

Have a Nice Day!

The American Journey to Better Working Conditions



Federal Reserve Bank of Dallas
Annual Report 2000

A LETTER FROM THE PRESIDENT

The late Texas picker-poet Townes Van Zandt is alleged to have said that all music is either the blues or zippity-doo-da. The economy had the blues toward the end of 2000, after almost five years of zippity-doo-da. Its growth rate fell from over 5 percent in the first half of 2000 to under 2 percent in the second. One might say the economy hit an air pocket on its glide path to a soft landing. Fortunately, it had enough altitude to avoid a crash. The question at year-end was whether we'll have a hard landing, a crash landing or a touch-and-go.

Going for the touch-and-go, the Fed responded aggressively in January, with two 50-basis-point cuts in the federal funds and discount rates. Financial markets perked up somewhat, but it's too soon to gauge the impact on the economy or what further steps may be needed.

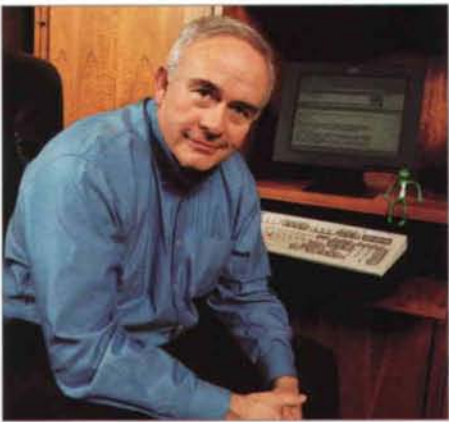
The slowdown has prompted some to question the New Economy's viability, but I remain a new-paradigm optimist. The New Economy has never been about infinite price-earnings ratios or an end to business cycles. It was and is about invention, innovation, risk-taking, animal spirits, and new ways of thinking and working. It's about new technology increasing productivity and growth potential, about technology, productivity and global competition tempering inflation. In policy terms, it's about a higher noninflationary speed limit and considering the supply side of the economy as well as the demand side.

Even with the midyear slowing, productivity grew more than 4 percent in 2000, the highest rate in years, and unemployment ended the year at 4 percent, near its 30-year low.

The Dallas Fed in 2000

It was zippity-doo-da at the Dallas Fed last year. One especially perceptive author wrote that the Bank "has lately become one of the more robust corners of Alan Greenspan's empire." Well said. We didn't get the Y2K blues, nor did the banks we supervise. We did more business at a lower unit cost, contributed significantly to Reserve System projects and assumed major new responsibilities as fiscal agent for the Treasury. The Eleventh District economy again outperformed the nation's.

Our board chairman, Roger Hemminghaus, retired after seven years of service in Dallas and five in San Antonio. Roger was my role model for how to be a cool CEO. We will miss him. Bartell Zachry of San Antonio is our new chairman, and Patricia Patterson of Dallas moves up to deputy chairman. We will also miss Kirk McLaughlin and Peggy Caskey, from our Dallas and Houston boards. Kirk promises to apprise me of any Buddy Holly sightings in Greater Lubbock.



President Bob McTeer. If you look closely you can spot a frog, the unofficial mascot of the New Economy.



Have a Nice Day!

Our essay this year grew out of a conversation I had with Mike Cox, our chief economist, about productivity growth and living standards. Mike pointed out that no one has a bumper sticker that says "Have a productive day!" Being productive is only part of a good workday. Working conditions and amenities are also important, as are sufficient leisure and some playtime on the job. In our new economy, work and play, work and leisure, home and office, workweek and weekend are blending. Time and place are less important. (Guess where I am as I write this and what time it is.)

The essay got me to thinking about my own work life. I was raised by the side of the road in rural North Georgia at Doyal's Truck Stop. I'd helped out earlier, but the summers before my junior and senior years in high school I worked there full-time for pay—\$40 a week. It wasn't bad, in part because Doyal was my dad.

Doyal's Truck Stop never closed. It was open 24 hours a day, 7 days a week. Doyal worked from 7 a.m. to 7 p.m. Little Doyal (that's me) worked from 7 p.m. to 7 a.m.—except Saturday night if I had a date. (Does a chicken have lips?) Those times, Big Doyal would fill in for me until I got home around midnight.

I pumped gas, wiped windshields—remember those days?—and mopped floors. If a truck had a flat tire, I put on the spare, which was dangerous work. But if it needed fixing, I had to get Big Doyal out of bed, which was really dangerous. I occasionally had to roust him to break up a late-night fight. Sometimes I did it myself, my credibility in such matters deriving from his.

The worst thing about that first job was trying to sleep in the daytime without air-conditioning. One or two in the afternoon was about the limit. The best thing was all-night access to the jukebox. Puppy love problems caused me to wear out Hank Williams' "Lovesick Blues."

I learned a little about economic incentives working for my dad. A sign out front promised free coffee to truckers. They also got a 3-cent-a-gallon discount on fuel.

My biggest on-the-job fear was that I would mistakenly put gasoline in a truck that used diesel fuel or vice versa. Either way would ruin a big motor and my life. The same sort of fear haunted me during basketball season. I was afraid I would shoot a basket on the wrong end of the court and forever be called "Wrong-way McTeer." My fear of ziggling when I should be zagging persists, especially as it pertains to monetary policy. Maybe we need more policymakers who pumped gas.

The summer after my senior year, I went off to college and never returned except to visit. My first job at school was not a good one. I had to visit every retail business in three remote counties and fill out a questionnaire on their tourist business. It wasn't a sales job, but it felt like one. I'd arrive uninvited, asking lots of questions that were none of my business. The job taught me what I didn't want to do when I grew up. The highlight of that summer was being tracked down by the highway patrol and told that Suzanne was in labor with yet another Little Doyal.

During graduate school I had jobs as a student assistant and instructor. For a while I tutored football players in economics. There was some danger there, as I was trying to tell them more than they wanted to know—like now.

Following graduate school, I joined the Research Department of the Richmond Fed in 1968. It was mostly fun work with good people. The exception was an early assignment to the Voluntary Foreign Credit Restraint Program, which wasn't that different from the tourism survey. This time I had to ask large-bank CEOs about their foreign lending and encourage them to hold it down for balance of payments reasons. Yuk! Fortunately, the VFCR program expired before I did.

Presumably because I wasn't a very good economist, I was soon kicked upstairs (actually downstairs) and given management responsibilities. As an officer, my sole perks were parking inside the garage and a water pitcher in my office. In 1980, I was sent north to run the Richmond Fed's Baltimore Branch, where I worked with some wonderful people. My worst day on the job came early on. A convention of consumer activists shouted me down for arguing that easing monetary policy in an inflationary environment was not likely to reduce interest rates. We called that old-time religion back then, but I didn't make many converts. After that day, the next 11 years in Baltimore were a piece of cake.

I came to Texas (as soon as I could) and to my present job in February 1991, 10 years ago. Good people again. My only dangerous assignment here so far was moderating a daylong NAFTA debate packed with protectionists. Fortunately, the good guys eventually won that debate and opponents' fears went unrealized. Proponents' hopes were exceeded. The debates over NAFTA and the New-Paradigm Economy have been highlights of my tenure here.

Working conditions in Texas are good, especially the air-conditioning. The most important enhancements to my work life in the past decade have been remote e-mail and word processing, especially the delete button.

It's not an official job perk, but one of the nicest things about living and working in Texas is the enjoyment and inspiration I get from its picker-poets—otherwise known as singer-songwriters—including, but not limited to, Willie, Waylon, Lyle, Terry Allen, Robert Earl Keen, Nanci Griffith. And how about them Dixie Chicks? The Texas poet I've enjoyed most this past year is Billy Joe Shaver. I recently had the pleasure of hearing Billy Joe and his picker son, Eddy, in concert, just weeks before Eddy's tragic death. God bless you, Billy Joe. Hang in there.

My favorite Billy Joe Shaver lines are:

I've been to Georgia on a fast train, honey; / I wasn't born no yesterday.

I got a good Christian raising / And an eighth grade education,

And there ain't no need in y'all treating me this way.

For some reason, I always think of those lines when I'm criticized by New Economy skeptics and naysayers. Writing this letter every year brings to mind another Billy Joe Shaver line: "The devil made me do it the first time. The second time I done it on my own."

Have a nice day!

Bob McTeer



Robert D. McTeer, Jr.



Bob McTeer in the days of the Old Economy, circa 1968.

Have a Nice Day!

The American Journey to Better Working Conditions



Coal mining ranks as the second worst job in the country, after lumberjacking. Coal mine and oil field employment peaked in 1920, when roughly one of every 40 workers held these grueling jobs. Today, it's just one in 1,056. We've come a long way.

America works.

A record 135 million people now hold jobs in the United States. We earn our paychecks as accountants and architects, cooks and carpenters, landscapers and lawyers, pilots and pipe fitters, salesclerks and secretaries, web masters and waiters.

Some of us work designing clothes, others work washing them. We build trucks and taxicabs, and we drive them, too. Americans invent and manufacture computers. We sell and service them. Millions of workers use them on the job to compose, calculate and communicate.

Work, work, work.



It's as true in the new millennium as it was in the old: work is an important part of our lives. But for today's workers, jobs aren't just a way to put bread on the table. They confer status, define our identities and even add to our happiness.

The way we work matters. We expect our jobs to provide higher pay, more fringe benefits and shorter hours, of course. But that's not all. More than any time in the past, we're asking our employers to make work more enjoyable and meaningful and to reduce its danger, drudgery and discomfort.

With each passing generation, working conditions have gotten better in the United States. Today's jobs are safer than ever. From office to factory, our surroundings are becoming more pleasant as the worst aspects of the Industrial Age fade into the past.

Thanks to modern technology and changing attitudes, more employees are gaining the freedom to decide when and where they work. In today's competitive labor market, companies are trying to please employees by adding on-the-job amenities—with some even hiring “culture czars” to find ways to boost workplace morale.

Only wealthy societies can look past the basic concerns of paying the bills and getting weekends off. It takes steady, long-term economic progress—forged with new technologies, expanding markets and higher productivity—to achieve a level of development that delivers better and better working conditions.

America's thriving market economy provided the foundation for rapid improvement in the workplace over the past two or three generations. The secret: competition. Just as the “invisible hand” of free enterprise leads profit-seeking companies to vie for labor and customers, it works to meet employees' desire for better working conditions.

In routine comings and goings, someone's always, with good-natured friendliness, encouraging friends and coworkers to have a nice day. It's a simple wish, but it reveals what's important to us. We don't celebrate the great achievements of modern capitalism by telling our fellow Americans to consume more or to have a productive day. No, we typically bid them a nice day. How could we do so if we had to spend large chunks of our time in unpleasant, perhaps even unhealthy, work environments?

Have a nice day!

Our free enterprise system is striving toward that goal—not just for today's Americans but for tomorrow's as well.

Our work world has changed much over the past century, as these pictures of Pittsburgh in 1905 and today show.



HOW FAR WE'VE COME

For much of America's history, working conditions weren't a high priority. Our forebears willingly endured harsh work lives for the goods and services work bought.

