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ANNUAL REPORT

FEDERAL RESERVE BANK OF CHICAGO

The Federal Reserve Bank of Chicago is one of 12 regional Reserve Banks across the United States that, together with the Board of Governors in Washington, D.C., serve as the nation's central bank. The role of the Federal Reserve System, since its establishment by an act of Congress passed in 1913, has been to foster a strong economy, supported by a stable financial system.

To this end, the Federal Reserve Bank of Chicago participates in the formulation and implementation of national monetary policy, supervises and regulates banks and bank holding companies, and provides financial services to depository institutions and the U. S. government. Through its head office in Chicago, branch in Detroit, and regional offices in Des Moines, Indianapolis and Milwaukee, the Federal Reserve Bank of Chicago serves the Seventh Federal Reserve District, which includes major portions of Illinois, Indiana, Michigan, and Wisconsin plus all of Iowa.

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The economy was often in the news last year, and too often the news was bad. The recovery that held such great promise of taking off following Desert Storm faltered. Layoffs and plant closings captured the headlines, and consumer confidence slumped again. At year-end the economy was still uncertain at best.

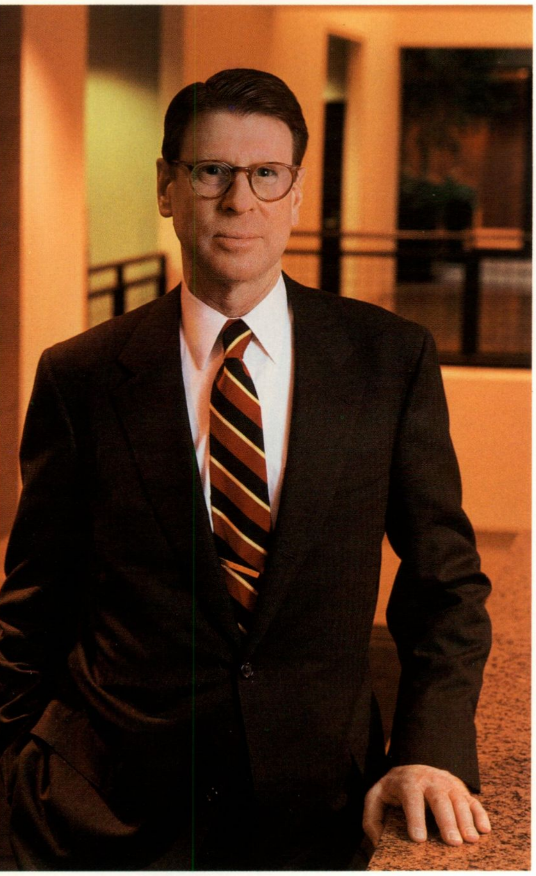
Why has the recovery been so elusive, especially given the stimulus that monetary policy has attempted to provide? The answer relates back to our experience of the 1980s — a very positive experience in terms of economic growth but an experience that we knew all along was not sustainable.

Debt fueled much of the growth we enjoyed during the decade, creating imbalances that sooner or later had to overtake the expansion. Happily the time of reckoning turned out to be later — we were almost able to close the '80s still on a positive note — but, unhappily, that time did arrive and the adjustment process to correct the imbalances has inhibited economic activity.

While this result was expected, we perhaps failed to anticipate the magnitude of the restraining effect. The so-called credit crunch provides a good illustration. Although economic circumstances and loan portfolios dictated that banks be extremely prudent, this very appropriate credit tightening had a sharply negative effect on the economy.

The good news is that the necessary adjustment process is well underway. Corporations are restructuring their debt and substituting equity. Consumers likewise have taken steps to improve their balance sheets. This welcome "return to basics" provides a solid foundation for renewed economic growth at a moderate but more sustainable level, consistent with the long-term potential of our economy and reasonable price stability.

Like the economy, the news for the banking industry was mixed during 1991. Most disappointing was that legislation removing obsolete product and geographic restraints did not pass. Erasing these artificial barriers makes sense on both economic and equity grounds, would serve to enhance bank profitability and capital, and is long overdue. But even without the benefit of these changes, the industry was able to end the year showing signs of stability following a long period of decline.



For the Federal Reserve Bank of Chicago as an organization, the news in 1991 was good, particularly in terms of meeting the challenges posed by a difficult year. A number of the Bank's achievements are highlighted in later sections of this report. The report also takes a look at the unique structure of the Federal Reserve System and draws some linkages between that structure and its accomplishments. Structure, however, provides only an environment in which it is possible for people to achieve. What the Bank accomplished in 1991 was the direct result of the constant hard work, dedication and commitment to public service that are the hallmark of our outstanding staff.

The Federal Reserve Bank of Chicago is also fortunate to receive the guidance and leadership of our directors. I want to express our particular gratitude to the members of our boards who completed their terms in 1991, including Max Naylor and John Gabbert on our Chicago Board, and Detroit Branch Directors Robert Mylod and Phyllis Peters, who served as Branch Chairman the past two years as well. Finally, to Charles S. McNeer, our director for the past six years, Deputy Chairman in 1990, and Chairman of the Board in 1991, we extend our special thanks. Despite his numerous other commitments, he gave his time unstintingly to the Bank, and we benefitted greatly from his wise counsel and insightful leadership during a period of significant challenge and change. His important contribution to the Bank and the Federal Reserve System is greatly appreciated.

Silas Keehn

SILAS KEEHN, PRESIDENT

"The privilege of creating and issuing money...," Abraham Lincoln once wrote, "is the Government's greatest creative opportunity."[1] Perhaps taking its cue from Lincoln, Congress chose a creative approach in 1913 when it delegated its power to create money to a new central bank—the Federal Reserve. Instead of closely following the model of other central banks in Europe, the United States went its own way and built the Federal Reserve System on a regional foundation. It is an approach that has stood the test of time.

In recent years, however, this regional structure has come under increased scrutiny. There have been several pieces of legislation discussed or introduced in the past decade that would alter the Federal Reserve's regional design. The most dramatic change, a common feature in the proposed bills, would centralize policymaking with the Board of Governors in Washington, D.C., and remove the presidents of the Federal Reserve Banks as voting members of the Federal Open Market Committee. Internally, the Fed has responded to trends such as interstate banking by increasingly standardizing its operations, often through centralization. The most notable example of this trend is the recent decision to consolidate the System's mainframe computers from twelve to three sites.

Given these developments, it seems appropriate to ask whether the Fed's regional structure, developed almost 80 years ago, is still relevant and useful.

IT FEELS LIKE A TRUNK

No doubt, the Federal Reserve is a unique specimen, even for such an unusual species as a central bank. The Fed is an oxymoron—a decentralized central bank, a regional structure overseen by a central coordinating body. The Fed's other seemingly contradictory features are interrelated with its regional structure: It is governmental but has a variety of elements intended to insulate it from day-to-day political pressures, and it is a public institution with a public purpose but has some private features such as a board of directors at each Fed Bank. This structure can be confusing. Like the elephant examined by the blind men, the Fed can be different things to different people.

But should anyone outside the Federal Reserve care if the Fed has a regional structure? Or is it just an esoteric organizational dispute?

democratic

The issue is significant for two reasons. First, the Federal Reserve is an institution that plays a critical role in the economy. Second, the Fed's structure has a significant effect on the operation of the System. Like the U.S. government as a whole, the Fed's policies are guided and shaped within the context of its structure. Thus, the issue goes beyond the mere mechanics of organization and is worthy of concern.

ONLY IN AMERICA

"Constitutionally," Congressman Wright Patman once wrote, "the Federal Reserve is a pretty queer duck."[2] Certainly, compared with other central banks, the Fed's regional structure is uncommon. It is, however, not unusual when compared with the U.S. Constitution; rather, the Fed's structure is based on the Constitution's model of a pluralistic, federal system of government.

The Constitution was shaped by the exigencies of the time. When the Constitutional Convention assembled in 1787, the goal was to provide for a strong central leadership but preserve personal liberties and the diverse interests of the 13 states. What emerged was a system of government featuring an elaborate set of checks and balances: Political power was divided between the state and federal government; power granted to the federal government was divided among three branches; and, finally, power granted to the federal legislature was divided between the Senate and the House of Representatives.

The division of power in the federal legislature was a particularly sticky point. The smaller states, fearing domination by the larger states, threatened to walk out of the Convention if representation in the legislature was based on population. Eventually, the Great Compromise was adopted: Representation in the House would be based on population, but each state would have equal representation in the Senate.

