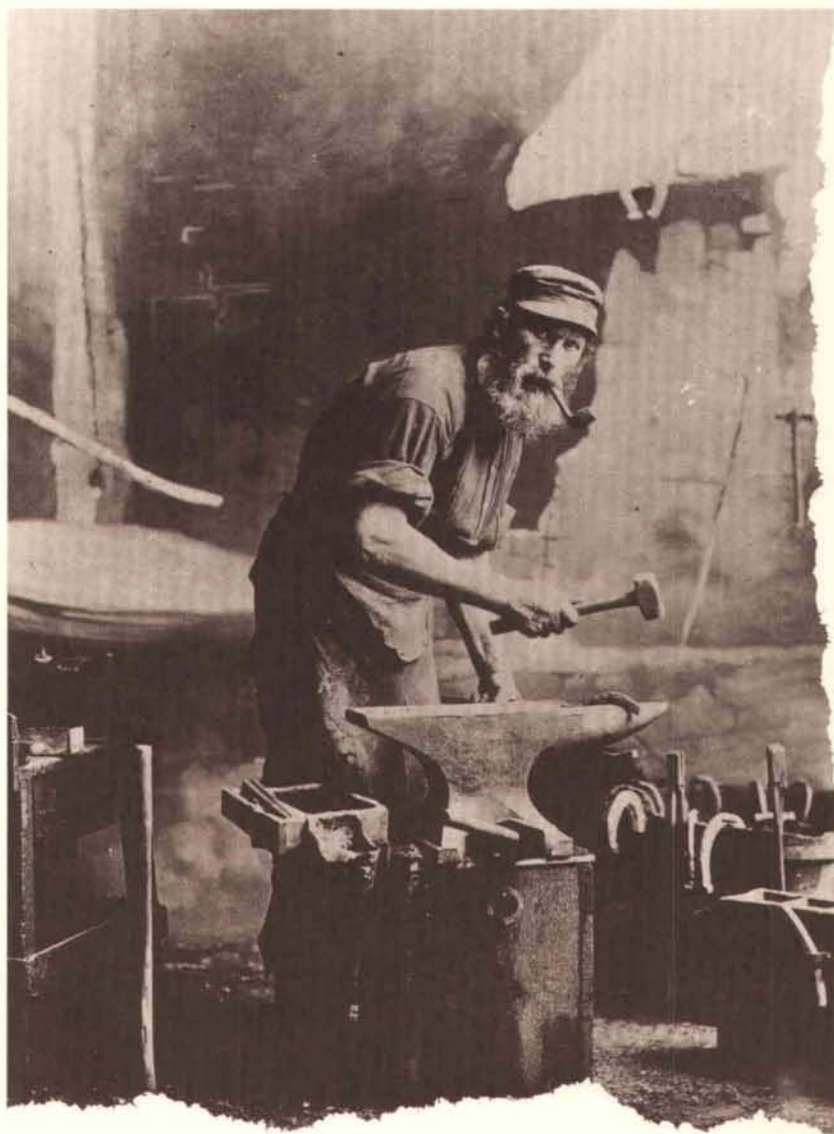


FEDERAL RESERVE BANK OF DALLAS
1992 ANNUAL REPORT



The Churn

*The
Paradox
of Progress*



Joseph A. Schumpeter

Capitalism . . . is by nature a form or method of economic change and not only never is but never can be stationary.

—*Capitalism, Socialism, and Democracy*

In the 1930s, Joseph A. Schumpeter advanced the idea that an economy doesn't grow but evolves, continuously re-creating itself as people seek to improve their standard of living. Schumpeter called this process "creative destruction." Today, "the churn" is sometimes used to describe the same principle. Implicit in either term is the paradox that Schumpeter uncovered: innovation—the manifestation of the individual's quest for gain—is central to economic progress but, at the same time, is the cause of most economic difficulties.

The essay section of this Annual Report explores Schumpeter's concept of creative destruction in a modern context. A look at how the U.S. economy gained and lost jobs in the past provides insight into what today's job losses mean for the future.

Schumpeter, 1883–1950, born in Triesch, Czechoslovakia, was a noted economist and the author of numerous works, including *The Theory of Economic Development*, *Business Cycles*, and *Capitalism, Socialism, and Democracy*. He is quoted frequently in this report.

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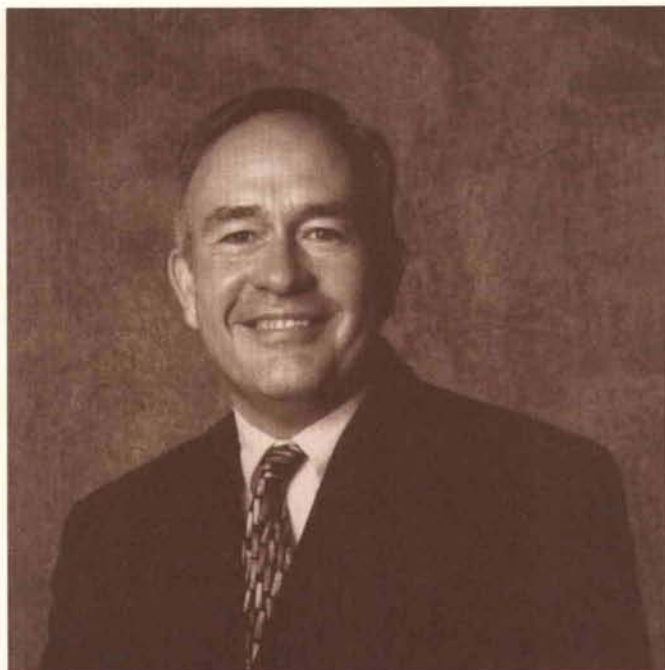
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President's Message

The year 1992 was one of the busiest and most productive in the history of the Federal Reserve Bank of Dallas. For the first time in 71 years, the Dallas Fed moved into a new headquarters building—a milestone event culminating almost a decade of careful planning and hard work. We are very pleased with our new home and look forward to serving our constituencies more efficiently and effectively than ever.

The health of the Eleventh District economy and banking system continued to improve in 1992. As in the previous two years, our District economy fared somewhat better than the nation as a whole, possibly because the District was still on the rebound from the sharp contraction of the late 1980s. In terms of employment, we managed to avoid the recession but not the sluggish recovery. Our employment growth slowed below trend, but our unemployment rates increased to national levels, especially in areas vulnerable to defense cuts.

The financial condition of our banks has improved in the past two years, with bank lending stabilizing in 1992 for the first time since 1985. The credit crunch, however, is still very much a reality

in the Southwest. While it eased somewhat in 1992, the credit crunch continues to impede job growth in small- and medium-size businesses that rely on banks for credit.

Despite these tight credit conditions—an issue of concern during monetary policy deliberations—small- to medium-size businesses have continued to lead the economy in the creation of new jobs in the 1990s. This phenomenon of job creation during a period of slow employment growth has led us to explore some of the issues highlighted in our Annual Report essay, “The Churn: The Paradox of Progress.”

For some time now, I have been struck by how the usual statistics on labor markets can be misleading. Month after month, small changes in total employment and unemployment give the impression that not much is happening when, in fact, those small net changes mask huge gross changes that are revolutionizing our economy. A small net increase of 100,000 in total employment may mean job losses that month of several hundred thousand and an even greater number of new jobs. We should not let the small net gains obscure the un-

derlying dynamics of a growing, constantly changing economy.

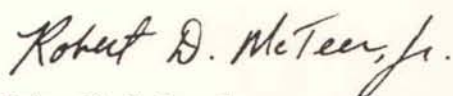
One of my college professors, David McCord Wright, used to say "Growth comes through change and causes change" so often that I quickly learned to tune him out. Only recently have I come to appreciate the wisdom of his mantra. Joseph Schumpeter also captured the essence of this message long ago in his classic description of "creative destruction." It is natural during recession and sluggish recovery to worry about job losses. We read almost daily of layoffs and downsizings at familiar *Fortune* 500 companies. We rarely read of sizable numbers of new jobs being created. Yet, in recent months, we've had net job growth. While the net growth may be small, the underlying restructuring and revitalization are anything but. The churn is revitalizing our economy.

That's not a picture of my grandfather on the cover of this report. But it could have been. My grandfather was a blacksmith, as was his father. My dad, however, was part of the evolutionary process of the churn. After quitting school in the seventh grade to work for the sawmill, he got the entrepreneurial itch. He rented a shed and opened a filling station to service the cars that had put his dad out of business. My father was successful, so he bought some land on the top of a hill and built a "truck stop." (The quotation marks are to distinguish his modest version from the interstate behemoths we see today.) Our truck stop was extremely successful until a new interstate went through 20 miles to the west. The churn replaced U.S. 411 with Interstate 75, and my visions of the good life faded.