As the Industrial Revolution burst forth in the 19th century, workers migrated from family farms to factories, from the Old World to the new. They saw their paychecks rise but became, like Charlie Chaplin's character in *Modern Times*, mere cogs in a vast engine of mass production.

Work was often brutal. Early factories were noisy, smelly, dirty, cold in the winter and hot in the summer. The labor itself was repetitive, physically exhausting and often dangerous. Modern workers can hardly imagine what days were like for glue stirrers, lime burners, gravediggers and acid mixers.

To eke out a living, employees toiled an average 10 hours a day, Monday through Friday, plus another half day on Saturday. Breaks were few and far between. Work rules were draconian: no talking, no eating or drinking, not a minute late punching the time clock. (See Exhibit 1.)

The management guru who captured the ethos of the early industrial era was Frederick Winslow Taylor, a taskmaster armed with a stopwatch who pioneered the time-and-motion analysis that sped up the assembly line.

Taylor's regimen no longer holds sway. The management consultants of the new millennium advise employers to put the focus on the workers, not the work. The new corporate ethos recognizes that workers perform best in an environment where they're treated as human beings, not robots.

EXHIBIT 1 Now and Then

The 1920 book *Working Conditions, Wages and Profits* offers invaluable insight into the routine concerns workers in yesterday's companies faced. Injury, fatigue, strain, excessive temperatures, high humidity, poor ventilation, inadequate sanitation, disease, hazardous chemicals, long hours, rigid schedules, boredom, lack of toilet facilities—causes for concern were basic and near at hand.

Today's *100 Best Places to Work for in America*, compiled by the Great Place to Work Institute and published by *Fortune* magazine, reveals a whole higher level of concerns. Interesting and meaningful work, respect, job status, buy-in to company objectives, flextime, bonuses, inclusion, communication, feedback, empowerment, friendly coworkers, comfort, wellness classes, on-site day care, autonomy, paternity leave, same-sex partner benefits, employee activities, employee council, company culture—these issues frame the dialogue of the day. Concerns have progressed all the way from the bottom of Maslow's hierarchy of needs to the top—from physiological to self-actualization—reflecting the century's great progress in working conditions.



Then

- Stand in an assembly line.
- Operate dangerous machinery.
- Time—motion studies.
- Punch in and wait for the 5 o'clock whistle.
- 15-minute break, sack lunch and thermos.
- Smoke, soot and stale air.
- Dark, dank, dangerous conditions.
- Join a union to be heard.
- No phone, no window, no visiting.
- Work at the office, play elsewhere.
- Commute.
- Work your way up the company ladder.
- 50 years and a gold watch.
- Starved collar and a necktie.
- Power is position and job tenure.
- Trade school and a ratchet set.
- Blue collar, grease and Borax soap.
- A good job is hard to find.
- Search the local paper's help-wanted ads.
- Look for a job.
- Boredom from repeated tasks.
- Just do what you're told.

Our modern dialogue about jobs focuses on meaningful work, empowerment, communication, employee feedback and corporate culture. We're more likely to talk about the etiquette of the office refrigerator than problems with ventilation or sanitation. Today, hours are flexible, workstations are ergonomic and retirement savings are portable.

Our jobs still include elements of toil—they are, after all, work. But work is becoming something to enjoy, a source of enrichment beyond mere money—at least that's the expectation of a growing number of Americans.

In an economy that rarely experiences hard times, employers compete for scarce labor resources, and they've greatly eased the burdens of what was once called the daily grind. Yet the progress is rarely acknowledged. Popular culture feeds us an image of a beleaguered working class.

The comics' Dilbert, trapped in his stifling cubicle, suffers daily the slings and arrows of outrageous corporate stupidity. The movie *Office Space* portrays a workplace filled with mindless memos, mutinous office machines and frazzled employees. News stories depict today's workers as fearful of layoffs, stuck in meaningless pursuits or sacrificing their personal lives in a world where business goes on 24/7.

These descriptions may contain a grain of truth, but they don't reflect the experience of the great mass of Americans. It's time to examine what working conditions are really like.

Now

Sit in a cubicle.

Operate a computer.

Ergonomic workstations.

Flextime, just get the job done.

Go out to eat, outside to smoke.

Constant indoor air-quality analysis.

Indirect lighting, central heat and air.

Employee empowerment.

Access to e-mail, eBay and coworkers.

Work and play blur.

Telecommute.

Cultivate your core competencies.

Portable 401(k) plans and an early out.

Khakis and a polo shirt.

Power is ideas and vision.

Technical school and software certification.

Lab coat and a clean-room suit.

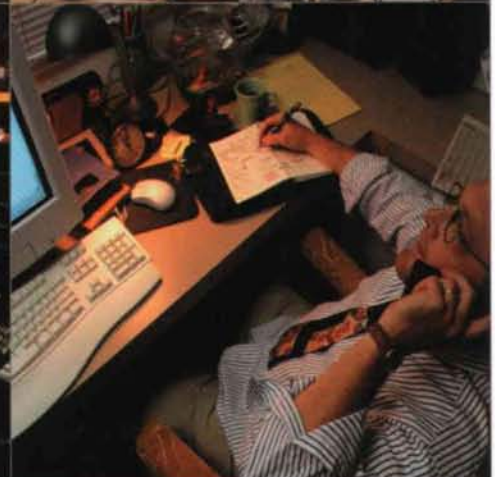
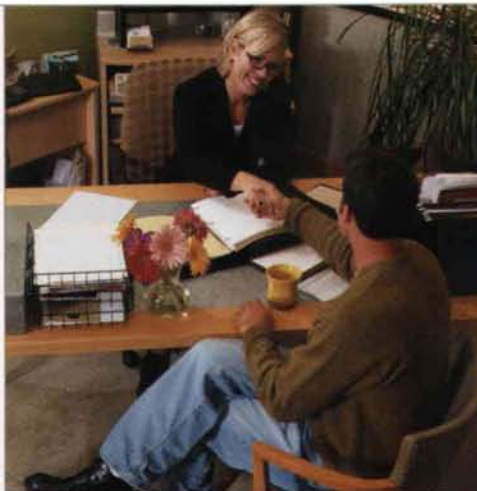
Four job offers and a signing bonus.

Park your resume on the Net.

Pursue a career.

Interesting and meaningful work.

Think and grow rich.



IT'S NO ACCIDENT

"Safety first" could be the motto of today's workplace. Accidents still happen, of course, but far less often than they once did. On-the-job deaths are at an all-time low, dropping to 38 per million workers in each of the past two years. Over time, the decline has been steady and sharp—from 428 per million in 1930 to 214 in 1960, 134 in 1980 and 87 in 1990.

Occupational injuries and illnesses are declining, too, reaching an all-time low of 63 per thousand full-time workers (59 per thousand for injuries alone). What's more, injuries are less severe than they once were, with fewer workers suffering such calamities as amputations and loss of sight. (See Exhibit 2.)

Riskier industries show the greatest gains in safety. Accident rates in construction, the most dangerous field, are less than half what they were in 1973. Mishaps in manufacturing are down nearly 48 percent. Safer industries, characterized mostly by office work, haven't improved as much, but they, too, report fewer accidents than they did a generation ago.

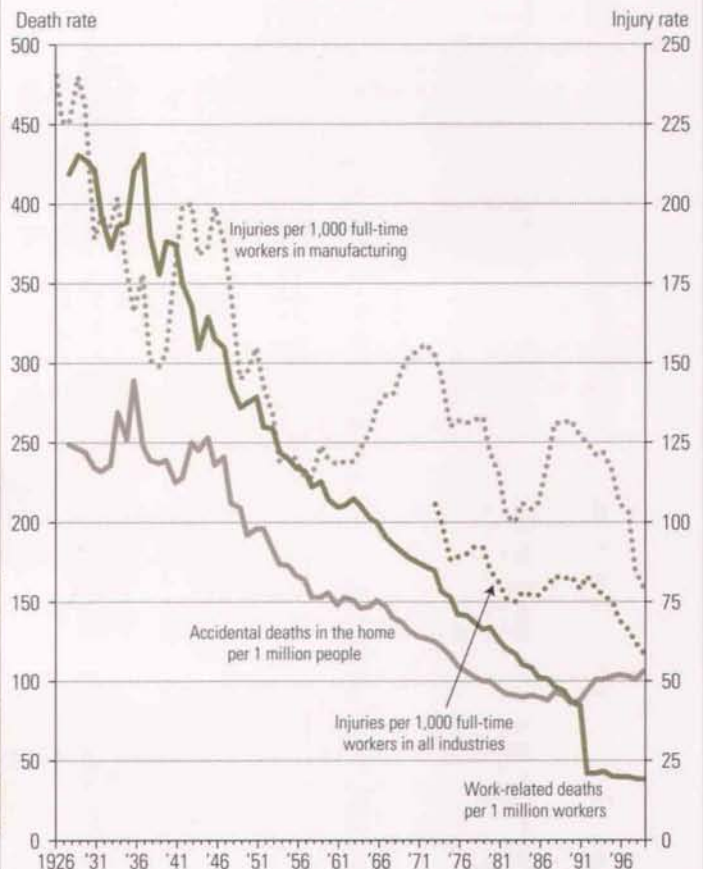


EXHIBIT 2

First, Do No Harm

Even before the birth of the skyscraper, America needed structural metalworkers, a clearly dangerous job. In 1998 alone, these workers sustained 4,990 injuries, making this occupation the third most injurious in the country. Injury rates for structural metalworkers are 264 times higher than those for lawyers, and work-related deaths are 43 times higher. Commercial fishing is the deadliest occupation, whereas waiting on tables is the least fatal. Not surprisingly, many of the most dangerous jobs involve operating various kinds of machines.

Accidents and Deaths, on the Job and at Home



Life is inherently risky, but businesses have incentives to reduce risks at work so as to attract and retain valuable, productive employees. That's why the death rate at work has declined far more than that at home over the past 70 years. Work-related deaths have dropped by 91 percent—from 419 per million employees annually in 1928 to 38 per million today—while deaths at home are down just 57 percent. Smart machines, increasingly prevalent in the New Economy, are helping cut injury and death rates even further.

5 MOST DEADLY JOBS



① Fishers, hunters, trappers



② Lumberjacks



③ Farm managers



④ Pilots, navigators



⑤ Structural metalworkers

MOST INJURIOUS

- 117 Production assistants
- 99 Driver/sales workers
- 79 Structural metalworkers
- 75 Nonconstruction laborers
- 70 Public transportation attendants
- 62 Machine feeders and off-bearers
- 62 Construction and extractive trades helpers
- 55 Punching and stamping machine operators
- 54 Construction laborers
- 51 Grinding and polishing machine operators
- 51 Sawing machine operators
- 51 Insulation workers
- 48 Welders, cutters
- 47 Molding and casting machine operators
- 44 Nursing aides, orderlies
- 44 Truck drivers
- 44 Furnace, kiln and oven operators, except food
- 43 Kitchen workers
- 42 Separating, filtering, clarifying machine operators
- 39 Glaziers

13 Industry Average

LEAST INJURIOUS

- .8 Drafting occupations
- .7 Typists
- .7 Education administrators
- .7 Economists
- .6 Library clerks
- .6 Data processing equipment repairers
- .5 Management analysts
- .4 Child care workers
- .4 Correctional institution officers
- .4 Securities and financial services salespeople
- .3 Underwriters
- .3 Dentists
- .3 Lawyers
- .3 Secondary schoolteachers
- .3 Civil engineers
- .3 Real estate agents
- .2 Physicians
- .2 Elementary schoolteachers
- .1 Special education teachers
- .1 Religious workers

Annual nonfatal work-related injuries involving lost workdays per 1,000 employees.