This pragmatic compromise between national and local powers, America's contribution to political science, was called federalism.

checks

TOO FASCINATING TO RESIST

At the core of federalism is a suspicion of undue concentration of power, an instinctive mistrust of decisions by the few rather than the many. "Power for good," John Quincy Adams wrote, "is power for evil, even in the hands of Omnipotence."[3] Not surprisingly, given this background, the U.S. public has traditionally had mixed feelings regarding a central bank.

The First Bank of the United States was a casualty of this suspicion. Created in 1791 with a capital stock of $10 million, the bank was the largest corporation in the U.S. The federal government subscribed to approximately 20 percent of the stock; the rest was held by private individuals. The bank proved useful to American commerce by providing a central regulating mechanism for banking and credit, but there were many who felt uncomfortable about its economic power. In 1811, a bill to authorize the bank beyond its original 20-year charter failed by a single vote.

Just a few years later, after a variety of financial troubles, Congress narrowly passed a bill to charter the Second Bank of the United States. This bank was similar to the first, with private subscribers holding 80 percent of the capital and the U.S. President appointing one-fifth of the directors.

Once again, however, many viewed the bank's undeniable economic power as a threat. In 1832, President Andrew Jackson vetoed a bill to recharter the bank, criticizing "such a concentration of power in the hands of a few men irresponsible to the people." At the same time, many were leery of giving the government unchecked power to issue notes. The danger, according to the House Ways and Means Committee in 1830, was that "...the temptation to supply the Federal Treasury by the easy process of bank issues, rather than resort to the unpopular process of internal taxation, would be too fascinating to resist."[4]

It was some 75 years later, after a series of money panics in the late 19th and early 20th centuries, that the U.S. began to consider a third central bank. Once

decentralization

again, it was a controversial issue. Progressives, fearing domination by East Coast private bankers, called for a regional system with as many as 50 banks. Conservatives lobbied for a centralized bank, preferably located in New York, that would be isolated from the political process. Underlying the opposition was widespread apprehension about the very concept of a central bank. Such fears placed the majority party Democrats in the incongruous position of endorsing passage of the Federal Reserve Act even though their party platform opposed the concept of a central bank.

balance

The central banking system that resulted from this political tug-of-war was a creation of compromise. "The advocates of a pure central bank had to reconcile themselves...to the political requirements of the case," wrote Paul M. Warburg, a member of the Federal Reserve Board from 1914 to 1918 and one of the leading figures in the establishment of the Fed. The new central bank, according to Warburg, "had to be shielded from the danger of becoming subservient either to business or to politics, and, conversely, safeguarding had to be provided against business or politics becoming subservient to the new banking system."[5]

A 20-YEAR SHAKEDOWN CRUISE

The Federal Reserve as envisioned by Congress was very much a decentralized central bank. But as the U.S. found during its early years under the Articles of Confederation, too much decentralization is not always practical. During its first twenty years, the Fed struggled to find a workable balance between centralization and regionalization. As it turned out, the evolution of the Federal Open Market Committee (FOMC) was the key to the solution. But it was not an easy process. The FOMC, as one observer wrote, "...developed, not from some sudden inspirational attack on the problems of bringing national unity to a regional central banking system, but by trial and error during a shakedown cruise of about twenty years duration."[6]

participation

The FOMC evolved in response to the Fed's realization that open market operations—the purchase and sale of securities—was its most potent monetary policy tool. Initially, the Fed Banks' securities transactions were aimed at generating income. It soon became clear, however, that these transactions had larger ramifications, affecting not only the finances of each Reserve Bank, but credit conditions in each District and even throughout the nation. The early practitioners of monetary policy "discovered that the country's pool of assets is all one pool and money flows like water throughout the country," one of the Fed officials involved in these efforts wrote. "When government securities were bought in Dallas, the money...flowed through the whole banking system and reappeared in New York or Chicago or Kansas City, and vice versa."[7]

The Reserve Banks began to coordinate their operations informally. In 1922, the heads of the Chicago Fed, New York Fed, and three other Reserve Banks established a coordinating committee for the System. The following year, the Federal Reserve Board assumed formal control over the committee. The committee was an important step in establishing a more coordinated structure, but each Reserve Bank could still conduct its own open market operations, a situation that sometimes led to confusion and indecision.

coordin

Following the Banking Panic of 1933, Congress sought to strengthen the Fed's power. The first stab at resolving the structural issue, contained in the Banking Act of 1933, proved impractical, incorporating a great deal of participation at the cost of efficiency. Under the legislation, open market operations were initiated by a committee of the 12 Fed Bank presidents and submitted for approval to the Federal Reserve Board. If the Board approved, the boards of directors of each Reserve Bank had the power to decide whether its District should participate.

Adjustments were necessary. In 1935, newly appointed Federal Reserve Governor Marriner Eccles testified to Congress that the mechanism was cumbersome at best: "We have...a set-up by which the body that initiates the policies is not in a position to ratify them; and the body which ratifies them is not in a position to initiate them or insist on them being carried out...; and still a third group has the power to nullify policies...." A solution was vital, Eccles emphasized, because the use of open market operations was the "most important single instrument of control over the volume and cost of credit in this country."[8]

In response, the House approved a bill that centralized responsibility for open market operations at the Board of Governors, with the 12 Reserve Bank presidents serving in an advisory capacity. The Senate, however, wished to maintain more participation from the Fed Banks. The eventual solution was a compromise: the body overseeing open market operations would consist of a seven-member Federal Reserve Board and five Reserve Bank representatives serving on a rotating basis. (In 1942, the New York Fed, which has responsibility for carrying out securities transactions, was given a permanent seat on the Committee.) The structure devised by Congress provided a pragmatic solution in keeping with the country's pluralistic, federal traditions. The Fed had its own "Great Compromise" that enabled it to balance centralization and regionalization effectively.

pluralistic

The FOMC became the Fed's most important policymaking body, not only guiding open market operations but also serving as a forum for determining the overall course of monetary policy. "The Federal Open Market Committee," former New York Fed President Allan Sproul wrote, "has become the heart of the Federal Reserve System; cut it out and you have a skeleton."[9]

SURE IT'S SAFE, BUT IS IT EFFICIENT?

Some involved in the creation of the Federal Reserve viewed its structure as a trade-off: It might sacrifice efficiency but had the essential virtue of dispersing power. Paul Warburg, an advocate of a strong central bank, wrote, "From the bare point of view of efficiency and economy, one central bank with a purely business management would undoubtedly have yielded the best results, but from the point of view of what was required in the larger interests of the country...maximum efficiency had to be subordinated to maximum safety."[10]

But was that really the case? There are clearly potential disadvantages in a regional system that features a pluralistic process: inconsistency, delay, overtendency to compromise, resistance to change, redundancy, and higher costs.

ion

But a decentralized system, if properly structured, also has a number of potential advantages: accountability, insulation from narrow, singular interests, local knowledge, multiple sources of innovation, enhanced ability to handle complex problems, and increased flexibility to adapt to change.

It is an ongoing debate. The perceived desirability of decentralization tends to ebb and flow as often as fashion trends—the corporate world's version of the mini- versus the maxi-skirt. Recently many banking organizations, after decades of competing in a business suffering from overcapacity, have been focusing on the advantages and cost savings of consolidation. In some other industries, the trend is opposite. One well-publicized example is IBM, which recently announced plans to establish several self-contained divisions, each with its own CEO and responsibility for its own bottom line.

Overall, decentralization currently seems to be the more popular direction. "Pushing responsibility down the ranks of the organization is a fad beloved of business schools," *The Economist* recently noted. Nevertheless, according to *The Economist*, the only thing clear regarding such efforts is that "simple formulas can be maddeningly simplistic."[11]

IF TWO HEADS ARE BETTER THAN ONE...

One argument for a pluralistic process for determining monetary policy is the sheer complexity of the task. Despite a longstanding search, there is no single, effective indicator of appropriate monetary policy. As Alan Greenspan once noted, despite all the new and sometimes exotic information and analysis now available, monetary policy is a continual struggle because the "structure of the economy is more like a moving target than a sitting duck...."[12]

Given its monetary policy duties as well as its various other responsibilities, the Federal Reserve's job is too complicated and far-reaching for a single person or narrowly based group to handle effectively. In cases where so much technical information and varied expertise is required, some have argued that a pluralistic process featuring a multiplicity of energies, interests, and intelligences is necessary.[13]

"The main advantage of the pluralistic process is that decisions are more carefully considered," one former Fed president wrote. "Each individual brings to bear on the common problem his own set of information, his own particular insights and interests....indeed there is serious question whether any other process will work."[14]

The potential problem, of course, is that careful consideration will lead to indecisiveness and inefficiency. Yet the Fed has also shown the ability to act decisively. A good illustration was provided by the Federal Reserve's quick response to the stock market crash of 1987, which defused a potential crisis.