My relatively benign experience with the churn has been multiplied millions of times, in much harsher terms, as illustrated in the accompanying essay. As my old college professor often said, "Growth comes through change and causes change." Unfortunately, more often than not, this change involves pain. Occupations come and go. When they go, we aren't inclined to see the good side of the churn. In today's world, defense cut-backs, military base closings, new technology, foreign competition and the need to cut government spending to balance the budget all have the poten-

tial to raise our standard of living significantly. Yet, they are all job killers. It is fairly easy to identify potential victims. But that is only half the story. The people freed up will be available to produce new things in new occupations. History is reassuring, as it shows us that new jobs will always be there.

I hope the accompanying essay will also be reassuring. It shows in historical context how detrimental it would be to try to stop the steady progress of the churn.



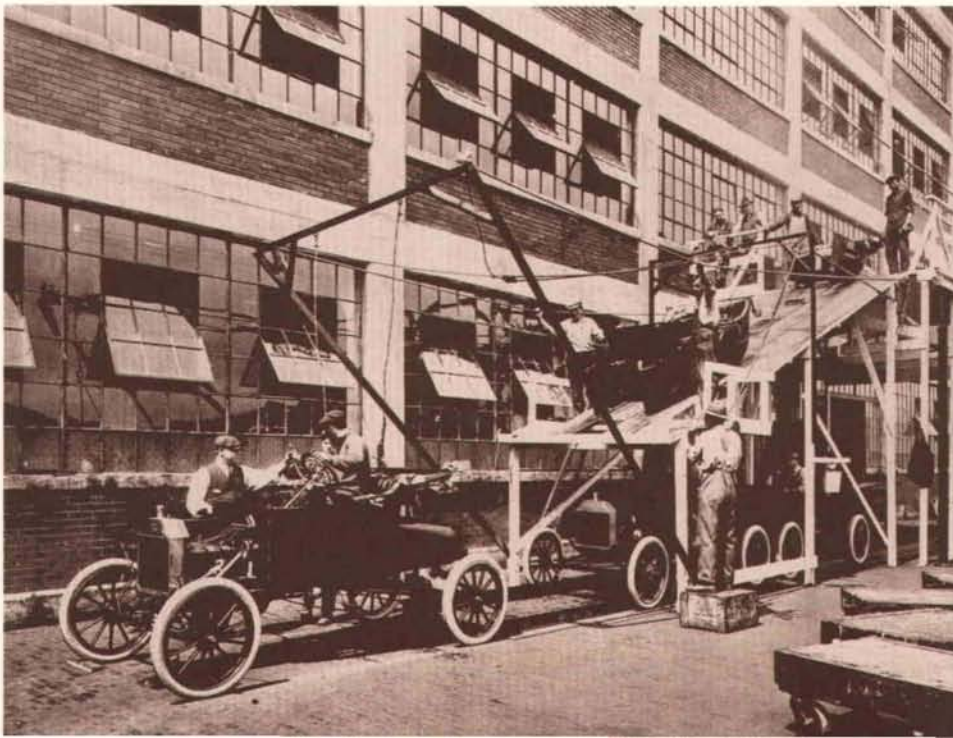
Robert D. McTeer, Jr.

President and Chief Executive Officer



The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers' goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that capitalist enterprise creates.

—Capitalism, Socialism, and Democracy



The Churn

The Paradox of Progress

The “invisible hand” of free enterprise—recognized since the time of Adam Smith as capitalism’s vital force—seemed to slap the U.S. economy as the nation entered the 1990s. A defense build-down, a glut of commercial real estate, and overdue corporate restructurings ushered in a persistent jobs recession that brought announcements of layoffs in stunning numbers: 74,000 at General Motors, first 33,000 then another 50,000 at Sears, 25,000 at IBM and 27,000 at Boeing.

More than a dozen of America’s best-known companies each cut back 1,000 jobs or more, while across the country, smaller, local layoffs made news. American workers worried that they would be next to join the unemployment lines, and pundits predicted that many lost jobs would never return.

In hard times, layoffs are big news and understandably frightening to many. Seeing families with uncertain futures, the public can easily overlook the other work of the invisible hand—the jobs it creates to provide new opportunities for employment.

New jobs seldom make the nightly news because they don’t come in sudden bursts. New jobs come without fanfare, in trickles that are overshadowed by the torrents of layoffs. Yet, during economic downturns as well as upturns, job creation continues.

As Sears struggled, for example, Wal-Mart added 260,000 jobs from 1985 to 1991. Home Shopping Network, offering consumers an alternative to Sears’ catalog, created 6,000 jobs over the past decade. While IBM trimmed its work force, aggressive and innovative young computer companies expanded theirs. Microsoft climbed from 19,200 workers to 26,000 workers in five years. Dell Computer, a start-up firm in 1984, employed 4,800 by late 1992. General Motors downsized, but American autoworkers found more than 29,000 new jobs as Honda, Toyota, Nissan and other Japanese companies opened U.S. plants.

Old jobs did disappear, but new jobs replaced them. Capitalism wasn’t failing. It was working. But

most Americans look at jobs intuitively: anything that creates them is good; whatever destroys them is bad. From this vantage, existing jobs are a national treasure to be hoarded, protected, saved.

Nothing could be more wrong.

Looking Beneath the Surface

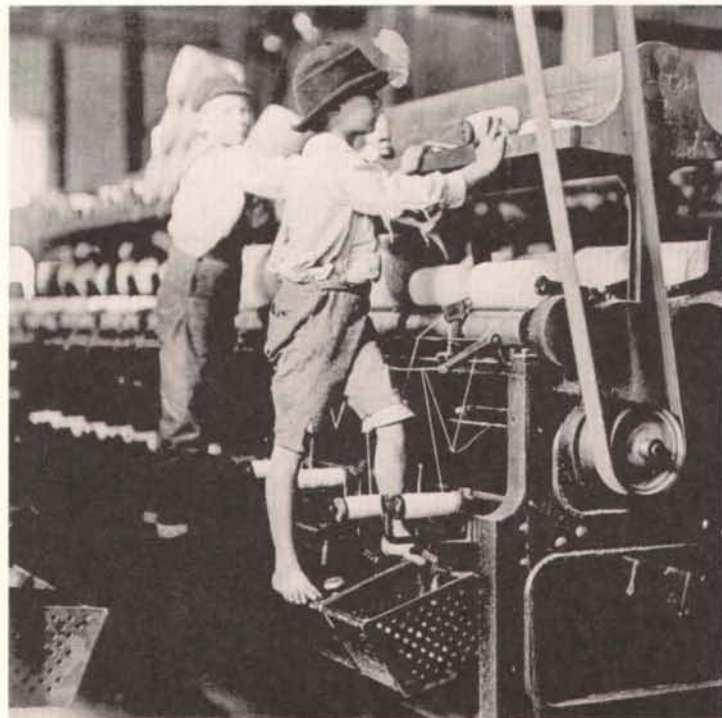
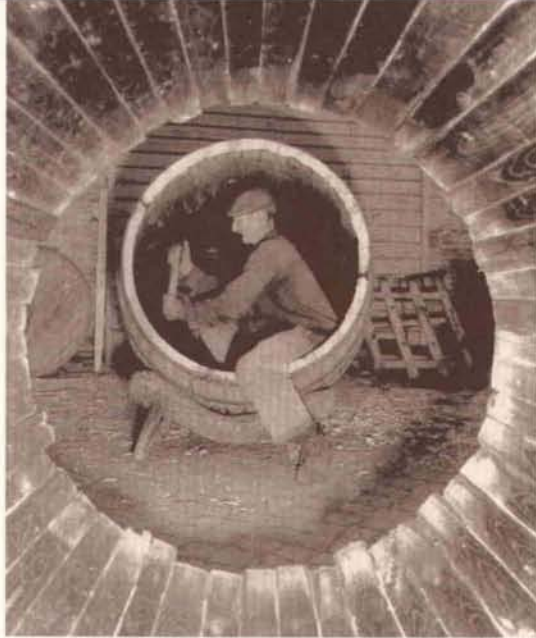
Day in, day out, jobs are created and destroyed through businesses’ openings, closings, expansions, contractions and relocations. Entrepreneurs start companies, some of which will meet the test of the marketplace and flourish. Eventually, many of these enterprises will be eclipsed by other companies that offer consumers newer and better products. In this way, an economy continuously re-creates itself through a process of “creative destruction.” As competition grinds onward, it sets in motion both layoff activity and new hiring.