MOST DEADLY

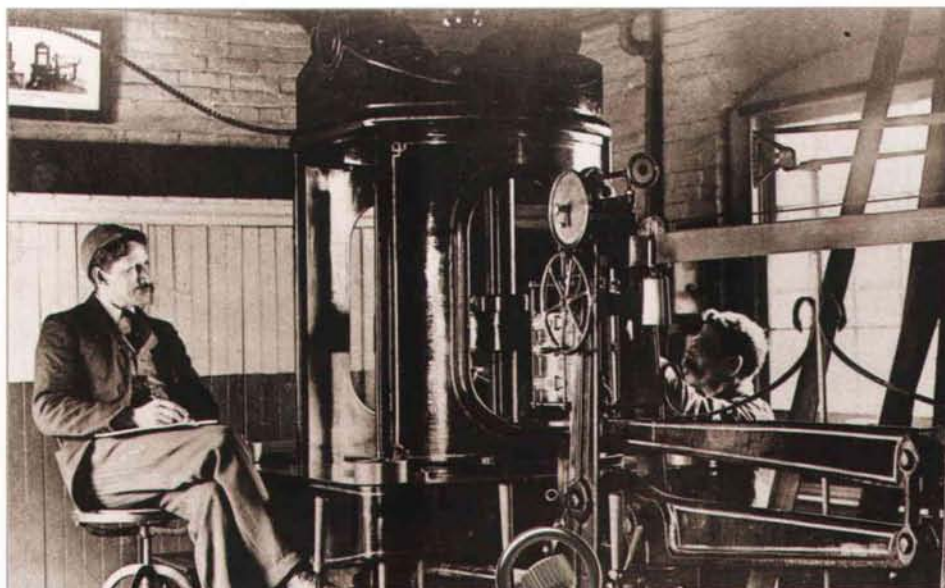
- 1,560 Fishers, hunters and trappers
- 1,545 Timber cutters and loggers
- 808 Farm managers, except horticultural
- 657 Airplane pilots and navigators
- 606 Structural metalworkers
- 491 Water transportation occupations
- 371 Construction laborers
- 362 Extractive occupations
- 356 Grader, dozer and scraper operators
- 345 Garbage collectors
- 288 Truck drivers
- 276 Roofers
- 273 Taxicab drivers, chauffeurs
- 269 Heavy equipment mechanics
- 263 Farmworkers
- 263 Driver/sales workers
- 259 Farmers, except horticultural
- 254 Electrical power installers and repairers
- 226 Rail transportation occupations
- 223 Sheriffs, bailiffs, other law enforcement officers

45 Industry Average

LEAST DEADLY

- 33 Property and real estate managers
- 31 Machinists
- 30 Janitors and cleaners
- 29 Supervisors and proprietors, sales occupations
- 25 Electrical and electronic technicians
- 20 Miscellaneous food preparation personnel
- 19 Securities and financial services salespeople
- 18 Cashiers
- 17 Stock and inventory clerks
- 14 Lawyers
- 14 Maids, housemen
- 12 Marketing, advertising, public relations managers
- 10 Stock handlers and baggers
- 10 Postsecondary teachers
- 10 Social workers
- 10 Assemblers
- 9 Cooks
- 9 Registered nurses
- 7 Accountants, auditors
- 5 Waiters, waitresses

Annual work-related deaths per 1 million employees.



Observations made by Mr. Wolle, March 11, 1899, on John Haplin and Joseph Yamish in loading full pigs (average weight 92 lbs.) on B. & Q. car # 54285, together with 10 other laborers from Hack's Gang. The full load of 57680 lbs. was loaded in 54 minutes, which represents very slow work, the men crowding each other too much to do their best. The weather was cloudy, with a temperature of about 55°.



TABLE NUMBER ONE

Condition of work	Average walk on level 5 feet.			Walk on plank 18 feet with 5 ft. rise.			Top of car 2 ft. 6 in. above top of plank.		
	Operation #1. Picking up pig.			Operation #2. Walking to car with pig.			Operation #3. Throwing pig into car.		
	Max. time in min.	Min time in min.	Average time of 15 observations.				Max. time in min.	Min time in min.	Average time of 15 observations.
Haplin	0.50	0.15	0.316				0.35	0.18	0.258
Yamish	0.25	0.05	0.101				0.12	0.08	0.093

EXHIBIT 3

What Price Productivity?

In the late 1800s, engineer Frederick Winslow Taylor pioneered his revolutionary time-motion studies. Taylor brought his stopwatch to the shop floor, where he logged workers' every movement to scrutinize, shortcut and speed up. Taylor's methods raised productivity and hastened the move to mass production, but not—many thought—without cost in terms of working conditions. Such classic films as Fritz Lang's *Metropolis* projected the foreboding future Industrial Age workers foresaw as human automatons. Cold-blooded corporations, seeking ever-greater productivity, would consign workers to mind- and body-numbing repetitive-motion jobs, in which every day was worse than the one before. At least, that was the fear. But was it the reality? Hardly.

Since the creation of the first assembly line, with all its associated humdrum, the invisible hand of free markets has generated new and better jobs for manual workers, replacing repetitive jobs with professional and technical careers and creative pursuits. During the half century from 1900 to 1950, the fraction of American workers employed in nonfarm manual jobs rose from 36

percent to 41 percent. The economy busily shed even more agricultural laborers, though, cutting them from 38 percent to 12 percent. And since 1950 there has been a steady downward trend in nonfarm manual jobs, which fell to 25 percent of total U.S. employment in 2000. Farm jobs fell to 2.5 percent. The share of jobs held by managers and professionals rose from 10 percent to 30 percent over the century, and those held by technical workers, salespeople and administrative support staff went up from 7.5 percent to 29 percent.

Of course, some monotonous and tiresome jobs—such as assembler and machine operator—will always exist. Punching, stamping, slicing, cutting, sawing, sewing, grinding, polishing—a selected 3 million machine operators make up just 2.2 percent of the employed labor force today but account for more than 14 percent of all repetitive-motion injuries. Assemblers make up just 1.2 percent of the labor force but account for 11 percent of all such injuries. The mere fact these jobs aren't popular tends, in the long run, to be the source of their undoing. Over just the past three decades, the fraction of Americans employed in the 20 jobs most prone to repetitive-motion injury has fallen by almost two-fifths—from 11.3 percent to 6.9 percent.

Repetitive-motion trauma, including carpal tunnel syndrome, gets a lot of attention these days. Aches and pains from doing the same tasks over and over, however, didn't originate with the computer. In fact, repetitive-motion injuries plagued the Industrial Age, when factory workers—prodded on by time-motion studies—permanently injured themselves performing the same task for hours on end. (See Exhibit 3.)

The shift of the economic base has actually reduced reliance on occupations with repetitive motion. At their peak in the early 1950s, so-called manual jobs—operators, fabricators, plus laborers and craftsmen—made up 41 percent of all occupations. Today, they're just 25 percent. Two broad categories of white-collar jobs with a lower incidence of repetitive-motion injuries—managers, professionals, salespeople and administrative support staff—rose from 37 percent of employment in 1950 to 60 percent in 2000. Meanwhile, the broad category with the greatest incidence of repetitive-motion injury—operators, fabricators and laborers—fell from 27 percent to 14 percent of employment.



Repetitive Motion: The Tiresome 20	Incidence Rate	Percentage of U.S. Employment	
		1970	2000
1 Production testers	7.134	.08	.05
2 Assemblers	4.885	1.28	1.21
3 Upholsterers	3.950	.08	.05
4 Selected machine operators	3.527	3.67	2.19
5 Hand packers and packagers	3.417	.72	.27
6 Textile machine operators	3.376	1.14	.31
7 Production helpers	2.950	.18	.06
8 Machine feeders and off-bearers	2.855	.14	.06
9 Crane and tower operators	2.671	.17	.05
10 Nonconstruction laborers	2.618	1.19	.97
11 Butchers and meat cutters	2.453	.36	.20
12 Taxicab drivers and chauffeurs	2.306	.21	.21
13 Order clerks	2.251	.13	.23
14 Welders and cutters	2.236	.72	.44
15 Telephone operators	2.173	.50	.12
16 Kitchen workers	2.162	.09	.23
17 Driver/sales workers	2.140	.36	.12
18 Farm product graders and sorters	2.131	.03	.05
19 Furnace, oven and kiln operators	2.052	.23	.04
20 Miscellaneous handworkers	1.777	.02	.07
Average incidence rate (worst 20)	3.377		
Total employment shares		11.30	6.93
Average incidence rate (all jobs)	.580		
Incidence rates are per 1,000 employees.			

This flywheel assembly process at a Ford plant, circa 1913, was typical of the kind of repetitive task that defined the early Industrial Age.

America's shifting economic structure has provided an added boost to overall safety. With the move from the Industrial Age to the Information Age, jobs are migrating from riskier sectors to safer ones. Manufacturing, an industry with high accident rates, fell from 31 percent of all jobs in 1973 to 17 percent in 1999. Over the same period, a large, catchall category of service industries, with a good safety record, rose from 20 percent of employment to 34 percent. (See Exhibit 4.)

To put it succinctly: there's less risk of injury while pushing ideas around in the information economy. Workers are more likely to get hurt while engaged in the tasks of the Old Economy—lifting, cutting, drilling, digging, grinding and handling dangerous materials.

What about mental well-being? The federal government didn't even collect data on workplace stress until 1992. So unfortunately, we don't know how today's stress levels compare with those of the past. We do know this, though: debilitating stress has been cut in half in the past five years. (See Exhibit 5.)