The Fed's regional structure encourages a pluralistic process through what might be loosely termed participation. In monetary policy, this means that the regional Banks, through the participation of the presidents on the FOMC, have a direct say in the decision-making process. In supervision and regulation and operations, System decisions are also based on input from both the Board and the Reserve Banks. This sometimes leads to a healthy tension. But it also helps to ensure that decisions reflect the Reserve Banks' regional knowledge and concerns. The decision-making process does not proceed from the inside looking out; rather, ideas and opinions flow to the Fed and are distilled into an overall policy.

This participatory process facilitates the dispersal of power that was so important to the creators of the Federal Reserve. By providing a conduit for a constant flow of information and ideas from "beyond the beltway," the regional structure helps to insulate the Fed from day-to-day political pressures, protecting its stature as "independent within government" and ensuring that its decisions are based on long-term, nonpartisan considerations.

Regional representation is appropriate only to a degree, however. In monetary policy, decisions must be based on national considerations; the presidents cannot shape policy to benefit a local area. Nevertheless, the U.S. is still a country of divergent regions, each with its own cycles and infrastructures, its own strengths and weaknesses. National averages can be misleading, concealing wide regional variations. Even given the much publicized phenomenon of globalization, the regions have retained their distinct identities, with, for example, the Midwest trading heavily with Canada, while the Mid-Atlantic emphasizes trade with Europe.

The presidents' regional base allows them to go beyond statistics and obtain grass-roots information from a variety of sources. The board of directors of each Bank, structured by law to include representatives from a variety of locales and economic sectors, are an important source of information. In addition, the presidents cultivate a network of regional contacts that provide anecdotal, but up-to-the-minute, information on emerging economic trends. At the same time, the Banks' research staffs have extensive contacts that help provide a feel for emerging developments in the economy.

This effort is critical because of the lag in the availability of economic statistics. Also, regional data, drawn from a smaller sample, tend to be somewhat less available and reliable. Touching base with a broad spectrum of active participants in the economy reveals the story behind the numbers and shows which forces—such as seasonal or special factors—may be affecting statistics.

NO, YOU TRY IT

Innovation is another advantage of a decentralized structure. It is commonly accepted that competition in an economy breeds innovation. The same holds true for an organization. "In an organization with many points of initiative and decision, an innovation stands a better chance of survival; it may be rejected by nine out of ten decision-makers and accepted by the tenth," according to one theory. "If it then proves its worth, the nine may adopt it later."[15]

In the Fed System, the requirements of the region often serve as a catalyst for innovation. In the Seventh District, for example, the proximity of banks with high check-clearing volumes in Chicago and Detroit has encouraged the development of new products such as the electronic cash letter, which expedites the costly physical movement of checks. Following a successful trial in the Seventh District in 1991, the electronic cash letter is being tested in other Districts and may eventually be offered on a System-wide basis. Similarly, the Bank's Detroit Branch, working closely with a customer, pioneered the use of an electronic connection for the over-the-counter sales of savings bonds at financial institutions. Once the successful pilot program was completed in Detroit in 1989, the idea spread through the System.

Proximity to the region has also encouraged specialization as each Fed Bank adapts to regional conditions. The Chicago Fed has become especially knowledgeable about the process of industrial restructuring, following years of retrenching in the Midwest. Due in part to the large number of institutions in the Seventh District, the Chicago Reserve Bank has also traditionally had a special interest in financial issues. In recent years, studies by the Bank's economic research and supervision and regulation groups have focused on a financial innovation that has its roots in the Midwest: the futures markets. This knowledge proved especially useful during the stock market crash of 1987 and the "mini-crash" of 1989. Other Fed Banks have also developed expertise in specific fields: the San Francisco Fed, for example, has focused on the Pacific Rim; the New York Fed has specialized in international activities.

specialization

The diversity of the regional Banks encourages different lines of thought. In economic research, the St. Louis Fed has traditionally been a strong advocate of monetarist ideas. Research on the theory of rational expectations first began to emerge within the System at the Minneapolis Reserve Bank. And the Chicago Fed, specifically through its conferences on bank structure and competition in the early 1980s, was one of the first Reserve Banks to focus on the possible distorting effect of deposit insurance on institution risk.

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In operations, proximity leads to the key advantage of knowing the customer. Acting on customer suggestions, for example, has aided the Chicago Fed in becoming a leader in payor information services. The timely check information provided by these services enables institutions to better manage their own funds position and provide improved service to their customers. In past years, the Bank has encouraged use of the Automated Clearinghouse (ACH) by working closely with District institutions interested in carving a market niche by providing ACH services.

An in-depth knowledge of the region also has obvious benefits for carrying out supervisory responsibilities. Through the years, the Chicago Fed has become expert on agricultural banks, a background that was essential during the troubles in the farm sector in the mid-1980s. At the same time, the Bank is experienced in examining the District's money center and superregional banks. The region's diverse financial structure has led the Chicago Fed to study such varied issues as the implications of securitization, trends in the credit card industry, and Midwest real estate conditions and the effect of Resolution Trust Corporation (RTC) asset dispositions.

THE BUCK STOPS HERE

Accountability is another important benefit of a regional organization. In a more centralized structure, the responsibility for local or regional challenges can become diffused. Within the Federal Reserve there are well-defined responsibilities, based on the System's District borders. The blurring of geographic and product barriers in the banking industry has complicated the process, but the essential

accountable

principle remains the same. In carrying out its supervisory duties, the Chicago Fed has encouraged accountability by giving ongoing responsibility for an institution to an examiner or team of examiners. Thus examiners, like the Bank as a whole, can draw on a cumulative body of knowledge and experience in carrying out their responsibilities.

In operations, the Bank is accountable for responding to challenges posed by District characteristics. In the case of *Fedline*, the System's computer software package for electronic services, the Bank faced a significant challenge because of the large number of District institutions, many of which needed to be converted to the new product. The responsibility for the unusually large number of conversions clearly rested with the Chicago Fed; the Bank responded, converting 738 institutions in 1990, doubling the previous System record.

The advantages of accountability are also reflected in the Reserve Banks' budgets. Each Fed Bank is responsible for meeting an annual budget, which is approved by the Bank's board of directors as well as the Federal Reserve Board. All of the Reserve Bank presidents are responsible for meeting their bottom lines. This accountability has produced results: over the past five years, for example, the Chicago Fed's operating expenses have increased only slightly in real terms (an average of one-half of a percentage point annually), even while the Bank significantly expanded its examination staff and took on new responsibilities such as the requirements of the Expedited Funds Availability Act.

e x i b i l i t y

FED'S BALANCING ACT

Given the advantages that can be gained from a regional structure, why the move toward operations consolidation within the System?

In this case, a simple formula does not apply. There are clear advantages to decentralization, but there are also benefits to a degree of consolidation and resource sharing. Recognizing this, the Fed has initiated a number of consolidation efforts. Most notable is the planned reduction in the number of mainframe computers supporting electronic services, an effort one Fed official described as "one of the most dramatic changes the System has ever attempted to make."[16] The mainframe consolidation is generally seen as inevitable, given technological advances and changing market conditions. Some, however, have supported the move apprehensively, fearing that it could impede the Fed's ability to respond to local needs and concerns.

Thus far, each District has had a mainframe to support its electronic services. Under the consolidation plan, which the Fed will begin to phase in during 1992, all 12 districts will eventually be supported by a total of three mainframe sites in Dallas, Richmond, and East Rutherford, New Jersey.

r e s p o n s i v e

The Fed expects a number of advantages. One clear benefit is the projected cost savings gained by reducing the number of mainframes and related support. The consolidation will also cause the Fed to standardize operations and offer a more uniform level of service, an important factor as institutions merge and cross geographic borders. And reliability will be improved because the three sites will act as a backup for each other.