A very descriptive, shorthand term for this turbulence in the labor market is “the churn.” This natural process of replacement of business enterprises by new or reformulated companies redefines existing jobs and creates new industries. Eventually—and continually—this process reconstitutes and restructures a nation’s economy. It is this churning of business enterprises and their work forces in a free enterprise economy that spurs income growth and creates wealth.

Job turnover in the churn is uneven and unpredictable; otherwise, it wouldn’t be a subject of controversy. During recessions, the loss of jobs is more apparent. Employment is hard to find, and there are mismatches between workers’ skills and available jobs’ requirements. As people shift from one job to another, transitional unemployment occurs. Unfortunately, there’s no guarantee that everyone who loses a job will find a new job quickly or end up with a better one.

The churn is not tidy. The new jobs are far from exact replacements for the old ones. The new companies and new industries—and the work forces they require—differ in unpredictable ways from their predecessors. The outcomes of the churn cannot be neatly engineered. Nonetheless, history tells us





The essential point to grasp is that in dealing with capitalism we are dealing with an evolutionary process.

—Capitalism, Socialism,
and Democracy



that the profit motive embedded in a free enterprise system will provide employment opportunities for workers who possess the education and skills that are in demand. This process accelerates early in the expansion phase of the business cycle as the churn creates scores of jobs in growing companies that didn't exist a few years earlier.

The churn isn't new; throughout history, one job has always given way to another. In prehistoric times, there was one job—survival. People spent most of their time foraging for food. Over the millennia, the work required just to get by lessened, even as the number of mouths to feed increased. Life became more than a daily struggle for sustenance, and people kept finding new tasks for their hands and minds. Jobs multiplied and evolved, becoming more specialized and defined. Now, as America prepares to enter the 21st century, the roster of new occupations continues to swell.

Economists, questioning why America's job creation in the recovery of the early 1990s fell short of expected levels, have reconsidered the ideas of Joseph Schumpeter, who offered the first scholarly explanation of the churn in the 1930s. Schumpeter advanced the paradox that economic progress destabilizes the world. Progress and job destruction go hand in hand in a dynamic process he called creative destruction. Today, as in the 1930s, Schumpeter's insights help explain how jobs emerge and disappear through the innovation and entrepreneurship of free enterprise.

From the Horse and Buggy to the Space Shuttle

Innovation and competition fuel the churn. New ideas, new products, new technologies, new forms of industrial organizations and new markets upset the status quo, rerouting demand from existing companies and industries. On the upside of the churn, winners increase sales, and they add jobs. On the downside of the churn, losers find their customers aren't buying as much, and they lay off workers.

The churn operates all the time. It continues during an expansion, although its most visible effect—job layoffs—is far more common during recessions, when industries come under stress. On an

individual level, the effects of lost employment can be agonizing to displaced workers and their families. Unemployment, though typically only temporary, is seen as a negative result of the churn. The long-term effect of the churn in the overall economy, however, is positive. The process frees labor in declining industries to produce more and better goods in new industries. This facet of the churn goes on almost invisibly as new jobs are added, a few at a time, in thousands of new enterprises in areas that are geographically dispersed.

In 1900, for example, it took nearly 40 of every 100 Americans to feed the country. Today, it requires just three. But the decline in farm jobs hasn't left the country hungry. Quite the contrary, the United States has enjoyed agricultural plenty and the creation of millions of industry and service jobs. The 37 of every 100 workers no longer needed on the farm moved on to provide new homes, computers, pharmaceuticals, appliances, movies, stock trades, video games, gourmet meals and an array of other goods and services. The result is a material abundance that wouldn't have been possible without labor released from farming.

Transportation in the 20th century provides a dramatic, ongoing example of the churn at work. The introduction of the automobile sparked an upheaval in jobs, creating a multitude of new occupations: car designer, mechanic, and truck, bus and taxi driver, to name just a few. The automobile's impact spilled over into dozens of other sectors of the economy. The oil industry, for example, produced other new occupations: roughneck, refinery and pipeline worker, and gas station attendant among them. Nonexistent in 1870, the automobile industry, directly and indirectly, created millions of jobs in the U.S. economy. And soon after the automobile came the airplane, triggering yet another reshuffling of jobs.

The automobile and the airplane, however, weren't unalloyed benefits. They created unwelcome competition for established transportation industries—everything from



(Continued on page 11)



Progress unstabilizes the economic world.

—Business Cycles

The opening up of new markets, foreign or domestic, and the organizational development from the craft shop and factory to such concerns as U.S. Steel illustrate the same process of industrial mutation—if I may use that biological term—that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism. It is what capitalism consists in and what every capitalistic concern has got to live in.

—Capitalism, Socialism,
and Democracy



America's Top 30 Jobs Since 1900

The changing composition of America's top 30 jobs over the past century affirms that jobs lost in one field are replaced by jobs in emerging occupations. Between 1900 and 1991, for example, sawyers, masons and miners disappeared from the top 30 list. In their places came pro-

fessors, engineers, mathematical and computer scientists, and others—highlighted here in color to illustrate the increasing importance of education in today's workplace.

1900		1960		1991	
Job	Workers	Job	Workers	Job	Workers
Farmers	5,674,875	Retail salespersons and managers	4,351,867	Retail salespersons	6,200,000
Agricultural laborers	4,410,877	Farmers and farm managers	2,525,907	Teachers	4,029,000
General laborers	2,577,951	Teachers	1,683,667	Secretaries	3,791,000
Servants	1,453,677	Truck and tractor drivers	1,662,723	Truck drivers	2,666,000
Merchants	790,886	Secretaries	1,492,964	Farmers and farm managers	2,368,000
Clerks	630,127	Private household workers	1,281,740	Janitors and cleaners	2,126,000
Salespeople	611,139	Farm laborers	1,244,276	Bookkeepers	1,912,000
Carpenters	600,252	Manufacturing laborers	960,998	Engineers	1,846,000
Railroad workers	582,150	Bookkeepers	936,270	Cooks	1,779,000
Miners	563,406	Carpenters	923,837	Vehicle mechanics and repairers	1,778,000
Teamsters/coachmen	538,933	Waiters and waitresses	896,273	Nurses	1,712,000
Teachers	438,861	Engineers	871,582	Freight and stock handlers	1,688,000
Launderers	385,965	Vehicle mechanics and repairers	862,363	Police and guards	1,669,000
Dressmakers	346,884	Apparel and textile workers	808,378	Financial salespersons	1,612,000
Iron and steel workers	290,538	Construction workers	751,085	Wholesale commodities brokers	1,601,000
Machinists	283,145	Assemblers	686,754	Nursing aides, orderlies, attendants	1,506,000
Painters	277,541	Janitors and sextons	621,027	Accountants and auditors	1,446,000
Bookkeepers	254,880	Sewers and stitchers	617,029	Health technologists and technicians	1,379,000
Cotton mill workers	246,391	Cooks	597,056	Waiters and waitresses	1,355,000
Tailors	229,649	Typists	543,801	Computer programmers and operators	1,287,000
Blacksmiths	226,477	Machinists	515,532	Carpenters	1,277,000
Firefighters	223,495	Mfg. checkers, examiners, inspectors	514,135	Precision production supervisors	1,227,000
Shoemakers	208,903	Policemen and guards	513,200	Assemblers	1,119,000
Sawyers	161,624	Cashiers	491,906	Heavy equipment operators	1,022,000
Masons	160,805	Packers and wrappers	491,695	Child care workers	972,000
Housekeepers	155,153	Accountants and auditors	476,826	Engineering technologists and technicians	947,000
Printers	155,147	Deliverymen and routemen	438,002	Mathematical and computer scientists	923,000
Seamstresses	150,942	Painters	416,040	Postal clerks, mail carriers, messengers	923,000
Physicians	132,002	Launderers and dry cleaners	412,042	Groundskeepers and gardeners	890,000
Tobacco factory workers	131,452	Attendants (hospital, nursing home)	408,587	Professors	773,000
Total of top 30 jobs (78.7 percent of employment)	22,894,100	Total of top 30 jobs (42.6 percent of employment)	28,998,562	Total of top 30 jobs (46.1 percent of employment)	53,823,000
Total employment	29,073,233	Total employment	67,990,073	Total employment	116,877,000

DATA SOURCE: U.S. Bureau of the Census



The changes in the economic process brought about by innovation, together with all their effects, and the response to them by the economic system, we shall designate by the term *Economic Evolution*.