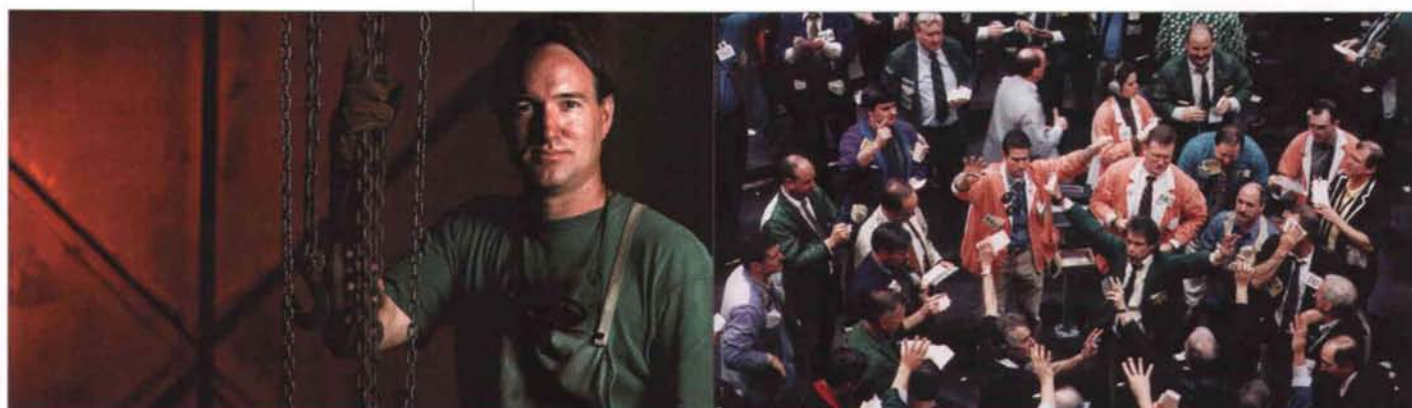
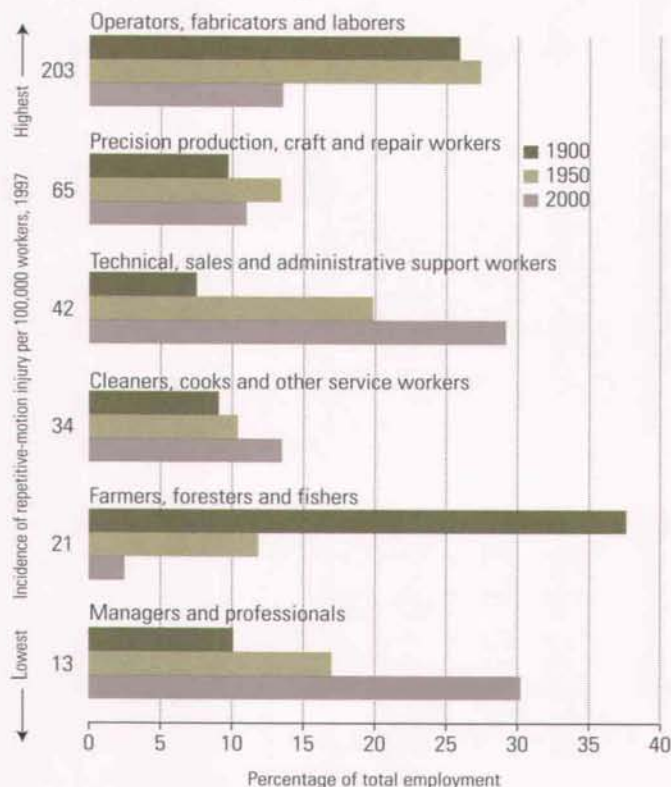


EXHIBIT 4

The Demise of Repetitive-Motion Jobs and...

...The Move to Safer Industries



Industry	Nonfatal Injuries per 1,000 Employees		Percentage of U.S. Employment	
	1973	1999	1973	1999
High-Accident Group	154	80	46%	30%
Construction	198	84	6%	6%
Manufacturing	153	80	31%	17%
Transportation and public utilities	128	84	5%	5%
Mining	128	41	—	—
Agriculture	116	70	2%	2%
Low-Accident Group	68	48	54%	70%
Trade	86	60	26%	28%
Other services	62	46	20%	34%
Communications	29	26	2%	1%
Finance, insurance and real estate	24	16	6%	7%
Total	108	58	100%	100%

Construction and manufacturing are historically the industries with the highest accident rates, whereas finance, insurance and real estate are among the lowest. In every industry though, the workplace continues to get safer and safer. In manufacturing, accident rates fell by 67 percent over 1926–99. Workers have also migrated from higher-accident industries to lower-accident ones, driving the overall industry rate down even more.

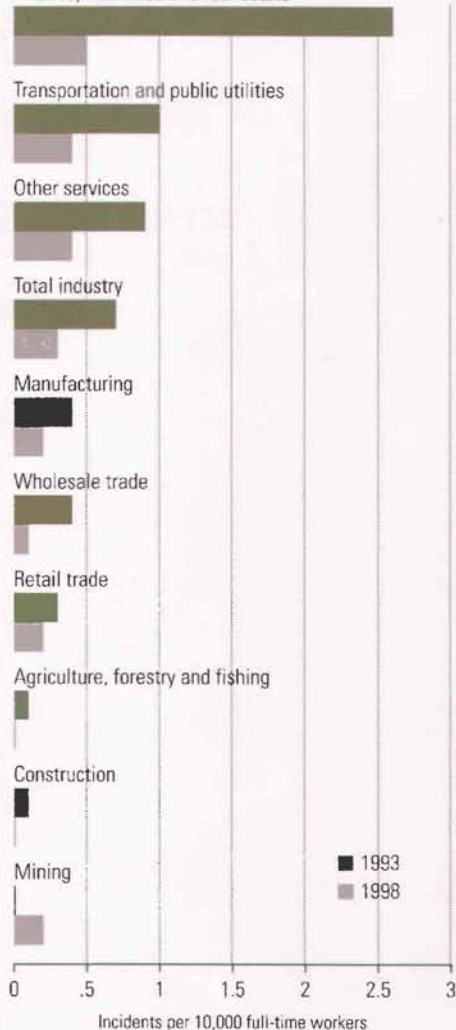
Stress Test!

Ask any child "What do you want to be when you grow up?" and you'll often hear president, firefighter, astronaut, race car driver, police officer, football player—jobs that carry a lot of power and excitement but also a lot of stress. Many jobs we aspire to when we're young are among those *Jobs Rated Almanac 2001* ranks as most stressful.

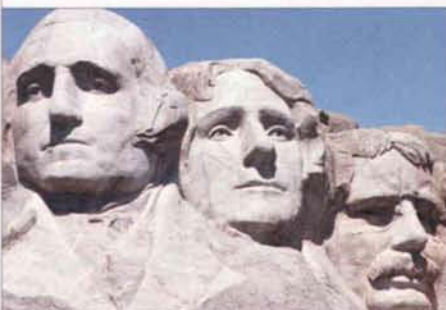
As Information Age corporate structures flatten, spreading decisionmaking power outward, more of us are getting what we want at work—interesting and important jobs—though also, at times, the stress. The situation, however, appears to be improving. Government data on work-related stress disorders only go back to 1992. But after peaking in 1993, rates of debilitating stress have fallen to the lowest levels on record in nearly all industries. Stress tends to be highest in the financial sector and lowest in farming and construction.

On-the-Job Stress

Finance, insurance and real estate



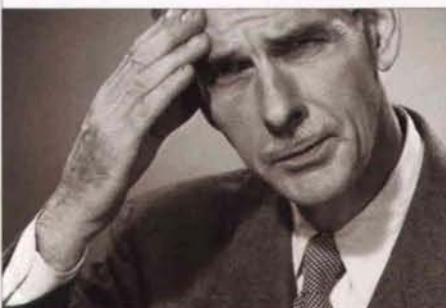
10 MOST STRESSFUL JOBS



① U.S. president



② Firefighter



③ Senior corporate executive



④ Indy class race car driver



⑤ Taxi driver



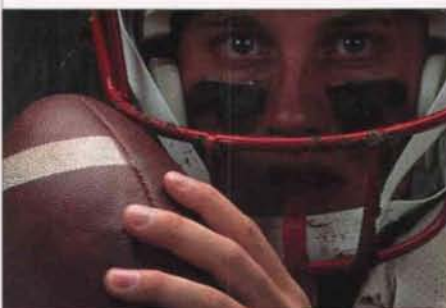
⑥ Surgeon



⑦ Astronaut



⑧ Police officer



⑨ NFL football player



⑩ Air traffic controller

FINDING COMFORT AND FREEDOM

The work environment isn't just safer. It's also more pleasant.

For the vast majority of American workers, the office and factory floor are now clean, well-lighted places, more often than not, comfortably heated in the winter and cooled in the summer. An Energy Information Administration survey found that 92 percent of indoor work spaces were air-conditioned in 1995, up from 83 percent 16 years earlier. (See Exhibit 6.)

We're also dressing for comfort at work. Jeans, sport shirts and slacks are in. Ties and pantyhose are out. A July 2000 survey by catalog retailer Land's End found that dress had become more casual in the past five years at over 80 percent of *Fortune* 500 companies.

Spending on clothing reflects the trend. At the start of the 1990s, Americans split their purchases evenly between casual and dress clothing. By decade's end, casual clothing made up two-thirds of the spending.

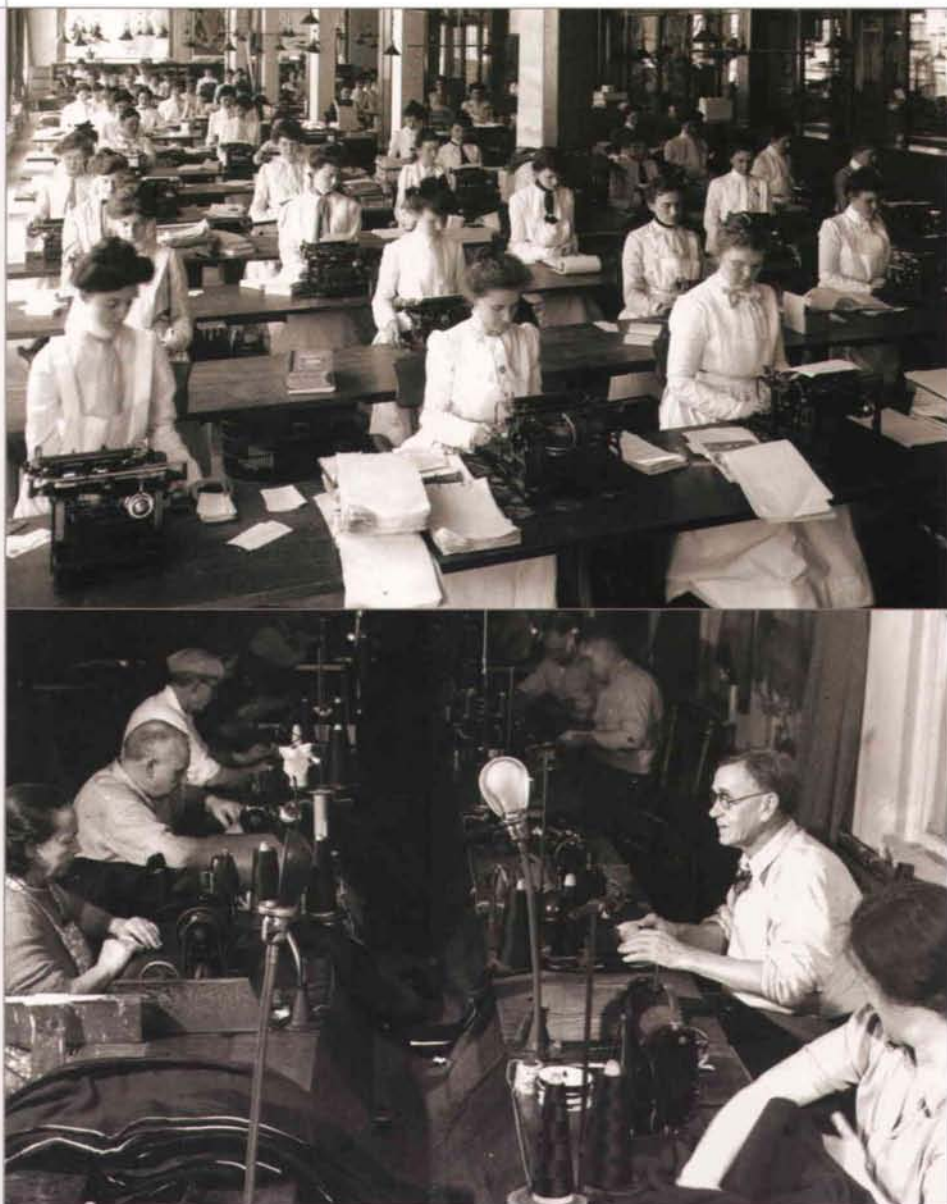
Daily schedules are also being relaxed. Obviously, flexible hours aren't practical for all occupations. Teachers are still expected to be at school with their students.