Interestingly, given that consolidation could be viewed as chipping away at the Fed's regional structure, the idea was initiated by the Reserve Banks. The project began with discussions between the Chicago and Minneapolis Banks on the possibility of joint electronic processing. The discussions later expanded to include the Kansas City and St. Louis Reserve Banks. As technology advanced, the project evolved from these multi-District beginnings to a System-wide effort in which the Fed Banks have played the key role.

Although the consolidation will result in a degree of centralization, each of the Reserve Banks and the Federal Reserve Board will continue to share responsibility for decision making. The goal is to gain the advantages of combined resources while retaining the benefits of regional participation. As part of this effort, each Fed Bank will continue to be responsible for communicating with customers, developing service strategies, and acting as a point of contact for institutions and as a source of information for the System.

The consolidation is perhaps not so much a move back from regionalization as a step sideways. Conditions now support a degree of centralization. Once wholesale data processing is centralized, however, the focus may shift to the flexible distribution of information tailored to the needs of the marketplace. Technology, which has driven the trend toward computer centralization, may eventually lead to a more decentralized means of product distribution. As it has in the past, the Fed will need to be flexible enough to balance the benefits of local representation with the advantages of centralization.

consensus

STILL REGIONAL AFTER ALL THESE YEARS

To some, the Federal Reserve's turbulent beginnings and ongoing evolution have produced a central bank that is, as Wright Patman put it, "a pretty queer duck." Constitutionally speaking, however, the Fed is not so much a queer duck as it is a bird of a feather. Like the Constitution, the Fed is a reflection of the multicultural, diverse country that created it, a by-product of America's traditional preference for checks and balances.

The regional structure that resulted from the interplay of these forces, although lacking in the obvious logic of an organization chart, has an overriding redeeming quality: It works. In the end, simple formulas tend to be simplistic. The Fed's structure, intended primarily to safeguard against a concentration of power, has enhanced the System's effectiveness as well. The checks and balances that Congress embedded in the structure have aided the Fed in continually adapting to new circumstances, from the early days of monetary policy to the current consolidation efforts.

Legislative reevaluations always serve a useful purpose. But the Federal Reserve's history and its ability to adapt should be kept in mind. The pressures that produced it, the changes that made it evolve, have resulted in a central bank that is very much in keeping with the federal, pluralistic traditions of the United States.

facilitation

The Federal Reserve's regional structure has served the System well for almost 80 years—1991 was no exception. The following pages focus on the Chicago Reserve Bank's 1991 accomplishments from a regional perspective, listing selected achievements and highlighting activities that illustrate a benefit of the Fed's unique structure.

Overall, the Bank had another successful year, again achieving its budget objectives and meeting a very ambitious management plan. The table below provides annual statistics on the Bank's operations. Reflecting economic conditions and consolidation among depository institutions, the Bank's check processing volume declined slightly. The Chicago Fed's operations also reflected its efforts to encourage migration toward electronics. Volumes in Automated Clearinghouse and book-entry securities services, for example, continued to increase dramatically, while definitive securities volumes declined.

OPERATIONS VOLUMES	DOLLAR AMOUNT		NUMBER OF ITEMS	
	1991	1990	1991	1990
CHECK & ELECTRONIC PAYMENTS				
Checks, NOWs, & share drafts processed	1.0 trillion	1.1 trillion	1.9 billion	2.0 billion
Fine sort & packaged checks handled	321.3 billion	238.5 billion	598.9 million	563.7 million
U.S. government checks processed	51.8 billion	52.6 billion	54.4 million	60.1 million
Automated Clearinghouse (ACH) items processed	1.8 trillion	1.2 trillion	396.4 million	341.2 million
Transfers of funds	32.3 trillion	32.9 trillion	12.4 million	12.3 million
CASH OPERATIONS				
Currency received & counted	25.5 billion	24.6 billion	1.9 billion	1.9 billion
Unfit currency destroyed	6.0 billion	5.2 billion	542.4 million	569.7 million
Coin received & counted	722.1 million	578.8 million	5.6 billion	4.7 billion
SECURITIES SERVICES FOR DEPOSITORY INSTITUTIONS				
Safekeeping balance December 31:				
Definitive securities	6.8 billion	8.9 billion	232.2 thous.	310.4 thous.
Book-entry securities	313.8 billion	289.3 billion	—	—
Purchase & sale	2.9 billion	3.4 billion	14.9 thous.	21.9 thous.
Collection of securities & other noncash items	1.0 billion	1.0 billion	171.5 thous.	227.8 thous.
LOANS TO DEPOSITORY INSTITUTIONS				
Total loans made during year	2.2 billion	4.6 billion	967	1,412
SERVICES TO U.S. TREASURY AND GOVERNMENT AGENCIES				
Issues, redemptions & exchanges:				
U.S. savings bonds	1.5 billion	1.1 billion	4.2 million	2.4 million
Definitive government securities	0.4 billion	0.5 billion	11.5 thous.	19.9 thous.
Book-entry government securities	4.5 trillion	4.2 trillion	1.4 million	1.7 million
Government coupons paid	150.0 million	124.9 million	65.9 thous.	87.6 thous.
Federal tax deposits processed	120.8 billion	114.8 billion	785.5 thous.	805.1 thous.
Food stamps redeemed	2.1 billion	1.9 billion	416.1 million	369.1 million

PURSUING SUSTAINABLE GROWTH

Through its economic research and policy-related activities, the Chicago Reserve Bank seeks to participate effectively in national monetary policy decisions that will promote a strong, growing, and noninflationary economy.

The Bank's foremost role in the policy process is the participation of its president in the deliberations and actions of the System's chief monetary policy group, the Federal Open Market Committee. The Reserve Bank's board of directors also plays an important policy role by determining the Bank's discount rate, subject to review by the Board of Governors.

To guide these responsibilities, the Bank's research staff collects a broad array of information and analyzes economic and financial developments. This current analysis is complemented by longer-term research on the fundamental workings of the economy and financial system. Sharing this information is another important component of this activity. Through publications, conferences and other outreach, the Bank seeks to stimulate broader discussion of economic issues, and as a result, an informed public review of System policy.

PARTICIPATION: FOMC ACTIVITIES

Providing avenues for broad involvement in decisions, placing more faith in the ideas of the many, rather than the few, governing by consensus not edict...these are all fundamental tenets of our democratic system. Given the regional, decentralized structure of the Federal Reserve System, these principles are at work in monetary policy as well.

Chicago Reserve Bank President Silas Keehn attends each meeting of the Federal Reserve System's Federal Open Market Committee (FOMC) fully prepared to take a vital, active role in its deliberations and decisions. Regardless of whether it is his turn to vote on the policy directive, he and the 10 Reserve Bank presidents who rotate as voting FOMC members — along with the members of the Board of Governors and the New York Fed president — participate fully in the policy discussion and development. (The Chicago and Cleveland Fed representatives rotate annually as voting members, with Chicago exercising the vote during 1991.) All 19 participants have an equal opportunity, and indeed responsibility, for stating their views on the economic outlook and the appropriate course for monetary policy. As part of their role, the District presidents bring to the discussions the unique, first-hand, up-to-the-minute perspective they glean from their own regional vantage point.

President Keehn bases his views on the latest information he can obtain through his personal

contacts and on-the-scene interaction with a wide-ranging group of individuals and businesses throughout the District, the expertise of the Bank's boards of directors and advisory councils, and the information and analyses prepared by his economic research staff. Through this broad participatory process, he and his counterparts at the other Reserve Banks bring a special insight and feel for emerging developments "beyond the beltway" of the nation's capital — information that cannot be captured by available statistical data — providing the best possible foundation for sound policy decisions.

1991 ACHIEVEMENTS

- *Climaxed by a 100 basis point reduction to 3.5 percent, a 28-year low, the Bank's board of directors reduced the discount rate 5 times in 1991, complementing other System policy meant to foster sustainable growth.*
- *Macro-economic research focused on a number of thorny policy issues including the development of better policy indicators, the effects of structural change on the business cycle, and the measurement of potential GNP.*
- *Cooperative efforts to develop regional economic policies took on an international dimension when the Bank cosponsored a conference, "Looking North and South at the Great Lakes Region," featuring the Premier of Ontario and the Governor of Michigan.*
- *The Bank's 27th annual Conference on Bank Structure and Competition, "Rebuilding Banking," complemented its research on financial system risk and regulatory reform.*
- *While meeting over 100,000 deadlines for statistical reports from District depository institutions, Bank staff completed preparations that will enable reporting banks to submit data electronically.*
- *The Bank held Economic Forums to explore policy issues with today's business leaders, and sought to reach the leaders of tomorrow by expanding its economic education programs for teachers.*

FOSTERING STABILITY AND PUBLIC TRUST

Through its supervisory, regulatory and lending activities, the Bank strives to assure that District financial institutions operate in a manner that fosters competition, responds to public needs, and inspires public confidence.