—*Business Cycles*



the horse-and-buggy trade to railroads and water transport. Jobs disappeared by the millions. In 1920, 2.1 million Americans earned their living by working for railroads, compared with just 231,000 today. The country employed 109,000 carriage and harness makers in 1900 and 238,000 blacksmiths in 1910. Only a few thousand Americans make a living in these occupations today.

The experience of the transportation industry has been paralleled thousands of times with thousands of innovations—farm machinery, telephones, television, computers, lasers, fax machines. The list could go on for pages, but it would show a common theme: innovation has always had the direct effect of creating new businesses and industries and the indirect effect of destroying many of the jobs in the existing industries that they eclipsed. As a result, the mix of American jobs changed dramatically from 1900 to 1960, then changed just as much from 1960 to 1991. Despite a constant turnover in employment, the total job market expanded.

As the U.S. economy evolved, this churning process tended to benefit workers overall, even though it cost many individuals their jobs. On balance, paychecks grew fatter. Workweeks shortened. The backbreaking toil of farms and sweatshops gave way to the comfort of air-conditioned offices for many.

The process that recycles labor into new jobs is—more than ever—at work today. Nowhere is this more apparent than in the electronics industry. Among the fastest growing U.S. occupations in the 1980s were those of computer operator and programmer, software designer, fax machine repairer and cellular telephone technician.

Not all technological progress creates the same size waves in the job pool because some innovations are more significant than others. The invention of the airplane, for example, created more havoc than the invention of the elevator.

Competition with existing products also determines the impact of new technology. The telephone proved much better at sending messages than the telegraph, much to the dismay of displaced telegraph operators. But a product that's a distant substitute for existing goods doesn't affect

Creative Destruction over the Past Century

Millions of American workers today earn their living in occupations that did not exist at the beginning of the 20th century.

Destruction	People Employed	
	Today	Yesterday
Railroad employees	231,000	2,076,000 1920
Carriage and harness makers	*	109,000 1900
Telegraph operators	8,000	75,000 1920
Boilermakers	*	74,000 1920
Milliners	*	100,000 1910
Cobblers	25,000	102,000 1900
Blacksmiths	*	238,000 1910
Watchmakers	*	101,000 1920
Switchboard operators	213,000	421,000 1970
Farm workers	851,000	11,533,000 1910

Creation	People Employed	
	Today	Yesterday
Airline pilots and mechanics	232,000	0 1900
Medical technicians	1,379,000	0 1910
Engineers	1,846,000	38,000 1900
Computer programmers/operators	1,287,000	* 1960
Fax machine workers	699,000	0 1980
Auto mechanics	864,000	0 1900
Truck, bus and taxi drivers	3,328,000	0 1900
Professional athletes	77,000	* 1920
TV and radio announcers	60,000	* 1930
Electricians/electronic repairers	711,000	51,000 1900
Optometrists	62,000	* 1910

* Less than 5,000

DATA SOURCE: U.S. Bureau of the Census

many workers. The parachute, the camera and most wonder drugs, for instance, brought about little job destruction.

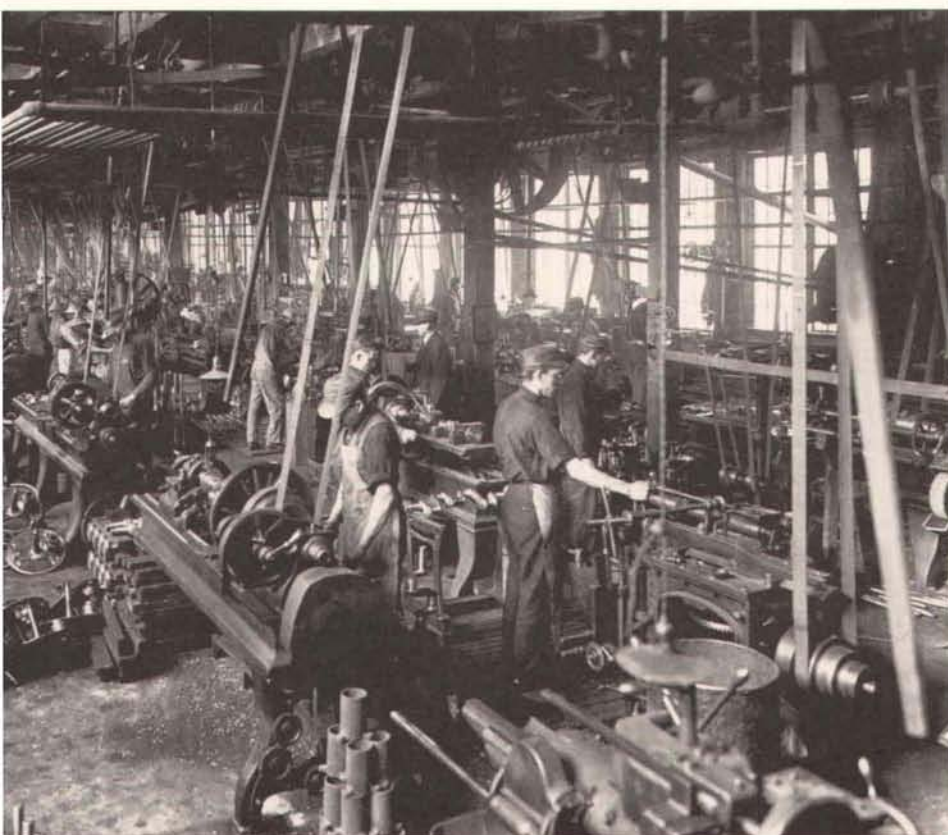
Another factor that influences the impact of new technology is the ease with which labor released from the declining industry can enter the emerging one. Many of America's first autoworkers previously made horse-drawn carriages. Some actors and reporters shifted to television after it began to compete with movies and radio. On the other hand, while the fax machine opened job opportunities for programmers and software designers, it's unlikely that the mail sorters and truck drivers ultimately displaced in the overnight mail





Surely, nothing can be more plain or even more trite common sense than the proposition that innovation, as conceived by us, is at the center of practically all the phenomena, difficulties, and problems of economic life in capitalist society.

—Business Cycle



industry can easily switch to the new jobs.

Employment cycles become especially frustrating when the old jobs and new ones aren't in the same location. A laid-off Fort Worth defense plant worker with strong ties to the community and the state might be reluctant to take advantage of job openings in, say, New Mexico.

This situation is exacerbated when U.S. jobs go to other countries. Many conclude that the so-called export of jobs represents a failure of the U.S. economy, and they call for restrictive trade policies to save American jobs. There's no denying the churn can cross borders, but the United States doesn't really lose when a job migrates to another country. The national resource isn't the job; it's the workers and their talents. Workers remain available as resources to produce goods of higher value in new industries. In recent years, for example, textile jobs moved to low-wage foreign countries, allowing North Carolina, Georgia and Florida—the Southeastern states with the best-educated work forces—to lead the region into a transition to more advanced industries with better jobs.

Entering the 21st Century "Headfirst"

Throughout the 20th century, the demise of old industries and the creation of new ones coincided with rising incomes and huge net gains in employment in the United States. The transition, however, has been bumpy and uneven. Job losses can be traumatic for workers and their families. Yet, seen as a whole, the American experience certainly confirms Schumpeter's thesis that an economy can't progress without the revitalization that brings job destruction. Intervention to save jobs almost always fails. Policies designed to protect jobs retard economic progress and, ultimately, destroy jobs by short-circuiting the vital process of innovation. It is for this reason that we must stop focusing only on the number of jobs; we must also concentrate on the composition of jobs. Added emphasis should be placed on high pay, high productivity and high educational embodiment.

History demonstrates the futility of saving employment. For instance, it's hard to miss the absurdity of a well-intentioned program that 100 years

Technological Unemployment

Unemployment is a common, though typically only temporary, result of technological progress. As entrepreneurs invent new products, old jobs often give way to new ones.