EXHIBIT 6 Office Space

Popular comic strips such as *Dilbert* portray today's workplace as a soulless sea of shrinking cubicles. And statistics show office space per worker—calculated as total building floor space divided by total workers therein—has, indeed, fallen over the past decade. But is today's work environment worse than yesteryear's in terms of space?

Industrial Age assembly line workers had little room in which to work, and even office personnel were generally crowded into tight, shared spaces. In an economy that produced largely material goods, space was reserved for huge inventories of parts or finished products. Today's economy, however, often produces, transforms and moves information, which requires relatively little space. So it's not surprising that statistics on office space show declines over the past few years.

Moreover, while cubicle life has proliferated since its debut in 1968, it falls far short in representing the way all Americans work all of the time. Rather than becoming more homogenized, today's workplace increasingly extends to varied surroundings. Thanks to computers, e-mail and cell phones, a growing number of Americans are working outside the traditional office, at home or—for the especially lucky—from the golf course or beach. Even today's long-haul truckers don't have it so bad, with a hotel room and office in the cab.

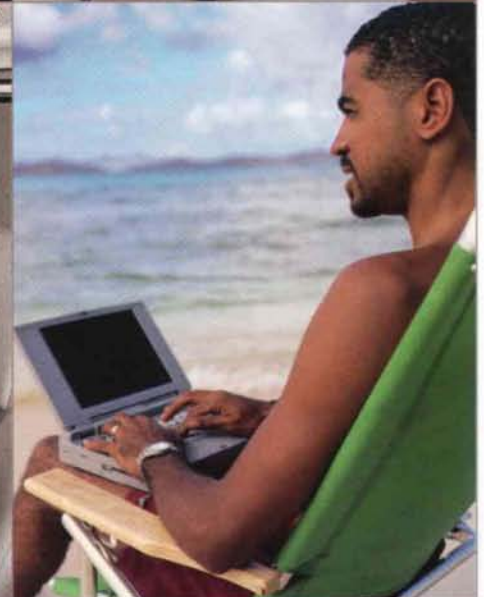


Retail clerks must be at the cash registers when stores open. And factory workers can't be free to come and go as they please.

A growing number of Americans, however, are allowed to choose the time and place for work—just as long as the job gets done. In 1997, 27.6 percent of American workers were on flexible schedules, double the 13.6 percent in 1985. Many of them are leaving behind jobs that confined them to the workplace from 9 a.m. to 5 p.m. (See Exhibit 7, next page.)

With less rigid scheduling, both employers and employees win. Studies show employees on flextime are more productive, a benefit to the company. Workers can arrange their days to accommodate a doctor's appointment or a child's soccer game.

The trend toward flexibility shows up in the times wage and salary employees begin and end their workdays. While most Americans start work between 6:30 and 9:30 a.m., significant numbers of them arrive at other times of the day and night. When it's time to go home, workers leave at all hours, although a peak occurs between 3:30 and 6:30 p.m.



New technologies give employees freedom to do their jobs from home or just about anywhere else. Laptop computers, cell phones, fax machines, electronic mail and the Internet allow many employees to work without commuting to and from the office. Companies have an incentive to be flexible: after initial investment, telecommuting saves an average of \$8,634 a year per employee, according to JALA International Inc., an industry consultant.

Telecommuting, which began with just a few workers three decades ago, extended to 23.6 million Americans in 2000, nearly seven times the number in 1990. Today, commuters spend an average of 45 minutes a day going to and from their jobs. As more of us wean ourselves from the workplace, we will recapture that time for activities we find more worthwhile, whether work or leisure.

Even when at work, Americans aren't always doing the boss's bidding. According to University of Michigan time-diary studies, the average employee spends more than an hour a day engaged in something other than assigned work while on the job. They run errands, socialize with colleagues, make personal phone calls, send e-mail and surf the Internet. More than a third of American workers—a total of 42 million—now access the World Wide Web at work, and it's not always *to* work.



EXHIBIT 7

Free at Last

Contemporary movies like *Office Space* parody work as invading every corner of our lives. But does it really? While yesterday's factory worker may have found it easier to separate work from play, work schedules were often rigid and workplace rules draconian. Employees were expected to punch in on time, work straight through to a specified break without talking—or, sometimes, even chewing gum—and generally toe the line 'til the 5 o'clock whistle blew. Today, in an economy increasingly based on human capital, workers have more say in how they do their jobs.

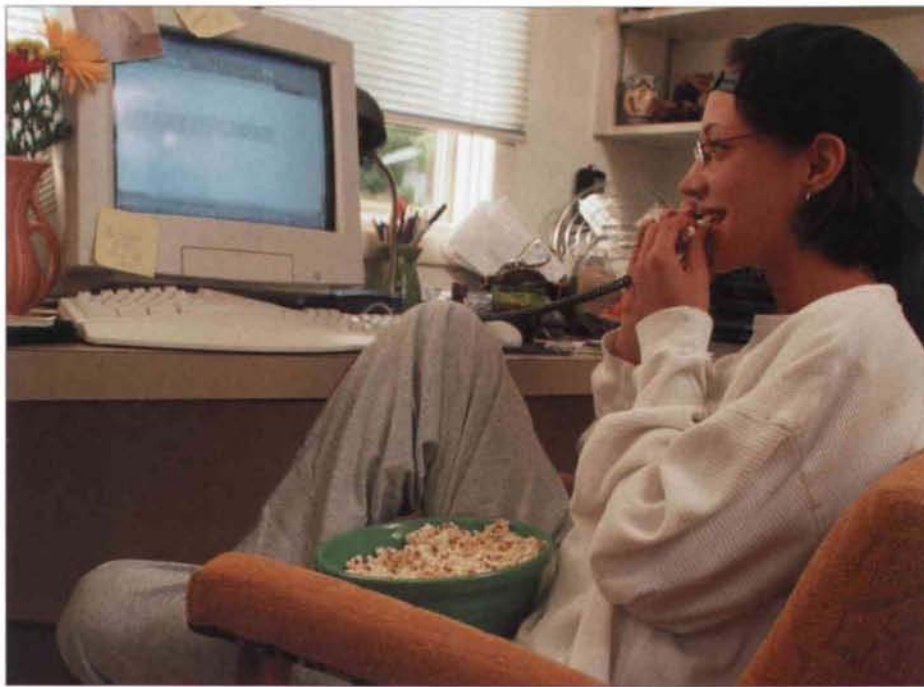


1886 Corset Factory Rules

- Hours of work will be from 7 A.M. to 12 P.M., and from 1 to 6 P.M.
- Employees [sic] who are five minutes, or over, late will be fined. Those coming after 8 A.M. and 2 P.M. will not be admitted at all.
- ... anyone bringing eatables of any description (candies included) into the workroom will be fined; in the case of repetition will be discharged.
- Talking, singing or visiting each other during working hours is strictly forbidden. (Fined at discretion of forewoman.)
- Only on presentation of an excuse ticket at the door will employees be permitted to leave the room during working hours.
- Two weeks wages will be retained from each employee which will be payable to the employee provided he or she has complied with rule 13.
- Employees intending to quit our employ must give a written notice of two weeks to the office. Employees leaving our employ before the expiration of six months, or without giving such notice, will forfeit the amount of their first two weeks wages.

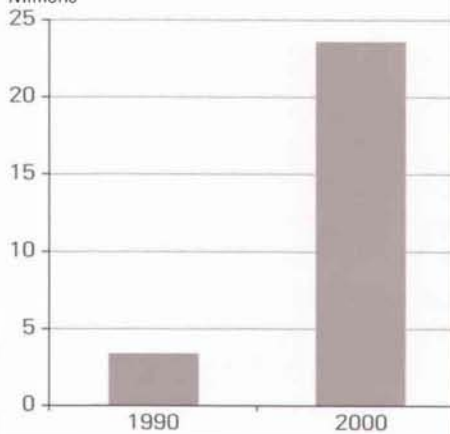
Workin' 9 to 5?





Number of U.S. Telecommuters

Millions



Cost of Equipment

- \$1,199 Dell Inspiron 3800 laptop
- 399 Palm Vlx handheld computer
- 70 Motorola alphanumeric pager
- 55 Nextel i550plus mobile phone
- 80 General Electric speaker phone
- 299 HP Officejet T45 printer, copier, scanner, fax
- \$2,102 Total



Per capita personal disposable income in the United States averaged \$25,689 at year-end 2000, roughly \$2,140 per month. For less than a month's income, one can set up office at home and on the go, with a laptop computer, printer, copier, fax, scanner, speaker phone, mobile phone, pager and handheld computer. The more inspired home worker can kick back and relax in La-Z-Boy's new Explorer e-cliner.

Workers on Flexible Schedules



PROVIDING A LITTLE EXTRA

As casual dress and flexibility enter the mainstream, cutting-edge companies are coming up with new extras for their employees. Trying to recruit and retain talented workers, they're offering exercise facilities, stock options, paternity leave, personal days off and company-paid entertainment. 401(k) retirement plans, which didn't exist before 1981, are now available at 81 percent of American companies. The next step will be increasing portability for benefit packages, so workers don't pass up better career opportunities just to hang on to existing perks.

Fortune magazine's latest version of the 100 best places to work, issued in January, shows how far companies are going to keep employees happy and productive. At 83

EXHIBIT 8

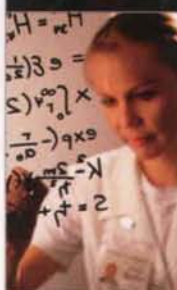
Enjoy!

work (wûrk) *n* 1. a strenuous activity marked by the presence of difficulty and the absence of pleasure.