The Bank examines and monitors banks and bank holding companies to ensure that they are safe and sound and that their operations comply with pertinent laws and regulations. Also, through its discount window, the Bank provides credit to depository institutions to offset financial strains they may be experiencing in order to insulate the broader community and financial system from potential instability.

The Bank is also responsible for reviewing banking organizations' proposals to merge, make acquisitions or engage in nonbanking activities, to assure that the transaction will have a positive impact on competition and the community served. The Bank also implements a variety of consumer laws and regulations meant to assure that institutions treat consumers fairly and meet the credit needs of their communities.

SPECIALIZATION: FOCUS ON SECURITIZATION

Pursuing special needs often serves common needs...The regional, decentralized structure of the Federal Reserve System makes it possible for the Federal Reserve Bank of Chicago to respond to special developments and concerns that arise in its District. Frequently, the benefits of such activities tailored to local needs transcend District boundaries.

A notable example has been the Bank's recent analysis of asset-backed commercial paper programs. Asset securitization, an activity through which banks transform their illiquid assets — loans — into marketable securities, has been one of the most dynamic areas of financial innovation during the past decade. As institutions in the Seventh District embarked on securitization programs, and as new types of programs emerged such as asset-backed commercial paper, examiners in the Bank's financial markets unit became increasingly involved. Their research and expertise on this topic, gained in part through extensive on-site reviews of District bank securitization activities, served as a resource for the entire Fed System. The Bank's analysis provided the basis for Federal Reserve Congressional testimony on securitization and yielded information useful to bankers and examiners alike, aiding their efforts to assure that the risks associated with these evolving financial activities are understood and controlled.

The Bank's 1991 research on asset-backed commercial paper programs represents only the latest example of its leadership in studying financial issues and market developments. Spurred in large part by the Seventh District's unique banking structure, with its large number of institutions and enormous diversity in the nature of their operations, the Chicago Reserve Bank has developed a recognized expertise in this area over the past three decades, a specialty perhaps best symbolized by the Bank's nationally renowned Conference on Bank Structure and Competition. Like the Conference, the Bank's traditional focus on developments pertinent to its District has provided a springboard for better understanding of financial issues of global concern.

i z a t i o n

1991 ACHIEVEMENTS

- *Bank staff conducted 948 examinations, inspections, and special reviews, and processed 818 applications, among the top workloads in the System, while assisting other regulators and Fed districts.*
- *The Bank expanded its involvement in the Shared National Credit Program, a cooperative project among regulators to better evaluate institutions' large shared loans or commitments.*
- *Changes to the Fed's Payments System Risk policy, including more liberal caps for relatively small overdrafters, were implemented in the District.*
- *The Bank analyzed and updated District financial data, helping to develop an integrated national database, the National Information Center.*
- *The Bank enhanced its understanding of financial markets and their link to the banking system through special studies on topics such as foreign exchange options, securitization, and interest rate risk.*
- *Community Affairs staff edited and analyzed the enormous volume of data submitted in conjunction with new reporting requirements mandated by changes to the Home Mortgage Disclosure Act.*

ENHANCING THE PAYMENTS SYSTEM

By providing financial services, the Bank seeks to promote the smooth, efficient operation of the financial system broadly, and the payments mechanism in particular.

As a "banker's bank," the Reserve Bank sells a variety of services to depository institutions, including check clearing and collection, electronic transfer of funds through the Fedwire and Automated Clearinghouse systems, and various securities services such as collection, purchase and sale, book-entry transfer, and safekeeping. By serving as a provider in the marketplace for these services, the Bank strives to promote efficiency and technological development in the payments system, the pipeline through which all transactions in the economy flow.

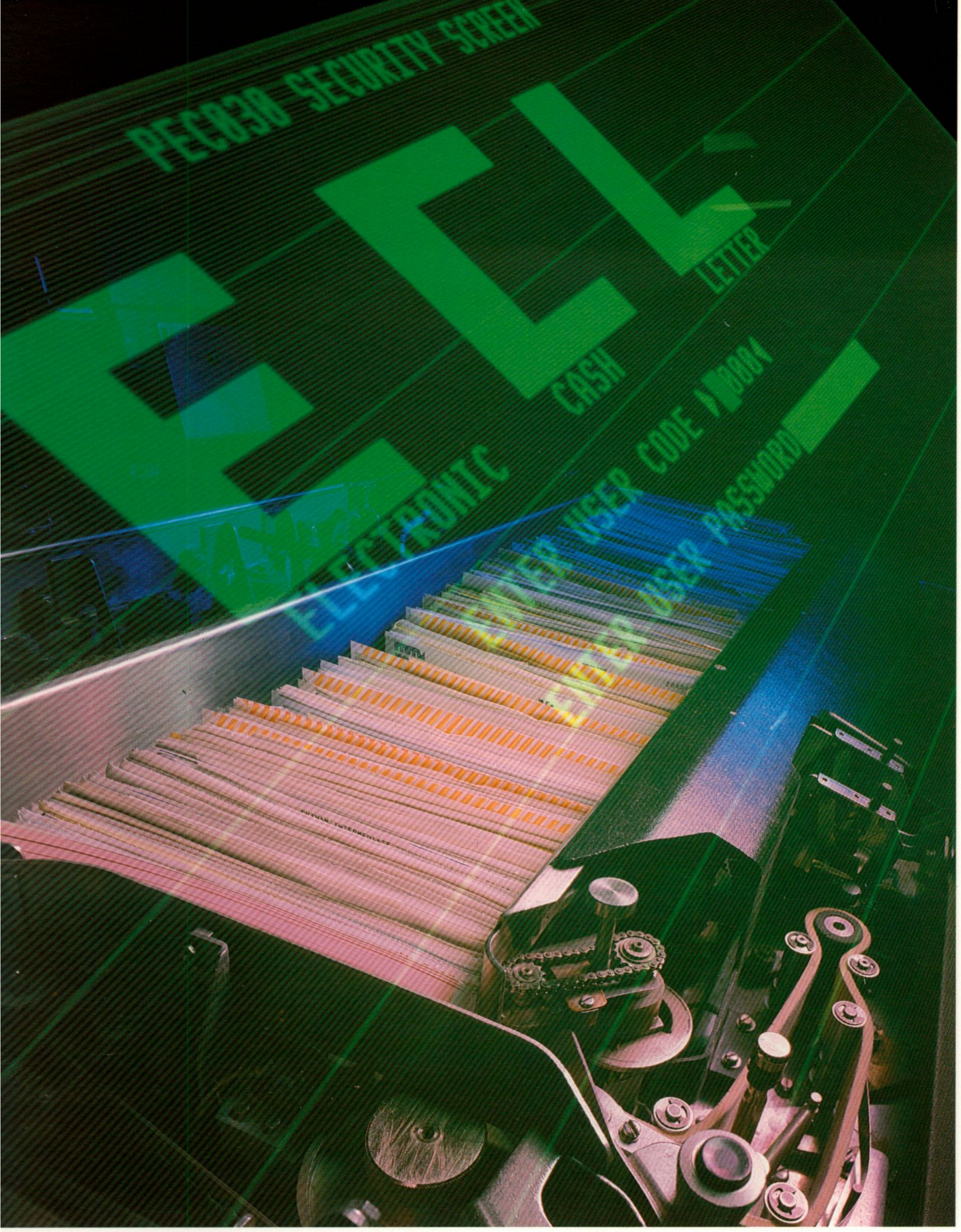
As the government's bank, the Reserve Bank issues and maintains the public's supply of currency and coin; markets, services and redeems the government's debt securities; and handles other banking transactions for the U. S. Treasury, such as the processing of federal tax deposits. Overall, these activities help to assure that the financial transactions of the nation's largest banking customer are orderly.

INNOVATION:
ELECTRONIC CASH LETTER

A need...an idea...a reality...a step into the future. When the authority to think, to decide, and to act is spread across an organization — as it is within the Federal Reserve System — ideas can emerge and get tried. Sometimes they not only work but produce benefits that go far beyond what was first imagined.