New Product	Labor Needed	Old Product	Labor Released
Automobile	Assemblers Designers Road builders Petrochemists Mechanics Truck drivers	Horse/carriage Train Boats	Blacksmiths Wainwrights Drivers Teamsters RR workers Canalmen
Airplane	Pilots Mechanics Flight attendants Travel agents	Train Ocean liner	RR workers Sawyers Mechanics Ship hands Boilermakers
Plastics	Petrochemists	Steel Aluminum Barrels/tubs Pottery/glass	Miners Founders Metalworkers Coopers Potters Colliers
Television	Electronic engineer Actors Reporters Electricians	Newspaper Theater Movies Radio	Reporters Actors
Computer	Programmers Computer engineers Electrical engineers Software designers	Adding machine Slide rule Filing cabinets Paper	Assemblers Millwrights Clerks Tinsmiths Lumberjacks
Fax machine	Programmers Electricians Software designers	Express mail Teletype	Mail sorters Truck drivers Typists
Telephone	Electronic engineers Operators Optical engineers Cellular technicians	Mail Telegraph Overnight coach	Postal workers Telegraph operators Coach drivers
Polio vaccine	Chemists Lab technicians Pharmacists	Iron lung	Manufacturers Attendants

DATA SOURCE: U.S. Bureau of the Census

ago might have aimed to keep blacksmiths and harness makers employed. As recently as 70 years ago, the United States had 10 million registered passenger cars but 20.5 million horses. Had our ancestors been able to freeze jobs, the United States would be stuck in the horse-and-buggy era. Few Americans would willingly return to life as it was before the automobile because





Innovation is the outstanding fact in the economic history of capitalist society or in what is purely economic in that history, and also it is largely responsible for most of what we would at first sight attribute to other factors.

—Business Cycles



the jobs of the past would imply the products and productivity of the past, depriving consumers of the benefit of generations of new technology.

If a society doesn't allow the replacement of outmoded enterprises and their concomitant jobs, it won't be able to advance. The former Soviet Union guarded its citizens' jobs; its fate shows what happens to a nation that tries to repeal the economic forces at work in the labor market. Instead of spiraling upward with innovations, the Soviet Union stagnated and finally collapsed.

The process of creative destruction worked in the past, taking a country built by muscle power through the industrial revolution and into the information age. Yet, today's skeptics wonder whether the U.S. job machine still works. As layoffs dominate the news, people worry about whether there will be good jobs to replace those being lost. As a society, we are uneasy about what many analysts regard as declining living standards. Many parents fear that their children may be among the first Americans to be less well-off than the previous generation.

These questions and anxieties aren't new. Time and again, people caught in the churn have been fearful of the future. In truth, there are few guarantees that an economy will always move forward. At the moment of job losses in one industry, it's often difficult to see the new opportunities already opening in emerging businesses. Figuring out which industries will employ the next generation becomes an even more troublesome task. The best a society can do is prepare itself to adapt to change.

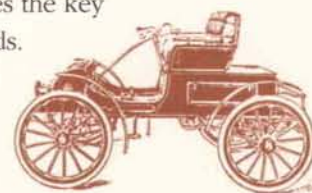
A well-educated, well-trained labor force more readily shifts from the jobs of declining industries to those of emerging ones. Nowhere is this more true than in contemporary America, where the bulk of lost jobs are in heavy industry and most of the new jobs are in the so-called knowledge industries. The skills needed in the past aren't likely to be the same as those valued in the future. Only education followed by constant reeducation and training can help bridge the gap. In an era of international competition, a society that doesn't adequately educate its work force may have to settle for the less desirable jobs.

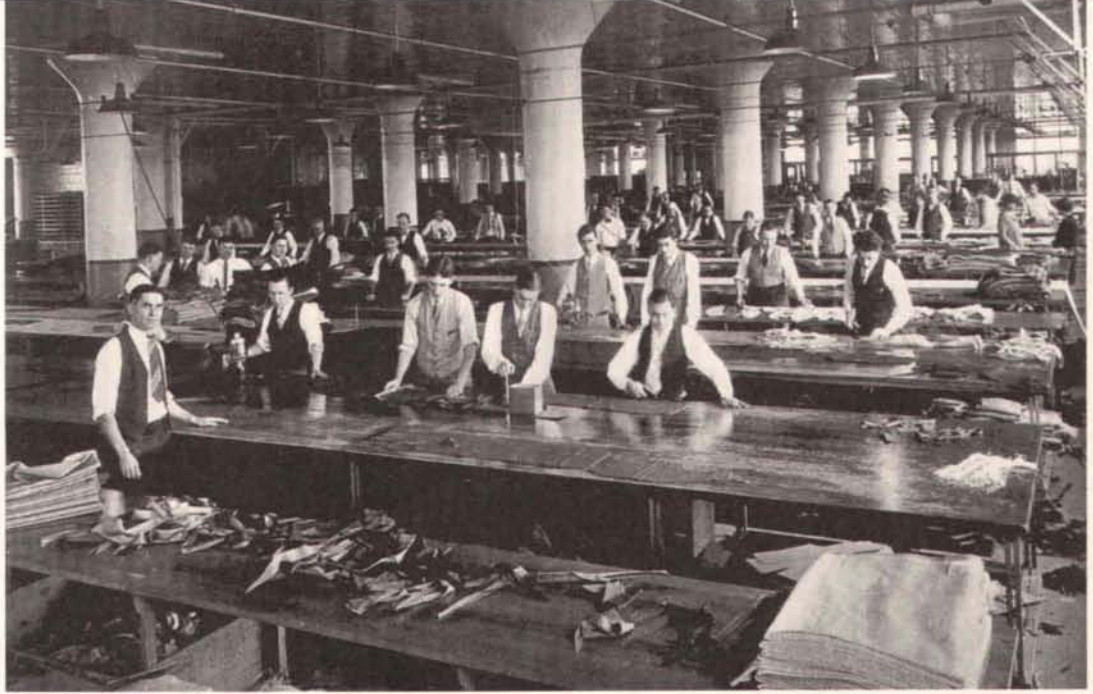
Education and skills loom so large because technology plays a leading role in forging new industries in the United States and other advanced economies. The world today possesses a large inventory of inventions to help plant the seeds of tomorrow's industries. Already, jobs are emerging from such discoveries as DNA, lasers, fiber optics, high-tech ceramics, hard plastics, holography, photonics and micromachines. As the pace of technological innovation quickens, the churn of jobs is likely to become even faster. The challenge for the United States lies in training its workers for the jobs that will be created as these industries grow.

With that in mind, one of today's most pressing jobs question might be better turned on its head. Instead of asking whether the U.S. economy will create enough good jobs, we ought to be asking whether our educational system will produce enough qualified workers. If its people are educated, trained and willing to work, a society with a properly functioning market economy will be able to provide an abundance of opportunities.

As long as people will pay for more and better products, entrepreneurs will figure out what consumers want and will try to find new ways to produce it. Thus, a free enterprise system provides its own fuel for the churn. In this way, the economy will move forward—as long as labor and other resources are able to move from old industries to new ones.

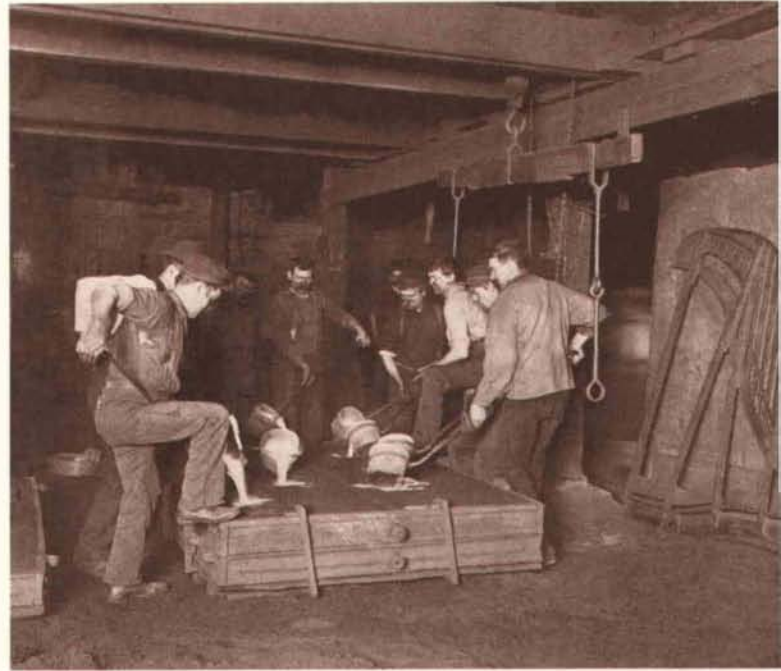
Job creation and job destruction are intertwined. They are both key elements in the process through which a society raises its living standards. This shouldn't be all that surprising to most Americans. It's so familiar, in fact, that the concept is captured in a single word—progress. Societies that deny the churn by trying to freeze employment actually retard the formation of new jobs and new sources of income. Societies that allow the churn to work reap the rewards of more employment and better living standards. In these fundamental concepts, ironic as they may seem, lies the key to achieving higher living standards.





It is, after all, only common sense to realize that, but for the fact that economic life is a process of incessant internal change, the business cycle, as we know it, would not exist.