This dictionary definition of work is clearly not the way most folks want to spend their day. Yet not more than a generation or two ago, work was just that—something we did to put bread on the table, not something we expected to enjoy. The American job has come a long way since then, at least for many of us. Increasingly, we expect to enjoy work—a seeming oxymoron, but something today's workers require in their quest to realize their full human potential.

A good way to gauge the progress in working conditions is to rank jobs, from best to worst, and see what's happened to employment in these areas. Using the *Jobs Rated Almanac* and ranking jobs on the basis of five major criteria—physical demands, stress, security, outlook, and job description and environment—reveals that the worst jobs have generally been around for a century or more and the best ones are relatively new.

The bottom line: employment in bad jobs is shrinking; in the good ones, it's growing. Employment in the 20 worst jobs has fallen from 16 percent of total U.S. jobs in 1900 to just 4.5 percent today. Relatively few of the best jobs even existed in 1900, but these 30 jobs make up 12.9 percent of all employment today. Projections for the decade show a continuation of the shift toward good jobs.



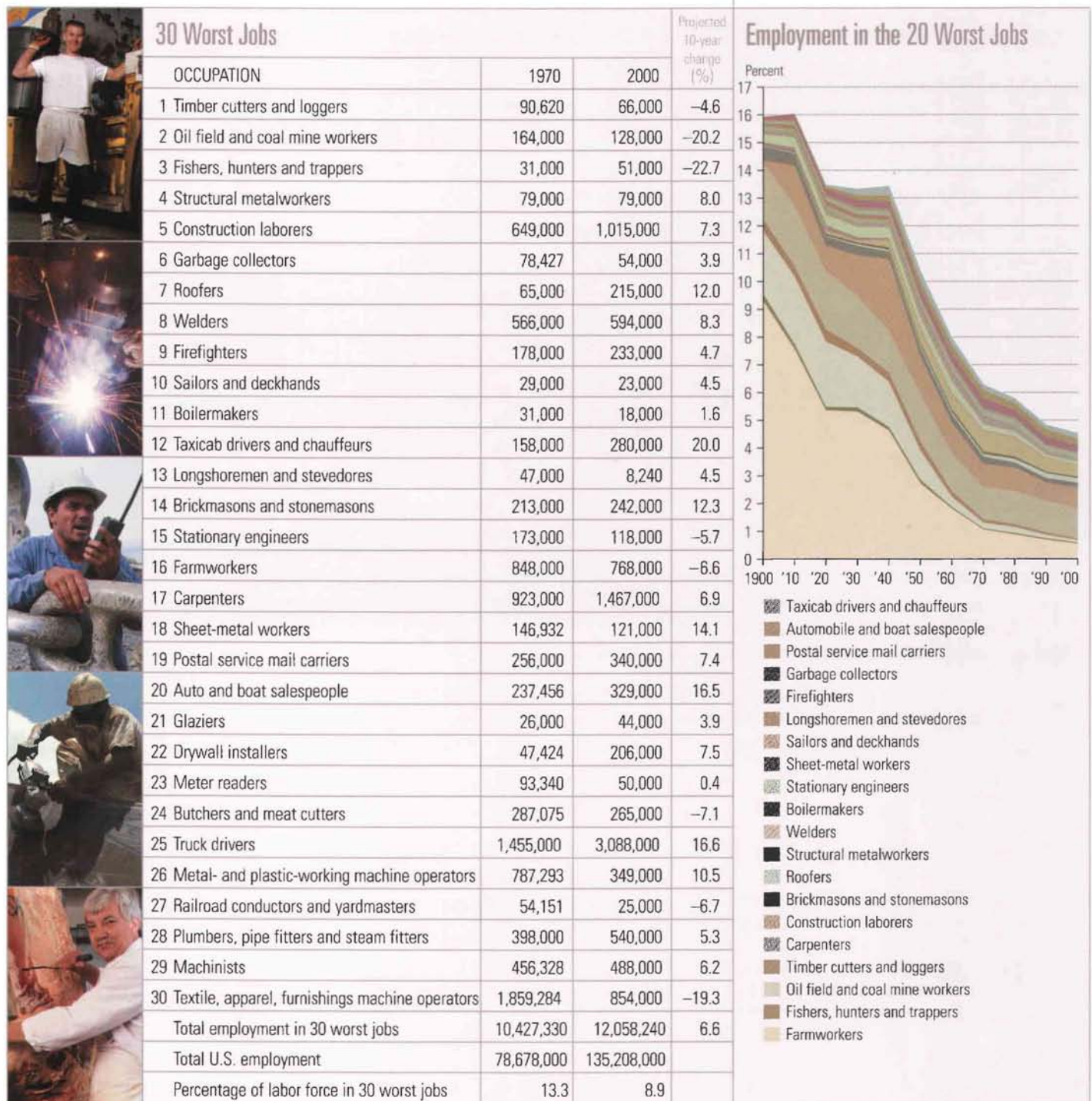
30 Best Jobs

OCCUPATION	1970	2000	Projected 10-year change (%)
1 Financial managers	218,181	784,000	14.0
2 Securities and financial services salespeople	105,342	600,000	41.0
3 Mathematical and computer scientists	206,599	2,074,000	92.5
4 Computer programmers, equipment operators	325,742	1,020,000	14.1
5 Legal assistants	17,400	387,000	62.0
6 Biological and life scientists	27,525	114,000	35.0
7 Dietitians	42,349	97,000	19.1
8 Chemists	93,865	153,000	13.9
9 Medical and health managers	57,128	752,000	33.3
10 Bookkeeping, accounting and auditing clerks	1,662,297	1,719,000	-3.9
11 Accountants and auditors	637,761	1,592,000	11.3
12 Technical writers	12,217	70,000	24.4
13 Insurance salespeople	470,308	577,000	2.2
14 Medical scientists	3,589	84,000	24.6
15 Purchasing managers	43,136	123,000	7.1
16 Architects	52,999	215,000	18.9
17 Speech therapists	17,174	102,000	38.5
18 Health technologists and technicians	272,283	1,350,000	25.2
19 Education and related fields administrators	218,227	848,000	13.0
20 Occupational therapists	10,190	55,000	34.2
21 Science technicians	132,421	270,000	7.0
22 College and university teachers	505,260	978,000	22.6
23 Pharmacists	114,590	208,000	7.3
24 Engineers	1,224,388	2,093,000	19.9
25 Veterinarians	20,264	55,000	24.7
26 Geologists and geodesists	23,844	56,000	15.5
27 Economists	62,190	139,000	18.4
28 Management analysts	31,786	426,000	28.4
29 Painters, artists and sculptors	83,373	238,000	25.7
30 Public relations specialists	78,239	205,000	24.6
Total employment in 30 best jobs	6,770,667	17,384,000	26.8
Total U.S. employment	78,678,000	135,208,000	
Percentage of labor force in 30 best jobs	8.6	12.9	

companies, employees can earn bounties for helping recruit new workers. Other employee perks include domestic-partner benefits at 47 companies, full-pay sabbaticals at 31, concierge services at 29 and on-site day care at 26.

The best companies are always trendsetters, but in time their practices become the standard for the entire economy. More Americans are holding good jobs—not only ones that pay well but also ones that offer all sorts of perks.

Jobs Rated Almanac 2001 ranks 300 occupations—from best to worst. To highlight working conditions, wages were removed from the equation, then the jobs reranked to see where employment is growing or declining. (See Exhibit 8.)



Since 1970, the 30 best jobs—including computer scientist, legal assistant and engineer—have risen from 8.6 percent to 12.9 percent of total employment. Even better, the number of jobs in these fields is projected to grow by almost 27 percent through the end of this decade.

Over the past three decades, the 30 worst occupations—from logger to textile worker—declined from 13.3 percent to 8.9 percent of all jobs. Overall, employment growth in these jobs is expected to slow to just 6.6 percent through 2009.

With working conditions getting better, it's not surprising that Americans are growing more content on the job. According to a 1999 Gallup poll, eight of 10 Americans say they're satisfied with their jobs, a finding that belies the frequent characterization of workers as discontented.

A look at organized labor provides indirect evidence of job satisfaction. Union activity tends to grow among aggrieved workers, but over the past 50 years union membership has declined from more than a quarter of the labor force to about an eighth. At the same time, workdays lost to labor troubles have plunged from 50 per thousand a year in the 1950s to just two per thousand in the 1990s. (*See Exhibit 9.*)

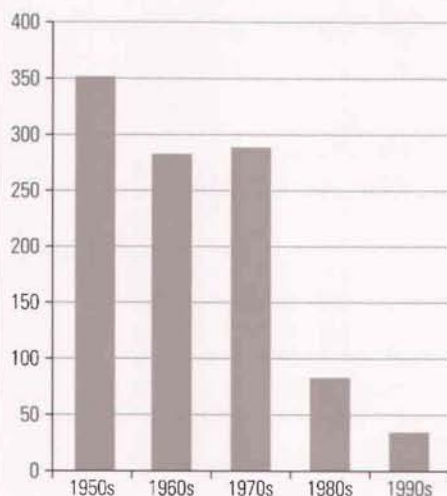
EXHIBIT 9

Are We Having Fun Yet?

One good measure of progress is union activity. Workers tend to organize and strike when they have major grievances. Labor union membership grew from just 3 percent in 1900 to 27 percent in 1953 but has fallen steadily over the past half century. Today, just 12 percent of U.S. workers are unionized. What's more, work stoppages are down sharply. Strikes involving 1,000 or more workers have declined by nearly 90 percent over the past 50 years—from an annual average of 352 in the 1950s to just 35 per year in the 1990s.



Average Annual Work Stoppages



Unionization in America



No survey of Americans at work would be complete without considering what happens when people lose their jobs. Being out of work, while never pleasant, doesn't entail as much distress as it once did.

These days, jobs are plentiful in the United States. The ratio of help-wanted ads to unemployed workers has been rising since the mid-1990s and is now at a 30-year high. The jobless rate and initial claims for unemployment insurance are at their lowest since the late 1960s. (See Exhibit 10.)

As a result, unemployment is usually brief for most workers who lose their jobs. The number of Americans out of work more than five weeks fell to 2.2 percent of the labor force in 2000—a level unseen since 1969.

A tight labor market bodes well for working conditions. When employees can see alternatives to their present jobs, they're in a better position to bargain with employers—or leave for a situation that better meets their needs.