The Electronic Cash Letter (ECL), an innovative new product developed and currently offered by the Chicago Reserve Bank, provides a perfect example. The process started when the officer who oversees the automation group that supports check processing thought of a method for reducing the number of checks which cannot be read by the Bank's high-speed sorters. Such items, called rejects, are a major impediment to the efficiency of the entire check operation. At about the same time, a customer bank, looking for new ways to deal with the acute cost pressures facing the industry, expressed an interest in reducing its check processing fees. The new idea was worth trying.

Through ECL, a depositing institution transmits an electronic file of the paper checks it will be delivering



somewhat later. Having the electronic information enables the Reserve Bank to automate some operations that had been manual, and, once it receives and starts sorting the actual items, to match them against the file, thereby reducing costly rejects, adjustments, float and processing time. These benefits translate into lower fees and later deadlines for depositing institutions, which can in turn provide consumers with better payments services. Ultimately, ECL could be an exciting and important first step toward truncation or reducing the costly physical movement of checks nationwide.

1991 ACHIEVEMENTS

- *Due to continued productivity efforts, the Bank recovered its priced services costs for the eighth straight year despite declining revenues.*
- *The Regional Delivery System, a more efficient means for issuing savings bonds, was implemented in Indiana, Iowa, and Wisconsin.*
- *Currency with enhanced anti-counterfeiting features was introduced in the District.*
- *The Bank made progress on its all-electronic Automated Clearinghouse (ACH) goal, reducing the number of nonelectronic ACH connections from 1,324 to 614.*
- *Focusing on electronic check products, the Bank refined the Electronic Cash Letter, enhanced payor bank services, and tested PC imaging for large-dollar return item notifications.*
- *The Bank expanded its* Fedline *services, offering electronic check information and TT&L advices and establishing a Help Desk for customer support.*
- *The Indianapolis Office relocated to new quarters, a move that allows for more efficient operations.*

PROVIDING THE FOUNDATION FOR PROGRESS

Providing for the organization's human, physical and financial resources enables the Bank to carry out its public service mission effectively.

Recruiting the best possible employees, training them so they can reach their full potential, and rewarding them for their accomplishments are critical to any organization's success. Giving that staff the tools they need to perform their assignments successfully is a vital corollary.

While often behind the scenes, staff in the Bank's Human Resources, Automation Services, Financial Management, Auditing, Legal, Building, Protection and other support functions make the Bank's accomplishments possible and provide a firm basis for its future success.

f a c i

San Francisco

FACILITATION:
NETWORK CONTROL CENTER

Traffic jams...an unavoidable feature of our everyday experience? ...not if we're willing to build alternate roadways for reaching the same destination.

The Federal Reserve System's electronic communications network — developed, managed and monitored by a group based at the Chicago Reserve Bank — operates on precisely that principle. The advantages of the network's organization in many ways mirror those of the Federal Reserve System's structure.

During the 1970s, the Federal Reserve's communications network operated through a central switch. All electronic messages were directed from the originating office to a single relay point from which they were redirected to the receiving office. This configuration, typical for such networks at the time, minimized the number of roadways or electronic links required, and it worked well. But potential hazards loomed. While traffic was projected to escalate exponentially in line with financial transactions generally, the network's capacity to handle the burgeoning volumes was limited. And of greater concern than traffic increases were breakdowns. An accident on any single roadway would make a destination unreachable. More frightening, a breakdown at the central switch would spell disaster for the entire communications network.

The network developed by a Chicago Fed project team and in operation since the early 1980s has effectively overcome these hazards. Messages can be routed along whatever path works best based on current traffic flows, bottlenecks are avoided, and the reliability or uptime of the system has been almost perfect. In a parallel fashion, when decisionmaking and action are decentralized in an organization such as the Federal Reserve, logjams can be avoided and responses facilitated. And the operation of the System's communications network at the Chicago Reserve Bank, coupled with other System-wide operations housed at other regional Banks, illustrates another important principle, namely, that the benefits of sharing resources, frequently associated with centralization, can be effectively harnessed within a decentralized system as well.

1991 ACHIEVEMENTS

- *The Bank achieved 99.92 percent network availability for funds transfers, and exceeded the System's availability target for electronic services for the fourth consecutive year.*
- *The Bank played an important role in the ongoing development of the new System-wide data communications network,* FEDNET.
- *Human Resources staff implemented a new employee appraisal system and enhanced employee communications.*
- *A LAN-based office automation system was implemented linking the Bank's five District offices.*
- *The Bank took a leadership role in the System in developing data security policy for mainframes as well as PC- and LAN-based systems.*
- *Staff in Financial and Management Services, Auditing, and Operations teamed up to provide District-wide training in financial controls and accounting.*

Year-to-year changes in Reserve Bank assets and liabilities largely reflect general economic developments and System monetary policy actions. By purchasing securities in the open market and making loans to depository institutions, the Federal Reserve increases reserves, providing a base for monetary expansion in accord with the national economy's growth needs. In 1991, the increase in the Bank's assets supported a net payout of currency (Federal Reserve notes) in response to public demand. Reserve deposits actually declined given lower required reserves.

	12/31/91	12/31/90
ASSETS		
Gold certificate account	$ 1,370,000,000	$ 1,377,000,000
Interdistrict settlement account	236,606,858	2,973,755,256
Special drawing rights certificate account	1,336,000,000	1,336,000,000
Coin	52,728,683	33,166,775
Loans and securities:		
Loans	13,355,000	19,770,000
Federal agency securities	759,533,872	773,434,152
U.S. government securities	33,485,862,167	28,672,192,779
Total loans and securities	34,258,751,039	29,465,396,931
Items in process of collection	798,721,907	758,704,242
Bank premises	111,506,497	110,085,723
Other assets	4,018,997,160	4,842,005,502
Total assets	**$ 42,183,312,144**	**$ 40,896,114,429**
LIABILITIES		
Federal Reserve notes	$ 37,207,220,663	$ 36,047,198,859
Deposits:		
Depository institutions	3,101,621,157	3,510,536,719
U.S. Treasury—general account	0	0
Foreign, official accounts	18,570,000	18,750,000
Other	211,361,989	30,606,693
Total deposits	3,331,553,146	3,559,893,412
Deferred credit items	702,095,487	343,156,861
Other liabilities	300,713,748	345,803,497
Total liabilities	$ 41,541,583,044	$ 40,296,052,629
CAPITAL ACCOUNTS		
Capital paid in	$ 320,864,550	$ 300,030,900
Surplus	320,864,550	300,030,900
Total capital	$ 641,729,100	$ 600,061,800
Total liabilities and capital	**$ 42,183,312,144**	**$ 40,896,114,429**

A Reserve Bank's income is largely a by-product of monetary policy rather than the pursuit of profit. Most of the Bank's income is interest on its share of the System Open Market Account portfolio of securities, and, appropriately, the vast majority of this income is turned over to the U. S. Treasury each year. Compared to 1990, current income declined slightly as a result of lower market interest rates while operating expenses increased moderately reflecting the Bank's increased responsibilities in bank supervision and savings bond issuance. Profits on System foreign exchange transactions conducted for currency stabilization purposes were significantly lower, accounting for most of the decline in the Bank's net income.

	1991	1990
CURRENT INCOME		
Interest on loans	$ 945,379	$ 2,087,399
Interest on government securities	2,383,565,534	2,405,484,721
Interest on investments of foreign currencies	309,683,301	326,135,464
Service fees	95,097,878	95,255,549
All other	2,198,281	2,716,550
Total current income	$ 2,791,490,373	$ 2,831,679,683
CURRENT EXPENSES		
Operating expenses	$ 170,414,496	$ 160,718,493
Other current expenses	29,503,710	22,943,254
Total current expenses	199,918,206	183,661,747
Less reimbursement for certain fiscal agency and other expenses	15,949,065	13,168,250
Current net expenses	$ 183,969,141	$ 170,493,497
Current net income	$ 2,607,521,232	$ 2,661,186,186
ADDITIONS TO (OR DEDUCTIONS FROM) CURRENT NET INCOME		
Net profit (or loss) on sales of securities	$ 16,210,524	$ 7,678,024
Net profit (or loss) on foreign exchange transactions	46,416,592	267,423,888
Assessment for Board of Governors expenditures	(13,527,400)	(12,908,700)
Cost of Federal Reserve currency	(35,192,869)	(25,741,345)
All other—net	(9,554,577)	(10,177,070)
Net additions (or deductions)	$ 4,352,270	$ 226,274,797
Net income available for distribution	**$ 2,611,873,502**	**$ 2,887,460,983**
DISTRIBUTION OF NET INCOME		
Dividends paid	$ 18,583,288	$ 17,329,763
Payments to U.S. Treasury (as interest on Federal Reserve notes)	2,572,456,564	2,850,606,670
Transferred to surplus	20,833,650	19,524,550
Total income distributed	**$ 2,611,873,502**	**$ 2,887,460,983**

Reserve Bank directors have a general governance responsibility for the management of operations, approving budgets and expenditures and official appointments. In addition, directors provide advice and counsel to the Reserve Bank president on the state of the economy and financial system. Reserve Bank directors also determine, subject to review by the Board of Governors, the Bank's discount rate. To carry out their diverse responsibilities, the Chicago Reserve Bank and Detroit Branch directors bring a broad range of expertise and experience and are selected to represent diverse interests and activities within the District.

