a comprehensive regional data base used to analyze economic change in the Midwest.

The Bank participated in several other cooperative efforts in the 1980s. In 1984, the Chicago Fed prepared a two-volume economic scan as part of a cooperative venture with the Wisconsin Strategic Development Commission, a public/private group formed to develop the state's first long-term economic plan. The Bank also worked with the Great Lakes Commission in 1985 in developing a statistical compendium for the Great Lakes region. The Chicago Fed played a similar role in a cooperative effort with the Iowa Business Council compiling an extensive volume of economic data in a report entitled, ***The Iowa Economy: Dimensions of Change***. The study was updated and extended by the Bank in 1989.

In each of these collaborative efforts, the Bank helped provide an economic underpinning and acted as a catalyst by helping to attract other participants. These efforts, combined with other projects such as the development of the Midwest Manufacturing Index, have provided the Chicago Fed with an increased understanding of the regional economy that will be useful as restructuring continues in the 1990s.

Karl A. Scheld, Economic Research and Information Services

FEBRUARY '83-G.M. AND TOYOTA ANNOUNCE JOINT VENTURE TO MAKE SUBCOMPACT CARS.

Karl Scheld: "Any vibrant economy needs to change—this was especially evident in the U.S. economy of the '70s and '80s. As international barriers fell, funds and goods flows increased significantly. Not surprisingly, competition increased. This brought about a painful restructuring, but it also helped to improve manufacturing productivity. We're now producing more than ever with far fewer inputs. This restructuring will continue, but it's difficult to predict how rapidly because we've done so much already.

It will be some time before we understand all of the dimensions of these economic developments. We do know that the nature of the U.S. business cycle has changed. Responses to shocks—whether from the real or the financial side—are likely to be different. Overall, the economy could be more stable. Increased competition has resulted in quicker reactions by firms to economic changes. Traditional cyclical industries will have less of an impact on economic fluctuations, and the nonmanufacturing sectors—especially consumer-led areas—are likely to be less sensitive to fluctuations in the manufacturing industries. But on the financial side, the buildup of debt across the economy could raise a risk to continued economic stability.

Restructuring and globalization have increased the challenges for monetary policy. With the increasing importance of nonmanufacturing activity, the economy as a whole may be less sensitive to interest rates. If so, would the traditionally cyclical industries—generally more interest-sensitive—bear a larger burden of getting inflation to come down? Perhaps not, because there may be greater interest sensitivity across the economy because of heavy debt loads.

The implications for inflation are also ambiguous. On one hand, increased competition will tend to keep the lid on some prices. But large portions of the nonmanufacturing sector are less price sensitive. The consumer, for example, may delay purchasing large durable goods, but is less likely to delay purchasing a service like medical care even when prices are rising. This may make it harder to control inflation.

With an integrated international and national economy, monetary policy actions may not have the same effect. We need to identify more clearly the forces influencing price and output developments. We have to consider economic policy in the context of a world market and a world financial system.

From the Bank's standpoint in the '90s, this means that our analysis will emphasize disaggregating economic activity by industry types. That way we'll be in a better position to identify and understand the implications of shocks to the economy on an industry-by-industry basis rather than trying to go in one step from the shock to the national or international ramifications. Clearly that effort will include a heavy emphasis on the international competitive and financial aspects. Also, we'll be focusing on the local futures markets to identify more closely who bears risk and what possible dangers, if any, exist from what has clearly become a worldwide financial market."