—*Business Cycles*



The Churn Remakes the Dallas Economy

The Dallas area during a three-year period in the 1980s illustrates the churn at work. Although an oil bust racked the area's economy after 1985, by 1989 employment data indicated a net decline in the job base of just 3.1 percent, according to research by Donald A. Hicks, vice chair of the Bruton Center for Development Studies at the University of Texas at Dallas.

Traditional counting of jobs showed very little happening in the Dallas area, but net gain or loss numbers don't begin to tell the story that Hicks' research uncovered. Job by job, almost 27 percent of the area's 1985 jobs disappeared over a period of three years. Largely offsetting the job losses, however, were gains. In 1989, almost one in four Dallas-area residents held jobs that hadn't existed three years earlier.

The churn of job creation and job destruction amounted to a recycling of fully a fourth of the Dallas-Fort Worth region's economy in the short period of 36 months. Hicks' research revealed that beneath the surface of what appeared to be a stagnant regional economy, dynamic, vital processes were at work.

What occurred in the Dallas area isn't an isolated case. To one extent or another, all parts of the country are continuously going through a similar process. Unfortunately, it's not yet possible to track the churn across the country or through time, counting the disappearance of every old job and the emergence of every new one. However, preliminary data for a handful of metropolitan areas for 1984 to 1989 confirm that the turnover in employment can be substantial:

	<i>Job Base Lost (Percent)</i>	<i>Job Base Gained (Percent)</i>
Atlanta	31.5	41.7
Austin	35.0	40.9
Lexington	24.7	29.5
Orlando	39.8	45.3
San Diego	34.1	40.4

An explanation of what goes on in the churn must start with the reasons for job losses. The data point to business failures as the reason for 70 percent of the Dallas area's job losses. Layoffs at surviving firms account for almost all the rest. A region can lose employment as companies migrate to other cities, but the incidence of that in the Dallas area as a whole was small. (Within the metropolitan area, the story is quite different. More than one in four of the jobs lost within Dallas city limits resulted from relocations, revealing a shift of business to the suburbs.)

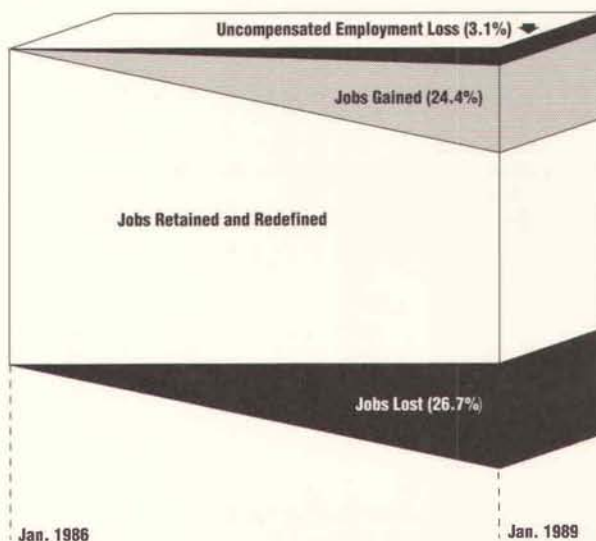
Job creation comes from new business formations, expansion of existing businesses and in-migration. For the Dallas area, start-ups

created 61 percent of the new jobs between 1985 and 1989; companies' new business accounted for 35 percent of the area's employment gains. The recruitment of firms from outside the region—the goal of so much economic development activity—contributed only 3 percent of the new employment.

The Dallas area regenerated its employment base by throwing off unsuccessful companies and building new ones. The old jobs, of course, aren't the same as the new ones. With the oil industry in disarray, jobs at energy companies went away. Banks and construction firms lost jobs, too. The gains for the Dallas area came mostly in high-tech manufacturing (particularly in telecommunications and electronics), retail trade and assorted services.

The lesson of the churn in the Dallas area is clear: job losses are often underestimated, but the vitality of free enterprise provides new opportunities for workers in new industries, helping offset layoffs in troubled sectors. What's significant about this 1986–89 period is that the whole industrial base of the area shifted toward more successful, competitive industries.

The Churn in the Greater Dallas Area, 1986–89



In three years, the Dallas area lost 26.7 percent of its jobs but only 3.1 percent of its employment base. New jobs came about because of new business formation (61.2 percent), secondary expansion of existing business (35.5 percent), and business in-migration (3.3 percent). The causes of jobs lost were business closure (69.7 percent), employment contractions in existing business (28.7 percent), and business out-migration (1.6 percent).

SOURCE: Bruton Center for Development Studies,
the University of Texas at Dallas



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Acknowledgment

This essay was written by W. Michael Cox and Richard Alm, based on research conducted by W. Michael Cox, vice president and economic advisor, Federal Reserve Bank of Dallas, and Donald A. Hicks, vice chair of the Bruton Center for Development Studies at the University of Texas at Dallas.

The Year in Review

Overview

In 1992, the Federal Reserve Bank of Dallas took a historic step. The Dallas Fed moved into new headquarters at 2200 North Pearl Street in downtown Dallas after nearly a decade of research and analysis, a lengthy selection process involving 17 possible sites, and two years of nonstop design and construction. This step placed the Bank in a state-of-the-art facility incorporating the most up-to-date technological capabilities available—a move that prepares the Bank and the financial institutions of the Eleventh District for the 21st century, poised to meet the challenges of an industry that continues to undergo major change.

The move into a new, custom-designed building gives the Dallas Fed an opportunity to pass to its customers increased efficiency and flexibility in the Bank's operations. From fiber-optic cabling that provides a more secure and efficient electronic payments system, to dual-technology motion detectors that enhance Bank security, to an Uninterruptible Power System that prevents the loss of even 1 millisecond of computer capability, the Dallas Fed and the financial institutions it serves are today supported by an imposing array of technology.

Moreover, in pursuit of its goal to continually improve the efficiency and flexibility of its overall operations and the nation's payments system, the Federal Reserve in 1992 began two major consolidation efforts.

In April 1992, the Federal Reserve Automation Services (FRAS) project was launched by the Federal Reserve System to provide the Reserve Banks and the financial institutions they serve a more reliable, cost-effective automation environment. For many reasons, including the increased capabilities of the new building, the Dallas Fed was selected as a site for the project, which consolidates the System's 12 data processing operations into three. The Dallas FRAS Data Center—which now houses three state-of-the-art mainframes and more than 100 pieces of computer hardware, communications equipment and tape devices—was completed by

year's end and will be serving the Chicago, Dallas, Kansas City, Minneapolis, St. Louis and San Francisco Federal Reserve Districts.

In July 1992, the U.S. Bureau of the Public Debt and the Federal Reserve System consolidated the processing of savings bonds from all 12 Districts into five sites. The Eleventh District's savings bond activities will be merged with those of the Kansas City Fed. Organized by function, the new savings bond system will be more cost-efficient by taking advantage of advances in automation technology.

Financial Services

The Dallas Fed's relocation provided substantial opportunities for the development of financial services in 1992. The Bank converted to advanced processing equipment that uses the latest technology, allowing a larger volume of paper and electronic checks to be processed faster and more efficiently than before. Bank operations also began processing on the Federal Reserve Automation Services mainframe in the Dallas FRAS Data Center in 1992, and hardware and software were standardized throughout the District.

In addition to creating several new products to meet the needs of its customers, the Dallas Fed also initiated a pilot program with a District bank to explore check truncation and image processing for the development of services to facilitate institutional cash management for large corporate customers.

During the year, the Bank undertook substantial efforts to enhance customer service. The Dallas Office began a comprehensive quality control program for paper-check processing. The program incorporates employee incentives and increased employee responsibility for correcting errors that may occur at each step of the check sorting and delivery process. The El Paso Office implemented a quality improvement program in 1992 to work with customers to reduce the number of external errors related to paper-check processing, and it introduced several measures to improve the quality of service in currency operations. The Houston Office initiated a Total Quality Management Program to develop a standardized system of improving customer service in all areas of operations, and the

San Antonio Office put process improvement teams and quality control groups in place in the paper-check processing and currency processing areas.

As part of the Dallas Fed's continuing review of Eleventh District services to ensure that they are the best available, the Bank initiated several operations research projects, including the testing of various hardware and software products to establish an automated adjustments system aimed at providing greater efficiencies and timeliness in responding to customer requests for adjustments-related information.

The Bank also took advantage of the new building's high-tech capabilities to enhance currency and coin operations for the territory served by the Dallas Office. Currency is stored in an underground vault the size of a five-story building. The currency vault is fully automated, using a computerized carriage system to store and retrieve. Also, the currency and coin area will be linked to the Bank's central processing unit, allowing a greater degree of efficiency and better control of assets. In addition to lowering costs, the computerized system will allow closer adherence to the System's custody control standards for protecting valuable assets. Meanwhile, in response to increases in volume, both the Houston and the San Antonio Offices instituted second-shift operations in currency processing, joining the Dallas Office, which already had second-shift operations in place.