The Federal Advisory Council, consisting of one representative from each District, meets quarterly with the Board of Governors to discuss economic conditions. The Chicago Reserve Bank's advisory councils on small business and agriculture provide an important communication link between the Bank and these economic sectors.

1991 board of directors, Federal Reserve Bank of Chicago, from left to right: seated, C. Sullivan, C. McNeer, R. Cline, P. Schierl; standing, B. Backlund, M. Naylor, R. Healey, J. Gabbert, D. Fox.

1991 board of directors, Detroit Branch, from left to right: seated, J. Moore, P. Peters, B. Beltaire; standing, W. Odom, C. Allen, R. Mylod, N. Rodgers.

BOARD OF DIRECTORS
FEDERAL RESERVE BANK
OF CHICAGO

CHAIRMAN

Charles S. McNeer
Retired Chairman of the Board
Wisconsin Energy Corporation
Milwaukee, Wisconsin

DEPUTY CHAIRMAN

Richard G. Cline
Chairman, President, and Chief Executive Officer
NICOR Inc.
Naperville, Illinois

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

David W. Fox
Chairman, President, and Chief Executive Officer
The Northern Trust Corporation
Chicago, Illinois

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

Robert M. Healey
President
Chicago Federation of Labor & Industrial Union Council
Chicago, Illinois

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

Paul J. Schierl
Financial Consultant
Green Bay, Wisconsin

A. Charlene Sullivan
Associate Professor of Management
Purdue University
West Lafayette, Indiana

BOARD OF DIRECTORS
DETROIT BRANCH

CHAIRMAN

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

Charles E. Allen
President and Chief Executive Officer
Graistone Realty Advisors, Inc.
Detroit, Michigan

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

J. Michael Moore
Chairman and Chief Executive Officer
Invetech Company
Detroit, Michigan

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

William E. Odom
Chairman
Ford Motor Credit Company
Dearborn, Michigan

Norman F. Rodgers
President and Chief Executive Officer
Hillsdale County National Bank
Hillsdale, Michigan

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

Glen Balbach
Warren, Illinois
Wisconsin Milk Marketing Board

Leland E. Behnken
Altona, Illinois
Illinois Corn Growers Association

Marion L. Butler
Blandinsville, Illinois
Illinois Beef Association

Jon D. Caspers
Swaledale, Iowa
Iowa Pork Producers Association

Richard E. Leach
Saginaw, Michigan
Michigan Farm Bureau

Barry A. Mumby
Fulton, Michigan
Michigan Soybean Association

Merlin D. Plagge
West Des Moines, Iowa
Iowa Farm Bureau

Kenneth G. Stremlaw
Mendota, Illinois
National Farmers Organization

Scott E. VanderVeen
Clinton, Wisconsin
Wisconsin Pork Producers

Jerry L. Vandeveer
Reese, Michigan
Michigan Agri-Business Association

Donald B. Villwock
Indianapolis, Indiana
Member-at-Large

Peter J. Wenstrand
Essex, Iowa
Iowa Corn Growers Association

ADVISORY COUNCIL
ON SMALL BUSINESS

Phyllis L. Apelbaum
Chicago, Illinois
National Association of Women Business Owners–Chicago Chapter

Fernando Chavarria
Rolling Meadows, Illinois
U.S. Hispanic Chamber of Commerce

Noelle A. Clark
Lansing, Michigan
National Federation of Independent Business / Michigan

Susan E. Funk
Detroit, Michigan
National Association of Women Business Owners–Michigan Chapter

J. Paul Jordan
Milwaukee, Wisconsin
Milwaukee Minority Chamber of Commerce

Susan M. Larson
Chicago, Illinois
National Association of Women Business Owners

Eleanore A. Levy
West Des Moines, Iowa
National Association of Women Business Owners – Iowa Chapter

D. Larry Sherman
Birmingham, Michigan
Michigan Retailers Association

Toby B. Shine
Spencer, Iowa
Iowa Association of Business and Industry

Robert J. Stevens
Columbus, Indiana
Member-at-Large

Jude M. Werra
Brookfield, Wisconsin
Wisconsin Manufacturers & Commerce

Appointments to and promotions within the Federal Reserve Bank's official staff are made by the Bank's board of directors. The board appoints the Bank's president (chief executive officer) and first vice president (chief operating officer) to five-year terms, subject to the approval of the Board of Governors.

The primary activities of the Chicago Reserve Bank are divided into eight functional areas, overseen by senior vice presidents who report to the Bank's president and first vice president. An additional function, the Auditing Department, reports directly to the board of directors' Audit Committee. The Bank's senior officers together form the Management Committee and determine the Chicago Reserve Bank's strategic direction.

Federal Reserve Bank of Chicago Management Committee, from left to right: seated, W. Gram, D. Doyle, S. Keehn, J. John; standing, W. Conrad, C. Furbee, C. Vander Wilt, K. Scheld, R. Anstee, R. Sloan, F. Dreyer.