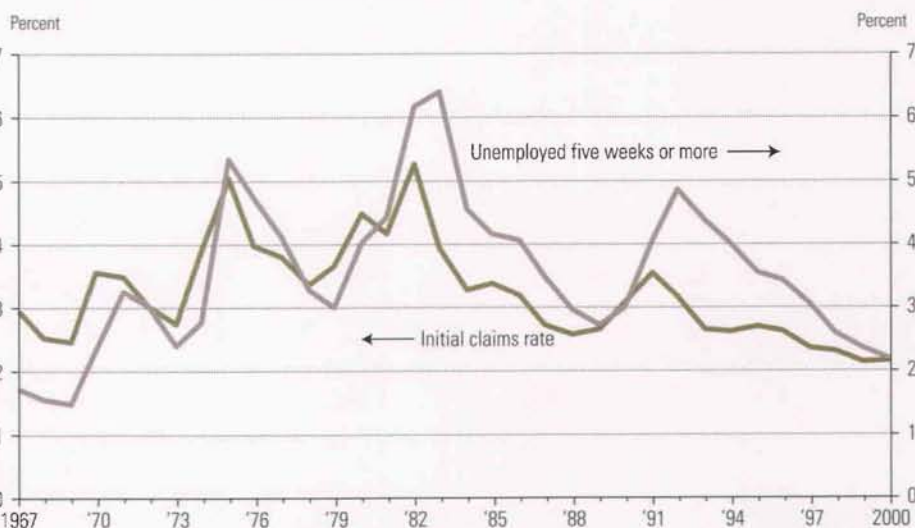
We've never had it so good. Over the years, the economy has delivered stunning progress in working conditions, making it easier for more of us to have the proverbial “nice day” on the job.

EXHIBIT 10 Help Wanted

San Francisco's Howard Street acquired the name “skid row” during the Great Depression as a place where the unemployed hung out to pass time and trade job leads. Farmers of the Dust Bowl era packed up and traveled across the country, looking for work. Job opportunities improved greatly after World War II, but unemployed workers still sought jobs in a limited local market, largely by perusing newspaper want ads. Today's job seekers can access more than 300 Internet job search engines, browse companies' web sites for openings and even park their resumes in cyberspace, allowing firms to bid for their talents. What's more, the number of job placement agencies has tripled over the past four decades. Of course, there's still the local paper, too. Add it all up and workers have perhaps the greatest employment security in decades. The fraction of the labor force that's been without work for more than five weeks is just 2.2 percent—the lowest since 1969—and unemployment claims relative to the labor force are just 0.22 percent, the lowest on record.



Jobless Rate and Unemployment Insurance Claims



www.jobs.com



Office workers, Sterling Offices Ltd., New York, 1959

WHAT WORKERS WANT

Economist Milton Friedman popularized the maxim that there's no such thing as a free lunch. So it is with better working conditions. They aren't free. Nor are they a matter of good intentions, labor power or political clout. Today's Americans have it easier on the job because strong economic forces act to improve our lives as workers, just as they do to improve our lives as consumers.

In any society, productivity is the wellspring of progress. Advances in technology, improved skills and superior management allow workers to produce more output from the same inputs of time and effort. We usually think of the payoff for productivity as greater consumer well-being—that is, enjoying more and better goods and services. But buying clothes, cars, electronic gadgets, cruises and restaurant meals isn't the only way workers can benefit from higher productivity. We can also take our gains in added leisure and better working conditions.

Consider a society that becomes twice as productive over a generation or so. Workers could put in the same number of hours under the same conditions and take all the productivity gains as income and consumption. Or they could forsake some of the added consumption and take their productivity gains as more time off. Or they could take the gains as improved working conditions.

Consumption, leisure and better working conditions are all what economists call "normal goods," the demand for which rises with income. As a society, we want more of each as we become wealthier.

Here's where Milton Friedman's admonition about free lunches comes into play. In a world of limited resources, we can't have *all* the consumption, leisure and working conditions we want. There are trade-offs: more of one means less of the others. We can't avoid making choices—sometimes difficult ones. Workers won't make the same choices over time. How they decide among income, leisure and working conditions changes with employees' preferences and a nation's level of economic development.

The transition from an agrarian to an industrial economy started in the 1830s, with the introduction of the steam engine. It accelerated after 1880, when new technologies—among them, electrical generators, internal combustion engines, motors and assembly lines—gave rise to a new method of production, the factory. Industrialization created one of history's great surges in productivity.

To reap the benefits of the Industrial Age, workers had to leave home and take their places beside other workers in a highly organized and specialized setting. The factory replaced the farm, cottage industry and craft shop that dominated the preindustrial economy.

Work on the farm or in a small business was less stressful than it was in the early factories. Laborers could go on breaks at their own discretion, spend time with their families during the day and take personal pride in what they produced with their hands. As a nation, however, we chose to tolerate harsh working conditions as the necessary price for increases in consumption. In the early years of the Industrial Revolution, most Americans were poor, and they wanted, above all, more goods and services.

These factory workers greatly improved their lives as consumers, even though for most of them it meant long hours of toil in surroundings we'd consider intolerable today. As America grew richer, what workers wanted began to change. Leisure became a higher priority, for example, and the average workweek shrank from 60 hours in 1890 to 40 hours in 1950.

In modern times, we're striking our own balance. Since entering the Information Age in the 1970s, we've put greater emphasis on working conditions, although our pay continues to rise and the working hours of many continue to fall. (See Exhibit 11.)

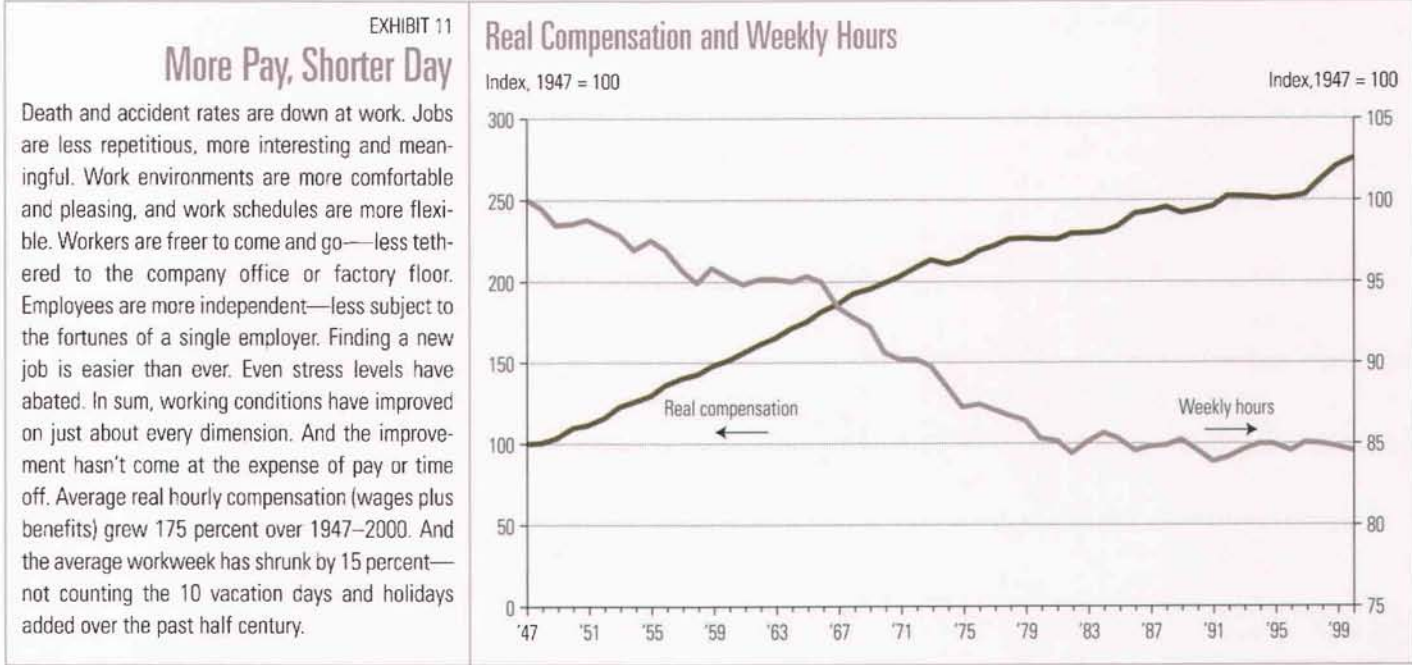
The monetary reward from work includes paychecks and fringe benefits provided by employers, such as health plans, retirement programs, unemployment insurance, vacations and holidays. Total compensation has grown by an average 1.87 percent a year since 1950, the high-water mark for the industrial economy. Add it up: what we earn nearly tripled in two generations, making the United States the world's leader in pay and fringe benefits.

In our opportunity economy, some professionals, managers and entrepreneurs are putting in killer hours. But that's the choice they make, in return for higher pay and faster career advancement than they might otherwise have. For the rank and file, the workweek has continued to shrink in recent decades. Average weekly hours of production workers declined from 39.8 in 1950 to 34.5 in 2000.

Over time, we've taken our productivity gains in different ways. In the early years of the Industrial Age, we preferred more consumption. As we grew richer in terms of goods and services, we chose additional time off. And now we're shifting our preferences toward better working conditions.



Throughout the Cotton Belt, workers picked cotton from sunup to sundown for less than 3 cents a pound. (Lehi, Arkansas, 1938)





Unemployed man (Omaha, Nebraska, 1938)



Waiting for relief checks (Childersburg, Alabama, 1941)

The evolution of what workers want echoes the work of American psychologist Abraham Maslow, who devised the famous triangle that ranks human needs from mere survival at the bottom to self-actualization at the top. Americans started at the base of Maslow's triangle, emphasizing the physiological needs for food, clothing and shelter. Only when these basic needs were met—that is, when we were rich with material goods and enjoying time off—did we achieve the luxury of making our days nicer with comfortable clothes and employee empowerment.

When it comes to economic progress, we chart productivity gains that bring higher wages. We measure the additional goods and services fatter paychecks allow us to buy. We even count the hours and minutes workers spend on the job. Our economic statistics don't measure nicer days on the job, however. No numbers reflect the added benefit of soft, indirect lighting, casual dress codes and air-conditioned offices.

Productivity, the prime yardstick for progress, consists of output per hours worked. The calculation is designed to capture our preferences for more goods and services and additional time off. When it comes to working conditions, though, the numbers miss what's going on.

When we measure, better working conditions are the ignored good. And as we take more and more of our gains in improved working conditions, the measurement error will get worse, not better. Our lives will improve, but the economic statistics won't reflect it.

MARKETS MAKE THE DIFFERENCE

Productivity doesn't fall like manna from heaven. It's earned through investment in new technology and the application of intelligence and hard work, then tested in the crucible of a competitive marketplace.

With each passing decade, a free enterprise economy, taking direction from the interplay of supply and demand, raises the average worker's output and provides companies with the ability to improve the lot of labor. Just as important, competition for labor drives employers to meet workers' desires for better treatment on the job. Companies attract and retain the most productive workers by improving the work environment. Those unsatisfied with their working conditions are free to seek jobs that offer them what they want.

Competition is as powerful a force for workers as it is for customers. In product markets, consumers get what they want—as long as companies can afford it. There's no reason to expect a different result in labor markets. Competition provides workers with what they want—as long as companies can afford it.

Better working conditions enter employers' balance sheets as part of the cost of doing business. Companies are willing to spend time and money on better working conditions out of self-interest, not altruism. They expect their investment to make employees more productive and more inclined to stay put. They expect it to increase the bottom line, too—and it does. *Fortune's* 2001 list of the 100 best companies to work for turned in a 10-year shareholder return of 36 percent, compared with just 18 percent for the S&P 500. On a three-year basis, the comparison was even better—30 percent versus 11 percent.