Statement of Condition

	12/31/89	12/31/88
ASSETS		
Gold certificate account	$ 1,361,000,000	$ 1,394,000,000
Interdistrict settlement account	1,786,742,663	(1,715,509,834)
Special drawing rights certificate account	1,100,000,000	656,000,000
Coin	35,862,164	44,379,423
Loans and securities:		
Loans	9,877,000	44,415,000
Federal agency securities	775,097,120	845,754,016
U.S. government securities	26,939,976,768	28,367,341,607
Total loans and securities	27,724,950,888	29,257,510,623
Cash items in process of collection	809,277,501	773,969,167
Bank premises	109,763,162	99,839,960
FDIC assumed indebtedness	0	2,316,178,167
Other assets	4,696,646,683	1,868,157,282
Total assets	$ 37,624,243,061	$ 34,694,524,788
LIABILITIES		
Federal Reserve notes	$ 32,240,869,404	$ 29,657,842,254
Deposits:		
Depository institutions	3,709,539,154	3,413,112,943
U.S. Treasury—general account	0	0
Foreign	19,350,000	19,200,000
Other	189,732,230	106,580,985
Total deposits	3,918,621,384	3,538,893,928
Deferred availability cash items	560,848,934	564,978,798
Other liabilities	342,890,639	386,797,008
Total liabilities	$ 37,063,230,361	$ 34,148,511,988
CAPITAL ACCOUNTS		
Capital paid in	$ 280,506,350	$ 273,006,400
Surplus	280,506,350	273,006,400
Total capital	561,012,700	546,012,800
Total liabilities and capital	$ 37,624,243,061	$ 34,694,524,788

Statement of Income

	1989	1988
CURRENT INCOME		
Interest on loans	$ 148,259,735	$ 169,974,426
Interest on government securities	2,384,805,935	2,168,845,209
Interest on investments of foreign currencies	133,784,400	38,564,698
Service fees	94,098,692	89,093,953
All other	12,103,973	2,405,836
Total current income	$ 2,773,052,735	$ 2,468,884,122
CURRENT EXPENSES		
Operating expenses	$ 152,860,604	$ 147,164,235
Other current expenses	27,038,513	24,497,231
Total current expenses	179,899,117	171,661,466
Less reimbursement for certain fiscal agency and other expenses	12,548,912	12,412,611
Current net expenses	$ 167,350,205	$ 159,248,855
Current net income	$ 2,605,702,530	$ 2,309,635,267
ADDITIONS TO (OR DEDUCTIONS FROM) CURRENT NET INCOME		
Net profit (or loss) on sales of securities	$ 1,377,332	$ 2,623,055
Net profit (or loss) on foreign exchange transactions	164,355,514	(65,392,051)
Board of Governors assessment	(34,117,852)	(33,779,083)
All other—net	(4,126,924)	(3,968,837)
Net additions (or deductions)	$ 127,488,070	$ (100,516,916)
Net income available for distribution	$ 2,733,190,600	$ 2,209,118,351
DISTRIBUTION OF NET INCOME		
Dividends paid	$ 16,791,352	$ 16,088,003
Payments to U.S. Treasury (as interest on Federal Reserve notes)	2,708,899,298	2,181,326,998
Transferred to surplus	7,499,950	11,703,350
Total income distributed	$ 2,733,190,600	$ 2,209,118,351

1989 Board of Directors, Federal Reserve Bank of Chicago, from left to right: seated, J. Gabbert, R. Day, M. Alexis, B. Sullivan; standing, P. Schierl, C. McNeer, E. Powers, B. Backlund, M. Naylor.

1989 Board of Directors, Detroit Branch, from left to right: seated, B. Beltaire, R. Lindgren, P. Peters; standing, R. Story, J. Aliber, R. Mylod, F. Meijer.

BOARD OF DIRECTORS FEDERAL RESERVE BANK OF CHICAGO

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Chairman and Chief Executive Officer
USG Corporation
Chicago, Illinois

Deputy Chairman
Marcus Alexis
Dean, College of Business Administration
University of Illinois at Chicago
Chicago, Illinois

B. F. Backlund
Chairman and Chief Executive Officer
Bartonville Bank
Bartonville, Illinois

John W. Gabbert
President and Chief Executive Officer
First of America Bank-La Porte, N.A.
La Porte, Indiana

Charles S. McNeer
Chairman and Chief Executive Officer
Wisconsin Energy Corporation
Milwaukee, Wisconsin

Max J. Naylor
President
Naylor Farms, Inc.
Jefferson, Iowa

Edward D. Powers
President
Fire Brick Engineers Company
Milwaukee, Wisconsin

Paul J. Schierl
Chairman and Chief Executive Officer
Fort Howard Corporation
Green Bay, Wisconsin

Barry F. Sullivan
Chairman of the Board
First Chicago Corporation
The First National Bank of Chicago
Chicago, Illinois