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

Steven H. Strongin
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

Robert H. Schnorbus
Senior Business Economist and Research Officer

William A. Testa
Senior Regional Economist and Research Officer

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

Barbara D. Benson
Vice President

David S. Epstein
Vice President

Roderick L. Housenga
Vice President

Geoffrey C. Rosean
Vice President

John L. Bergstrom
Assistant Vice President

George M. Gregorash
Assistant Vice President

Douglas J. Kasl
Assistant Vice President

William H. Lossie, Jr.
Assistant Vice President

Patrick J. Tracy
Assistant Vice President

Alicia Williams
Assistant Vice President

A. Raymond Bacon
Examining Officer

William A. Barouski
Examining Officer

Robert A. Bechaz
Examining Officer

Kathleen E. Benson
Examining Officer

Maureen A. Cummings
Information Processing Officer

John M. Montgomery
Examining Officer

John A. Valenti
Information Support Officer

Barbara A. Van Den Bossche
Examining Officer

Gay Whiting
Applications Officer

Donald H. Wilson
Financial Markets Officer

LOANS AND RESERVES

Gerard J. Nick
Vice President

William J. O'Connor
Assistant Vice President

SERVICES TO DEPOSITORY INSTITUTIONS

OPERATIONS AND CHECK SERVICES

Charles W. Furbee
Senior Vice President

CASH, FISCAL AGENCY AND SECURITIES SERVICES

William A. Bonifield
Vice President

Jerome D. Nicolas
Assistant Vice President

Lawrence J. Powaga
Assistant Vice President

Guadalupe Garcia
Operations Officer

Erich R. Mueller
Operations Officer

CHECK SERVICES

Allen R. Jensen
Vice President

David R. Starin
Vice President

Diane S. Noble
Assistant Vice President

Tyler K. Smith
Operations Officer

AUTOMATION AND ELECTRONIC SERVICES

William C. Conrad
Senior Vice President

AUTOMATION SERVICES

George E. Coe
Vice President

R. Steve Crain
Assistant Vice President

Brenda D. Ladipo
Assistant Vice President

Thomas M. Matsumoto
Assistant Vice President

Frank S. McKenna
Assistant Vice President

David E. Ritter
Assistant Vice President

Charles L. Schultz
Assistant Vice President

James L. Strieber
Assistant Vice President

AUTOMATION SUPPORT AND ELECTRONIC SERVICES

Wayne R. Baxter
Vice President

Stephen M. Pill
Vice President and Data Security Officer

Karen L. Rosenberg
Assistant Vice President

James M. Rudny
Assistant Vice President

Kathleen H. Williams
Operations Officer

BANKING SERVICES

Glen Brooks
Vice President

Theodore E. Downing, Jr.
Assistant Vice President

SUPPORT FUNCTIONS

FINANCIAL AND MANAGEMENT SERVICES

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

ACCOUNTING SERVICES

Richard P. Bush
Vice President

Jeffrey L. Miller
Assistant Vice President

MANAGEMENT SERVICES

Glenn C. Hansen
Vice President

Margaret K. Koenigs
Assistant Vice President

Jeffrey B. Marcus
Planning Officer

OFFICE OF THE GENERAL AUDITOR

Jerome F. John
General Auditor

Angelina S. Chin
Assistant General Auditor

Betty P. Chow
Audit Officer

OFFICE OF THE GENERAL COUNSEL

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

LEGAL SERVICES

Yurii Skorin
Assistant Vice President and Assistant General Counsel

Elizabeth A. Knospe
Assistant Counsel

Anna M. Voytovich
Assistant Counsel

OFFICE OF THE BANK SECRETARIAT

Joan M. DeRycke
Assistant Vice President and Assistant Secretary

SUPPORT SERVICES

Richard P. Anstee
Senior Vice President

ADMINISTRATIVE AND GENERAL SERVICES

Robert D. Lauson
Vice President

Kenneth R. Berg
Assistant Vice President

Kristi L. Zimmermann
Assistant Vice President

HUMAN RESOURCE SERVICES

Thomas G. Ciesielski
Vice President

Sheryn E. Bormann
Assistant Vice President

Richard F. Opalinski
Assistant Vice President

FEDERAL RESERVE SYSTEM SECURITIES PRODUCT OFFICE

James A. Bluemle
Vice President and Securities Product Manager

Dara L. Hunt
Operations Officer

DISTRICT OFFICES

DETROIT BRANCH

Roby L. Sloan
Senior Vice President and Branch Manager

Frederick S. Dominick
Vice President and Assistant Branch Manager

Patrick A. Garrean
Assistant Vice President

Yvonne M. Montgomery
Assistant Vice President

Joseph R. O'Connor
Assistant Vice President

Richard L. Simms, Jr.
Assistant Vice President

F. Alan Wells
Assistant Vice President

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

The selection process for the Federal Reserve Bank of Chicago's nine-member board of directors ensures broad representation from member commercial banks of varying sizes, as well as from diverse sectors of the Seventh 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. The Board of Governors designates the chairman and deputy chairman from among its three appointees.

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.

The director appointments and elections at the Chicago Reserve Bank and its Detroit Branch effective in 1991 were:

- *Charles S. McNeer designated Chairman.*
- *Richard G. Cline designated Deputy Chairman.*
- *Robert M. Healey appointed director.*
- *David W. Fox and A. Charlene Sullivan elected directors.*
- *Phyllis E. Peters redesignated Branch Chairman.*
- *Beverly Beltaire reappointed Branch director.*
- *Charles E. Allen and William E. Odom appointed Branch directors.*

At year-end 1991, the following appointments and elections to terms beginning in 1992 were announced:

- *Richard G. Cline designated Chairman, succeeding Charles S. McNeer who completed six years of service as a director.*
- *Robert M. Healey designated Deputy Chairman.*
- *Stefan S. Anderson (Chairman, President and Chief Executive Officer, First Merchants Corporation, Muncie, Indiana) and Thomas C. Dorr (President, Dorr's Pine Grove Farm Company, Marcus, Iowa) elected directors, replacing John W. Gabbert and Max J. Naylor who each completed six years of service on the board.*
- *Duane L. Burnham (Chairman and Chief Executive Officer, Abbott Laboratories, Abbott Park, Illinois) appointed a director, replacing Charles S. McNeer.*
- *J. Michael Moore designated Branch Chairman, succeeding Phyllis E. Peters who completed six years of service on the board.*
- *John D. Forsyth (Executive Director, University of Michigan Hospitals, Ann Arbor, Michigan) and Daniel R. Smith (Chairman and Chief Executive Officer, First of America Bank Corporation, Kalamazoo, Michigan) appointed Branch directors, replacing Phyllis E. Peters and Robert J. Mylod who completed their terms of service.*

ADVISORY COUNCILS

Each year the Chicago Reserve Bank's board of directors selects a representative to the Federal Advisory Council. B. Kenneth West, Chairman and Chief Executive Officer of Harris Bankcorp, Inc. and Harris Trust and Savings Bank, Chicago, served as the Seventh District's representative in 1989 and 1990 and was reappointed by the Chicago Fed board for 1991. For 1992, the directors selected Eugene A. Miller, Chairman, President, and Chief Executive Officer of Comerica, Inc. and Chairman and Chief Executive Officer of Comerica Bank, Detroit, Michigan, as the District's FAC representative.

New members of the Chicago Reserve Bank's two advisory councils were selected from nominations by Seventh District small business and agricultural organizations during 1991.

OFFICERS

The Bank's board of directors acted on the following promotions within the official staff during 1991:

- *Barbara D. Benson to Vice President, Supervision and Regulation.*
- *Thomas M. Matsumoto to Assistant Vice President, Automation Services.*
- *William J. O'Connor to Assistant Vice President, Loans and Reserves.*
- *Richard F. Opalinski to Assistant Vice President, Human Resource Services.*
- *David E. Ritter to Assistant Vice President, Automation Services.*
- *Yurii Skorin to Assistant Vice President and Assistant General Counsel, Legal Services.*
- *Kristi L. Zimmermann to Assistant Vice President, Administrative and General Services.*

New officers appointed to the official staff in 1991 were:

- *William A. Barouski to Examining Officer, Supervision and Regulation.*
- *Anna M. Voytovich to Assistant Counsel, Legal Services.*

NOTES

1. Lincoln quote, in Wright Patman statement in Congress, House, Committee on Banking and Currency, *Government Ownership of the Twelve Federal Reserve Banks–Hearings before the Committee on Banking and Currency,* 75th Cong., 3d sess., March 2, 1938, p. 10.

2. Patman quote, in Martin Mayer, *The Bankers,* (New York: Weybright and Talley, 1974), p. 393.

3. Adams quote, in Richard H. Timberlake, Jr., *The Origins of Central Banking in the United States,* (Cambridge: Harvard University Press, 1978), p. 39.

4. Committee quote, in Wm. McC. Martin, Jr. statement in Congress, House, Committee on Banking and Currency, Subcommittee on Domestic Finance, *The Federal Reserve System After Fifty Years—Hearings before the Committee on Banking and Currency,* 88th Cong., 2d sess., January 21, 1964, p. 24.

5. Paul M. Warburg, "Political Pressure and the Future of the Federal Reserve System," in *The Federal Reserve System–Its Purposes and Work,* ed. C.H. Crennan and A.D. Walter, (Philadelphia: The American Academy of Political and Social Science, 1922), p. 70.

6. Allan Sproul, "Reflections of a Central Banker," in *Selected Papers of Allan Sproul,* ed. Lawrence S. Ritter, (The Federal Reserve Bank of New York, 1980), p. 151.

7. Randolph W. Burgress, "Reflections on the Early Development of Open Market Policy," *Monthly Review,* Federal Reserve Bank of New York, November 1964, p. 220.

8. Congress, House, Committee on Banking and Currency, *The Banking Act of 1935—Hearings before the Committee on Banking and Currency,* 74th Cong., 1st sess., March 4, 1935, p. 181.

9. Sproul, Letter to Wright Patman, *Selected Papers,* p. 178.

10. Warburg, "Political Pressure," p. 70.

11. "Future Perfect," *The Economist,* January 4, 1992, p. 61; "Big Blue's shake-up," *The Economist,* November 30, 1991, p. 19.

12. Alan Greenspan, "Economic Forecasting in the Private and Public Sectors," address to the National Association of Business Economists, September 24, 1990, Board of Governors of the Federal Reserve System, mimeo, p. 5.

13. See, for example, Charles E. Lindblom, *The Intelligence of Democracy,* (New York: The Free Press, 1965), p. 157.

14. David P. Eastburn, "The Federal Reserve as a Living Institution," in *Men, Money & Policy,* ed. David P. Eastburn, (Federal Reserve Bank of Philadelphia, 1970), p. 264.

15. John W. Gardner, *Self Renewel: The Individual and the Innovative Society,* (New York: Harper & Row, 1963), p. 68.

16. "Profile of Carl E. Powell," *The Region,* Federal Reserve Bank of Minneapolis, December 1991, p. 10.

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