In implementing the Federal Reserve System's initiative to streamline the automated clearinghouse function and move all commercial transactions to electronic access, the Dallas Fed worked with more than 90 percent of the financial institutions in the District to facilitate the conversion. As designed, the move toward an all-electronic ACH system has provided customers with improved efficiency by promoting timely posting and has given customers greater processing flexibility, a higher level of security, and improved disaster recovery capabilities.

In the Dallas Fed's securities area, two initiatives beyond the consolidation of savings bond processing were taken. In response to a steady decline in volume throughout the Eleventh District, due largely to conversion of securities into book entry, the Dallas Fed's noncash collection services involving

municipal coupons and bonds were consolidated at the Jacksonville Branch of the Atlanta Fed on February 1, 1993. For similar reasons, the Federal Reserve System announced that it will withdraw from the priced definitive safekeeping service, including the safekeeping of definitive securities pledged to state and local governments, by the end of 1993.

Supervision and Regulation and Loan

As the regulator of state member banks and bank holding companies in the Eleventh District, the Dallas Fed performs examinations for safety and soundness and for compliance with consumer protection laws, as well as the Community Reinvestment Act. In 1992, the Dallas Fed's examiners conducted 430 examinations related to the supervision of District financial institutions, down from 556 in 1991, reflecting improved banking conditions and a decrease in the number of state member banks. Of the 430 examinations, 19 were of U.S. agencies of foreign banks, and 40 were consumer affairs examinations.

The Federal Deposit Insurance Corporation Improvement Act (FDICIA), passed by Congress in 1991, began to affect the bank supervision process in 1992. Although the legislation is not yet in full effect, bankers and regulators have responded to various proposals for the drafting of regulations mandated by the legislation. These cover risk-based assessment of deposit insurance premiums, real estate lending guidelines, standards for prompt corrective action, minimum standards for safety and soundness, an improved methodology for assessing the adequacy of the reserve for loan and lease losses, and truth in savings.

As a result of the continuing emphasis on efficiency of operations, financial institutions in the Eleventh District experienced a dramatic increase in consolidation activity in 1992. The Dallas Fed processed 207 applications for mergers and acquisitions, changes in control and management, and other actions requiring regulatory approval—up from 114 such applications in 1991.

The profitability of Eleventh District banks was greater than in 1991 and again surpassed the profitability of U.S. banks overall. The return on District

banking assets rose to 1.2 percent in 1992 from 0.7 percent in 1991. Meanwhile, reflecting the stability of the District's banking industry, the number of bank failures and FDIC-assisted resolutions continued to decrease, declining slightly from 33 in 1991 to 31 in 1992.

Largely because of increased seasonal lending to meet the temporary liquidity needs of various financial institutions throughout the District, the number of loans extended by the Dallas Fed's discount window increased from 421 in 1991 to 521 in 1992, and total credit extended rose slightly from \$1 billion in 1991 to \$1.3 billion in 1992.

The provisions of FDICIA affecting discount window operations will go into effect on December 9, 1993, effectively reducing the number of loans that can be extended to undercapitalized institutions.

Research and Public Affairs

In addition to its role as a provider of financial services and as the regulator of state member banks and bank holding companies in the District, the Dallas Fed is strongly committed to playing a vital role in the economic life of the region. The new building, with its greatly expanded capacity for seminars, conferences and other public outreach programs, is enabling the Bank to establish itself as a prominent center of economic research and education for the Southwest, especially through promoting a better understanding of free enterprise and its significance to the region's economic viability.

In pursuit of this goal, the Dallas Fed expanded its role in the area of free trade during 1992 by establishing relations with Banco de Mexico, as well as with several prestigious universities and research institutions throughout Latin America. In addition, the Bank began researching the interrelationship between U.S. and Mexico banking markets and the opportunities arising from the North American Free Trade Agreement. Other important areas of study were the Federal Deposit Insurance Corporation Improvement Act's impact on the region's banking industry and, also, new technologies for detecting and predicting changes in a bank's financial condition. Moreover, research was conducted on such issues as regional labor market conditions, interna-

tional trade and the growth of the money supply.

The Dallas Fed's activities in these and other areas were supported and communicated in a number of ways. Economic research on issues affecting the Eleventh District was published for various audiences—in *Economic Review*, *The Southwest Economy*, *Financial Industry Studies*, *Financial Industry Issues* and *Houston Business*. In addition, the Bank conducted several conferences to provide a better understanding of key industry and economic concerns; among these were its annual conference on banking, which examined market forces versus regulatory decision-making, and its conference on the Southwest economy, which focused, in part, on the region's trade relations with Latin America. The Bank also conducted a series of eight meetings with community bankers across the District to discuss their needs and address their concerns.

As part of its efforts to encourage and promote community development in the Eleventh District, the Bank sponsored two major conferences on economic development and community reinvestment, participated in a variety of forums that promoted community development, conducted several workshops and seminars on community reinvestment policy issues and application requirements, and began publishing a newsletter highlighting successful community development initiatives. Moreover, the Dallas Fed has taken a leadership role within the District in the area of economic education. In 1992, the Bank held 18 teacher-training conferences on international trade, sponsored an upper-level high school essay contest on the topic of free trade, coordinated with Southern Methodist University to provide an economics program for junior high school students, and published an economic information resource guide for teachers.

All this reflects a year of significant activity for the Dallas Fed and for the banking industry. As changes continue to take place within the Federal Reserve System and the industry, the Federal Reserve Bank of Dallas will continue to meet the challenges of providing efficient, cost-effective and reliable financial services while promoting safe and sound banking throughout the Eleventh District.

Boards of Directors

Federal Reserve Bank of Dallas

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Chairman of the Board and
Chief Executive Officer
Linbeck Construction Corp.
Houston, Texas

Deputy Chairman:
Vacancy

J. B. Cooper, Jr.
Farmer
Roscoe, Texas

T. C. Frost
Chairman of the Board
Frost National Bank
San Antonio, Texas

Robert G. Greer
Chairman of the Board
Tanglewood Bank, N.A.
Houston, Texas

Eugene M. Phillips
Chairman of the Board and President
The First National Bank of Panhandle
Panhandle, Texas

Cece Smith
General Partner
Phillips-Smith
Specialty Retail Group
Dallas, Texas

Gary E. Wood
President
Texas Research League
Austin, Texas

Peyton Yates
President
Yates Drilling Co.
Artesia, New Mexico

Federal Advisory Council Member

Ronald G. Steinhart
President and Chief Operating Officer
Bank One, Texas, N.A.
Dallas, Texas

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Senior Vice President
Management Assistance Corp. of America
El Paso, Texas

Chairman Pro Tem:
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The University of Texas at El Paso
El Paso, Texas

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Alpine, Texas

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KASCO Ventures, Inc.
El Paso, Texas

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Chairman of the Board and President
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Partner and Administrator
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Houston, Texas

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Houston, Texas

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Chairman of the Board and President
Brenham Bancshares, Inc.
Brenham, Texas

Jenard M. Gross
President
Gross Builders, Inc.
Houston, Texas

Walter E. Johnson
President/Chief Executive Officer
Southwest Bank of Texas
Houston, Texas

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Chairman of the Board
Imperial Holly Corp.
Sugar Land, Texas

Clive Runnells
President and Director
Mid-Coast Cable Television, Inc.
El Campo, Texas
President and Director
Runnells Cattle Co.
Bay City, Texas

San Antonio Branch

Chairman:
Roger R. Hemminghaus
Chairman of the Board, President, and
Chief Executive Officer
Diamond Shamrock, Inc.
San Antonio, Texas

Chairman Pro Tem:
Erich Wendt
President and Chief Executive Officer
Maverick Markets, Inc.
Corpus Christi, Texas

Gregory W. Crane
Chairman of the Board, President, and
Chief Executive Officer
Broadway National Bank
San Antonio, Texas

Javier Garza
Executive Vice President
The Laredo National Bank
Laredo, Texas

Lawrence E. Jenkins
Vice President (retired)
Lockheed Missiles & Space Co., Inc.
Austin, Texas

Jack Moore
Owner/Manager
T. J. Moore Lumber Inc.
Ingram, Texas

Sam R. Sparks
President
Sam R. Sparks, Inc.
Progreso, Texas

Effective December 31, 1992

Advisory Councils

Financial Institutions

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President and Chief Executive Officer
Southwest Corporate
Federal Credit Union
Dallas, Texas

Arno J. Easterly, Jr.