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Chairman
Richard T. Lindgren
Former President and Chief Executive Officer
Cross & Trecker Corporation
Bloomfield Hills, Michigan

James A. Aliber
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Detroit, Michigan

Beverly Beltaire
President
P.R. Associates, Inc.
Detroit, Michigan

Frederik G. H. Meijer
Chairman of the Board
Meijer, Incorporated
Grand Rapids, Michigan

Robert J. Mylod
Chairman, President, and Chief Executive Officer
Michigan National Corporation
Farmington Hills, Michigan

Phyllis E. Peters
Director, Professional Standards Review
Deloitte & Touche
Detroit, Michigan

Ronald D. Story
Chairman and President
The Ionia County National Bank of Ionia
Ionia, Michigan

ADVISORY COUNCILS

Federal Advisory Council Representative

B. Kenneth West
Chairman and Chief Executive Officer
Harris Bankcorp, Inc. and Harris Trust and Savings Bank
Chicago, Illinois

Advisory Council on Agriculture

Varel Bailey
Anita, Iowa
Iowa Corn Growers Association

Kent Chidley
Rochelle, Illinois
Illinois Corn Growers Association

Nancy Kavazanjian
Juneau, Wisconsin
Wisconsin Soybean Association

Glen Keppy
Davenport, Iowa
Iowa Pork Producers Association

Melvin Manternach
Monticello, Iowa
Iowa National Farmers Organization

Marshall A. Martin
West Lafayette, Indiana
Member at Large

Grant C. Putman
Williamston, Michigan
Michigan Soybean Association

Mark D. Smuts
Charlotte, Michigan
Michigan Farm Bureau

Robert S. Tramburg
Madison, Wisconsin
Wisconsin Grain Dealers Association

Richard G. Wagner
Bloomington, Illinois
Member at Large

Jim Willrett
Malta, Illinois
Illinois Beef Association

Advisory Council on Small Business

Gerald H. Ablan
Bedford Park, Illinois
Independent Business Association of Illinois

John W. Anhut
Farmington, Michigan
Michigan State Chamber of Commerce

John W. Bender
Bloomington, Indiana
U.S. Chamber of Commerce

Andrea Paulette Harris
Southfield, Michigan
National Association of Women Business Owners

Jeanine Hettinga
Des Moines, Iowa
U.S. Chamber of Commerce

Toni A. Lazar
West Des Moines, Iowa
National Association of Women Business Owners/Central Iowa Chapter and National Federation of Independent Business/Iowa Chapter

Lisa Mauer
Milwaukee, Wisconsin
Member at Large

Jose F. Nino
Chicago, Illinois
U.S. Hispanic Chamber of Commerce

John D. Roethle
Milwaukee, Wisconsin
Independent Business Association of Wisconsin

Stephen S. Stack
Chicago, Illinois
Illinois Manufacturers' Association

Robert Stamstad
Poynette, Wisconsin
Wisconsin Manufacturers and Commerce

Jean L. Wojtowicz
Indianapolis, Indiana
Member at Large

Officers

Silas Keehn
President

Daniel M. Doyle
First Vice President

CENTRAL BANK ACTIVITIES

Economic Research and Information Services

Karl A. Scheld
Senior Vice President and Director of Research

Economic Research

David R. Allardice
Vice President and Assistant Director of Research

Gary L. Benjamin
Economic Adviser and Vice President

Larry R. Mote
Economic Adviser and Vice President

Herbert L. Baer, Jr.
Senior Economist and Assistant Vice President

Anne Marie L. Gonczy
Senior Economist and Assistant Vice President

Steven Strongin
Senior Economist and Assistant Vice President

Information Services

Nancy M. Goodman
Vice President

Statistics

Jean L. Valerius
Vice President

Supervision and Regulation and Loans

Franklin D. Dreyer
Senior Vice President

Supervision and Regulation

David S. Epstein
Vice President

Roderick L. Housenga
Vice President

Geoffrey C. Rosean
Vice President

Nicholas P. Alban
Assistant Vice President

Barbara D. Benson
Assistant Vice President

John L. Bergstrom
Assistant Vice President

Douglas J. Kasl
Assistant Vice President

William H. Lossie, Jr.
Assistant Vice President

Gerald I. Silber
Assistant Vice President

Patrick J. Tracy
Assistant Vice President

Alicia Williams
Assistant Vice President

A. Raymond Bacon
Examining Officer

Robert A. Bechaz
Examining Officer

Kathleen E. Benson
Examining Officer

George M. Gregorash
Banking Analysis Officer

John M. Montgomery
Examining Officer

N. Dean Rowland
Examining Officer

John A. Valenti
Information Support Officer

Barbara Van Den Bossche
Examining Officer

Gay Whiting
Applications Officer

Loans and Reserves

Gerard J. Nick
Vice President

William J. O'Connor
Loans Officer

SERVICES TO DEPOSITORY INSTITUTIONS

Operations and Check Services

Charles W. Furbee
Senior Vice President

Cash, Fiscal Agency and Securities Services

David R. Starin
Vice President

Jerome D. Nicolas
Assistant Vice President

Lawrence J. Powaga
Assistant Vice President

Check Services

Wayne R. Baxter
Vice President

William A. Bonifield
Vice President

Allen R. Jensen
Vice President

Theodore E. Downing, Jr.
Assistant Vice President

Diane S. Noble
Assistant Vice President

Automation and Electronic Services

William C. Conrad
Senior Vice President

Automation Services

George E. Coe
Vice President

Stephen M. Pill
Vice President and
Data Security Officer

Bonnie Bates
Assistant Vice President

R. Steve Crain
Assistant Vice President

Frank S. McKenna
Assistant Vice President

Charles L. Schultz
Assistant Vice President

Brenda D. Ladipo
Automation Officer

Thomas M. Matsumoto
Systems Officer

David E. Ritter
Systems Officer

Karen L. Rosenberg
Automation Officer

James L. Strieber
Automation Officer

Electronic Services

Glen Brooks
Vice President

James M. Rudny
Assistant Vice President

Linda B. Grimmer
Assistant Vice President

SUPPORT FUNCTIONS

Financial and
Management Services

Carl E. Vander Wilt
Senior Vice President and
Chief Financial Officer

Accounting Services

Jerome F. John
Vice President

Jeffrey L. Miller
Operations Officer

Management Services

Glenn C. Hansen
Vice President

Margaret K. Koenigs
Assistant Vice President

Office of the General Auditor

Richard P. Bush
General Auditor

Angelina S. Chin
Assistant General Auditor

Office of the General Counsel

William H. Gram
Senior Vice President,
General Counsel, and Secretary

Legal Services

Teri J. Kurasch
Vice President and
Associate General Counsel

Yurii Skorin
Assistant Counsel

Office of the Bank Secretariat

Joan M. De Rycke
Assistant Vice President and
Assistant Secretary

Support Services

Richard P. Anstee
Senior Vice President

General Services

Robert A. Ludwig
Vice President

Kristi L. Zimmermann
Administrative Officer

Administrative Services

Robert D. Lauson
Vice President

Kenneth R. Berg
Assistant Vice President

Human Resource Services

Thomas G. Ciesielski
Vice President

Sheryn E. Bormann
Assistant Vice President

Richard F. Opalinski
Personnel Officer

Federal Reserve System
Securities Product Office

James A. Bluemle
Vice President and
Securities Product Manager

DISTRICT OFFICES

Detroit Branch

Roby L. Sloan
Senior Vice President
and Branch Manager

Frederick S. Dominick
Vice President and
Assistant Branch Manager

Yvonne H. Montgomery
Assistant Vice President

Joseph R. O'Connor
Assistant Vice President

Richard L. Simms, Jr.
Assistant Vice President

F. Alan Wells
Assistant Vice President

Patrick A. Garrean
Operations Officer

Regional Offices

Des Moines

L. Edward Ketchmark
Assistant Vice President

Indianapolis

Donna M. Yates
Assistant Vice President

Milwaukee

Anthony J. Tempelman
Assistant Vice President

DIRECTORS

Reserve Bank directors have a general governance responsibility for the management of Bank operations, contribute to the formulation of U.S. monetary policy, and act on the Bank's discount rate.