President and Chief Executive Officer
Barksdale Federal Credit Union
Barksdale Air Force Base, Louisiana

P. M. Elvir

Managing Director
Operations and Cash Management
Bank One, Texas, N.A.
Dallas, Texas

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NationsBank of Texas, N.A.
Dallas, Texas

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Senior Vice President
First National Bank in Alamogordo
Alamogordo, New Mexico

J. W. Pieper

Senior Vice President
New First City, Texas-San Antonio, N.A.
San Antonio, Texas

Jimmy Seay

President and Chief Executive Officer
The City National Bank
Mineral Wells, Texas

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Executive Vice President
Frost National Bank
San Antonio, Texas

Small Business and Agriculture

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Alman Electric, Inc.
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Patrick E. Boyt

Managing Partner
P. E. Boyt Farms
Devers, Texas

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T. Mike Field

Agriculture and Real Estate
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Partner/Manager
Tharp Farms
Las Cruces, New Mexico

L. C. Unfred

Farmer
New Home, Texas

Jeffrey W. Wilson

President
Cattle Baron Restaurant, Inc.
Roswell, New Mexico

Effective December 31, 1992

Statement of Condition

	December 31, 1992 (Thousands)	December 31, 1991 (Thousands)
ASSETS		
Gold certificate account ¹	\$ 463,000	\$ 515,000
Special drawing rights certificate account ²	377,000	463,000
Coin	27,426	42,850
Loans to depository institutions	0	2,500
Securities:		
Federal agency obligations	198,566	237,160
U.S. government securities	10,822,673	10,455,745
Total securities	\$ 11,021,239	\$ 10,692,905
Items in process of collection	418,164	772,558
Bank premises (net)	161,185	140,461
Other assets	1,998,586	2,296,846
Interdistrict settlement account	2,314,128	1,599,508
TOTAL ASSETS	<u>\$ 16,780,728</u>	<u>\$ 16,525,628</u>
LIABILITIES		
Federal Reserve notes	\$ 14,082,302	\$ 13,530,418
Deposits:		
Depository institutions	1,808,300	1,645,660
Foreign	11,092	11,430
Other	26,894	96,637
Total deposits	\$ 1,846,286	\$ 1,753,727
Deferred credit items	355,660	722,424
Other liabilities	72,594	96,179
TOTAL LIABILITIES	<u>\$ 16,356,842</u>	<u>\$ 16,102,748</u>
CAPITAL ACCOUNTS		
Capital paid in	\$ 211,943	\$ 211,440
Surplus	211,943	211,440
TOTAL CAPITAL ACCOUNTS	<u>\$ 423,886</u>	<u>\$ 422,880</u>
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	<u>\$ 16,780,728</u>	<u>\$ 16,525,628</u>

¹ This Bank's share of gold certificates deposited by the U.S. Treasury with the Federal Reserve System.

² This Bank's share of special drawing rights certificates deposited by the U.S. Treasury with the Federal Reserve Bank of New York.

Statement of Operations

	1992 (Thousands)	For the year ended December 31 1991 (Thousands)
CURRENT INCOME		
Interest on loans	\$ 181	\$ 292
Interest on government securities	645,883	729,590
Income on foreign currency	168,875	190,408
Income from priced services	53,345	49,082
Other income	290	663
Total current income	\$ 868,574	\$ 970,035
CURRENT EXPENSES		
Current operating expenses	\$ 107,879	\$ 98,422
Less expenses reimbursed	8,863	7,342
Current net operating expenses	\$ 99,016	\$ 91,080
Cost of earnings credits	11,217	6,049
Current net expenses	\$ 110,233	\$ 97,129
CURRENT NET INCOME	\$ 758,341	\$ 872,906
PROFIT AND LOSS		
Additions to current net income:		
Profit on sales of government securities (net)	\$ 4,565	\$ 4,908
Profit on foreign exchange transactions (net)	0	27,748
Other additions	4	6
Total additions	\$ 4,569	\$ 32,662
Deductions from current net income:		
Loss on sales of government securities (net)	\$ 0	\$ 0
Loss on foreign exchange transactions (net)	86,081	0
Other deductions	36	28
Total deductions	\$ 86,117	\$ 28
Net additions (deductions)	\$ (81,548)	\$ 32,634
Cost of unreimbursable Treasury services	\$ 2,318	\$ 4,272
Assessment by Board of Governors:		
Expenditures	\$ 10,274	\$ 8,034
Federal Reserve currency costs	14,354	11,210
NET INCOME AVAILABLE FOR DISTRIBUTION	\$ 649,847	\$ 882,024

Statement of Surplus

	1992 (Thousands)	For the year ended December 31 1991 (Thousands)
Surplus, January 1	\$ 211,440	\$ 184,737
Net income available for distribution	649,847	882,024
LESS:		
Dividends paid	13,077	11,468
Payments to the U.S. Treasury	636,267	843,853
Net amount transferred to (from) surplus	\$ 503	\$ 26,703
Surplus, December 31	<u>\$ 211,943</u>	<u>\$ 211,440</u>

Volume of Operations

District Summary

	<i>Number of Pieces Handled</i>		<i>Dollar Amount (Thousands)</i>	
	1992	1991	1992	1991
Currency received and counted	984,670,412	1,018,631,771	15,556,204	14,065,791
Coin received and counted	724,822,479	474,163,877	127,515	68,592
Food stamps redeemed	436,547,796	392,604,472	2,241,908	1,960,574
Transfers of funds	6,199,053	6,007,500	8,082,428,378	8,170,674,245
CHECKS HANDLED				
Commercial—processed	1,105,328,973	1,091,740,644	607,988,036	521,793,307
Commercial—fine sorted	476,632,826	427,791,335	124,205,173	104,621,557
U.S. government checks	29,769,663	31,245,000	36,933,809	37,790,042
ACH ITEMS HANDLED				
Commercial	128,009,669	108,278,400	509,256,382	435,011,018
U.S. government	46,265,782	42,578,234	54,355,908	49,189,268
COLLECTION ITEMS HANDLED				
U.S. government coupons paid	11,519	12,546	9,867	23,138
Municipal coupons and bonds	132,126	219,855	292,312	679,211
ISSUES, REDEMPTIONS, EXCHANGES OF U.S. GOVERNMENT SECURITIES				
Definitive and book-entry	3,403,064	4,358,666	1,876,923,996	1,358,640,070
LOANS				
Advances made	521	421	1,295,073	1,021,049

Officers

Federal Reserve Bank of Dallas

Dallas

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Chief Executive Officer

Tony J. Salvaggio

First Vice President and
Chief Operating Officer

Robert D. Hankins

Senior Vice President

Jay K. Mast

Senior Vice President

Harvey Rosenblum

Senior Vice President and
Director of Research

James L. Stull

Senior Vice President

Millard E. Sweatt

Senior Vice President,
General Counsel, and Secretary

Basil J. Asaro

Vice President

Lyne H. Carter

Vice President

Jack A. Clymer

Vice President

W. Michael Cox

Vice President and
Economic Advisor

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Vice President

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Vice President

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Vice President

Joel L. Koonce, Jr.

Vice President

Robert F. Langlinais

Vice President and
General Auditor

Rebecca W. Meinzer

Vice President

Gerald P. O'Driscoll, Jr.

Vice President and
Economic Advisor

Dean A. Pankonien

Vice President,
Assistant General Counsel,
and Assistant Secretary

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Vice President

Jesse D. Sanders

Vice President

Genie D. Short

Vice President

Larry M. Snell

Vice President

W. Arthur Tribble

Vice President

Earl Anderson

Assistant Vice President

Stephen P. A. Brown

Assistant Vice President and
Senior Economist

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Assistant Vice President

Robert G. Feil

Assistant Vice President

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Assistant Vice President

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Effective January 1, 1993

The Federal Reserve Bank of Dallas is one of 12 regional Federal Reserve Banks in the United States. Together with the Board of Governors in Washington, D.C., these organizations form the Federal Reserve System and function as the nation's central bank. The System's basic purpose is to provide a flow of money and credit that will foster orderly economic growth and a stable dollar. In addition, Federal Reserve Banks supervise banks and bank holding companies and provide certain financial services to the banking industry, the federal government and the public.

Since 1914, the Federal Reserve Bank of Dallas has served the financial institutions in the Eleventh District. The Eleventh District encompasses 350,000 square miles and comprises the state of Texas, northern Louisiana and southern New Mexico. The three branch offices of the Federal Reserve Bank of Dallas are in El Paso, Houston and San Antonio.

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