The selection process for the nine-member board ensures broad representation from banks of varying sizes, as well as from diverse sectors of the District economy, including consumers, industry, agriculture, services, and labor. Three bankers and three nonbankers are elected by member banks. Three additional nonbankers are appointed by the Board of Governors in Washington, D.C.

Similarly, the Board of Governors selects three nonbankers to serve on the seven-member board of the Bank's Detroit Branch. Four additional directors are selected by the Chicago Reserve Bank Board. The Branch Board selects its own chairman each year. All Reserve Bank and Branch directors serve three-year terms.

Director appointments and elections effective in 1989 were:

- Robert J. Day, redesignated Chairman.
- Marcus Alexis, redesignated Deputy Chairman.
- John W. Gabbert and Max J. Naylor, reelected, and Charles S. McNeer, reappointed, directors.
- Richard T. Lindgren, named Branch Chairman for second year.
- Robert J. Mylod, appointed a Branch director, replacing Donald R. Mandich who completed his term.
- Phyllis E. Peters, reappointed as a Branch director.

Appointments and elections in 1989 to terms beginning in 1990 were:

- Marcus Alexis, designated Chairman succeeding Robert J. Day who completed six years of service as a director.
- Charles S. McNeer, designated Deputy Chairman.
- Richard G. Cline (Chairman and Chief Executive Officer, NICOR Inc., Naperville, Illinois) appointed a director, replacing Mr. Day.
- B. F. Backlund and Paul J. Schierl, reelected as directors.
- Phyllis E. Peters, designated Branch Chairman.
- J. Michael Moore (Chairman and Chief Executive Officer, Invetech Company, Detroit) appointed a Branch director, replacing Richard T. Lindgren who completed his term.
- Norman F. Rodgers (President and Chief Executive Officer, Hillsdale County National Bank, Hillsdale, Michigan) appointed a Branch director, replacing Ronald D. Story who completed six years of service on the Branch Board.

ADVISORY COUNCILS

The Federal Advisory Council, which meets quarterly with the Board of Governors in Washington, D.C. to discuss current business and financial conditions, is comprised of one member from each of the 12 Federal Reserve Districts. Each year the Chicago Reserve Bank's Board of Directors selects a representative to this group. The Board selected B. Kenneth West, Chairman and Chief Executive Officer of Harris Bankcorp, Inc. and Harris Trust and Savings Bank, Chicago, as the Seventh District's representative for 1989 and, again, for 1990.

Members of the Bank's two advisory councils were selected from nominations by Seventh District small business and agricultural organizations in 1989. The councils provide a vital communication link between the Bank and these important economic sectors.

OFFICERS

Appointments to a Federal Reserve Bank's official staff are made by the Bank's Board of Directors.

Officers promoted in 1989 were:

- Herbert L. Baer, Senior Economist and Assistant Vice President, Economic Research.
- Sheryn E. Bormann, Assistant Vice President, Human Resource Services.

New officers appointed in 1989 were:

- Anthony J. Tempelman, Assistant Vice President, Milwaukee Office.
- Kristi L. Zimmermann, Administrative Officer, General Services.
- Thomas M. Matsumoto, Systems Officer, Automation Services.
- Richard F. Opalinski, Personnel Officer, Automation Services.
- David E. Ritter, Systems Officer, Automation Services.
- Yurii Skorin, Assistant Counsel, Legal Services.

Also during 1989, Vice Presidents Paul J. Bettini, Check Services, and A. Jerry Stojetz, Support Services, each retired following over 40 years of dedicated service to the Bank.

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60690

Detroit Branch
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616 Tenth Street
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Des Moines, Iowa
50306

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Indianapolis, Indiana
46206

Milwaukee Office
304 East State Street
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Milwaukee, Wisconsin
53201

FEDERAL RESERVE BANK
OF CHICAGO

For additional copies of this report, contact the Public Information Center, Federal Reserve Bank of Chicago, at (312) 322-5111.


B
Bankers use technology to expand horizons
C
Technology shrinks globe
D
Globalization & technology drive restructuring