Cost and preferences determine how workers receive the rewards of higher productivity—whether in the form of wages, fringe benefits or better working condi-

tions. If workers want safety and providing it is relatively cheap, the likely outcome is improved worker safety. If additional safety measures are prohibitively expensive, firms will raise pay to compensate for the risk employees assume. It benefits neither the firm nor the worker to do otherwise.

For example, money furniture makers spend for safety guards on their saws could just as well have gone into employees' pockets. In strictly economic terms, the company shouldn't care whether workers prefer the money in cash or whether they appreciate the additional safety. It's all money to the firm. If the companies decide, against workers' wishes, to allocate their money to saw guards, workers may express their preferences by moving to another firm that pays them the way they want—in cash.

There are limits, of course, as there are in all areas of the economy. In a market economy, workers earn the value of their marginal product—the amount they contribute to final output. When employees cost more than they're worth, companies go out of business since competitors can offer consumers lower prices. Companies trying to pay below the marginal product will find labor scarce or less productive as the best workers migrate to jobs that provide better pay and working conditions.

Workers earn better working conditions by producing sufficient value for the firm. Gains not merited by higher productivity won't be sustained. Businesses that lose money or earn below-normal long-term rates of return will shut down, sending employees to the unemployment line.

Companies spend time and money to improve safety and the work environment as long as the benefits outweigh the costs. Businesses cannot allow workers to cost them more in the long run than their labor is worth, whether the expense goes for wages, fringe benefits or working conditions.

Better working conditions are yet another benefit of free enterprise. Some may doubt that, contending that government agencies, with their regulations, are responsible for easing the risks and burdens of work. Others might credit labor unions.

History tells us government and unions play their roles, but they aren't the ultimate source of progress in the workplace. They don't foot the bill for changes that benefit employees. The money comes from the firm, which gets a large part of it from the productivity of its workers.

Companies improve working conditions because they can afford to, not simply because workers, unions or government agencies demand it. The dismal work environment in now-defunct socialist nations—all supposedly designed to benefit the worker and eradicate the capitalist—provides a powerful testament to the fact that good intentions are hollow without the ability to pay.

The main role of collective action has been to provide a voice for labor, giving firms a better idea of how workers wish to get paid. When workers take their concerns to unions or elected officials, they help create consensus among employees and lower the cost of communicating their desires to employers.

In the long run, firms cannot afford any worker demand—whether it be for higher pay, greater health care benefits or a safer workplace—that workers don't earn by producing more for the firm.

When counting our blessings as workers, we should first thank the system, not the unions or the federal government.



THE ROAD AHEAD

As workers, we've come a long way from the Industrial Age's long, backbreaking days. Even after moving from sweltering factories to air-conditioned offices, though, Americans aren't yet at workplace nirvana. We still have a ways to go.

The good news for the future: we can be optimistic about realizing even better working conditions. Past gains flowed from two features of the American capitalist system—ever-greater productivity and competitive labor markets. Both factors will operate more powerfully in the years to come.

The American economy now looks like a juggernaut. Growth has slowed from the torrid pace of the past few years, but the fundamentals for sustained, strong expansion remain solid. Just look around:

- We're adopting technology at a furious pace. A mother lode of invention and innovation—from biotechnology and electronics to exotic materials and artificial intelligence—is refueling the economy while it's still flying.
- We're integrating technology into everyday life, getting hands-on experience with computers from kindergarten on. Today's students are tomorrow's workers, and they will start their careers with a technological savvy far ahead of their parents and the rest of the world.
- We're expanding our global reach. It will give Americans a head start in serving a potential market of 6 billion consumers.

In the second half of the '90s, the rate of productivity increases jumped from the previous three decades to 3.1 percent a year. Given all of America's advantages, we can expect the rapid gains to continue and at times even accelerate. A richer country will demand more of the normal good of better working conditions.

In the tight labor market we've experienced in the past six or seven years, workers possess a great degree of power. Employers competing for scarce workers will do what's necessary to attract them—be it offering flexible hours or relenting on coat-and-tie dress codes.



In today's workplace, "business casual" can refer to more than attire.



During the Dust Bowl era, families traveled clear across country looking for work.

If anything, the competition will intensify in the future because today's capital is not as much physical as it is intellectual. Machines, the chief asset of the Industrial Age, are bolted to the floor and locked up at night. Human capital, on the other hand, cannot be separated from the workers who possess it.

In today's world, valuable assets can walk out the door whenever they're not happy. What's more, today's technologies—and tomorrow's, too—will give workers added freedom. Information Age jobs are less tied to time, place and even employer. The new freedom is creating stress and long hours for some workers, but they're likely to find a more satisfying balance. In time, we learned to live with the Industrial Revolution, and in time we'll learn to accommodate the Information Revolution.

In the early years of the Industrial Age, employers had the upper hand because relatively unskilled labor is easily replaced. Now the balance of power in the marketplace is shifting in favor of workers. In an era of human capital, education and specialized skills make workers more valuable and raise the cost to companies of employee turnover. For employers, the Information Age brings increased incentive to pay attention to the needs and aspirations of workers.

On the road ahead, work will get better in myriad ways. More companies will offer the perks now found at the best jobs. More of us will find employers who are flexible on scheduling and open-minded on telecommuting.

As computer power doubles and then doubles again, product markets are moving toward greater variety and customization. We should see the same trend in the labor market, with jobs and working conditions tailored to the talents and tastes of individual workers.

The promise of the future even includes the prospect of bridging the divide that opened with the Industrial Revolution. Most of us still separate our lives into time we spend at work and time for family, friends and fun. The future of work will allow us to re-create a balance between work and leisure, between our jobs and our home lives. History will not so much repeat itself as reverse itself. The workplace of the future will be one that nurtures and values us as human beings.

Have a nice day!

—W. Michael Cox and Richard Alm

Acknowledgments

"Have a Nice Day!" was written by W. Michael Cox and Richard Alm. The essay is based on research conducted by Cox, senior vice president and chief economist, Federal Reserve Bank of Dallas. Sonja Kelly provided important research assistance throughout the course of the project. Also helping with research was Charlene Howell.

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Exhibit Notes and Data Sources

Exhibit 2

Accidents and Deaths, on the Job and at Home

Deaths: *Injury Facts*, National Safety Council, 2000.

Manufacturing injuries: *Historical Statistics of the United States: Colonial Times to 1970*, Census Bureau, 1975; *Statistical Abstract of the United States*, various years; "Work-related Injuries, Illnesses and Fatalities in Manufacturing and Construction," *Compensation and Working Conditions*, Bureau of Labor Statistics, Fall 1999; Bureau of Labor Statistics.

Industry injuries overall: Bureau of Labor Statistics.

The Most and Least Injurious and Deadly Jobs

Bureau of Labor Statistics. 1998 data are the most recent available for injuries, 1999 data for deaths. *Religious workers* are those not classified elsewhere.

Exhibit 3

What Price Productivity?

F. W. Taylor observation sheet adapted from one in the Samuel C. Williams Library at the Stevens Institute of Technology.

Repetitive Motion: The Tiresome 20

Census Bureau; Bureau of Labor Statistics. 1997 data are the most recent available. *Assemblers* includes electrical and electronic equipment assemblers. *Selected machine operators* consists of molding, casting, punching, stamping, grinding, polishing, slicing, cutting, sawing, packaging, filling, painting, spraying, separating, filtering, clarifying, laundering, drycleaning, miscellaneous and machine operators not elsewhere classified.

Exhibit 4

The Demise of Repetitive-Motion Jobs

Incidence rates: Bureau of Labor Statistics. 1997 data are the most recent available.

Employment: *Historical Statistics of the United States: Colonial Times to 1970*; Bureau of Labor Statistics.

The Move to Safer Industries

Statistical Abstract of the United States, 1975; Bureau of Labor Statistics. Employment is a percentage of total U.S. private employment. Mining was 0.01 percent in both 1973 and 1999.

Exhibit 5

10 Most Stressful Jobs

Jobs Rated Almanac 2001 (New York: St. Martin's, 1999).

On-the-Job Stress

"Occupational Stress, Counts and Rates," *Compensation and Working Conditions*, Bureau of Labor Statistics, Fall 1999; Bureau of Labor Statistics. 1998 data are the most recent available.

Exhibit 7

Number of U.S. Telecommuters

"Telework—The Future Is Now," Joanne Shore, www.pueblo.gsa.gov/telework.htm.

Workin' 9 to 5?

Bureau of Labor Statistics. 1997 data are the most recent available. Hours are for full-time workers as a percentage of all workers ages 16 and older.

Workers on Flexible Schedules

Unpublished Bureau of Labor Statistics data; "Flexible Schedules and Shift Work: Replacing the '9-to-5' Workday?" *Monthly Labor Review*, June 2000, Bureau of Labor Statistics.

Exhibit 8

Enjoy!

Data going back to 1900 are generally unavailable for anything beyond the 20 worst jobs.

30 Best Jobs; 30 Worst Jobs

Jobs Rated Almanac 2001; Historical Statistics of the United States; Census Bureau; *Occupational Outlook Handbook*; Bureau of Labor Statistics; "Occupational Employment Projections to 2008," *Monthly Labor Review*, November 1999. Projections are as of 1998. All occupations had 30,000 or more workers sometime during 1970–2000. *Chemists* excludes biochemists, who are included under biological and life scientists. *Health technologists and technicians* excludes licensed practical nurses.

Employment in the 20 Worst Jobs

Jobs Rated Almanac 2001; Historical Statistics of the United States; Census Bureau; Bureau of Labor Statistics; *Occupational Outlook Handbook*, 2000–01 edition, Bureau of Labor Statistics.

Exhibit 9

Average Annual Work Stoppages

Bureau of Labor Statistics. Average annual stoppages involving 1,000 or more workers, beginning in the period.

Unionization in America

Union membership: *Historical Statistics of the United States*; Bureau of Labor Statistics.

Civilian labor force: *Historical Statistics of the United States*; Economic Report of the President; Bureau of Labor Statistics.

Exhibit 10

Jobless Rate and Unemployment Insurance Claims

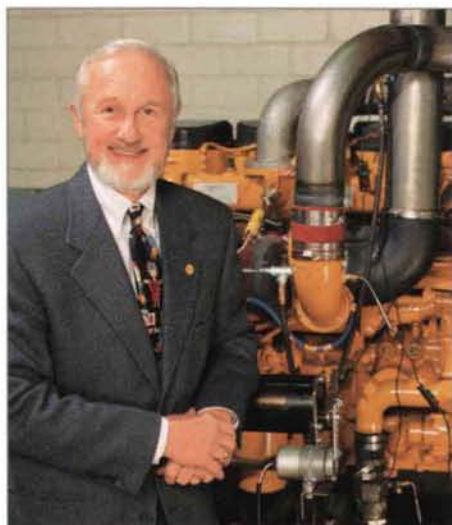
Bureau of Labor Statistics.

Exhibit 11

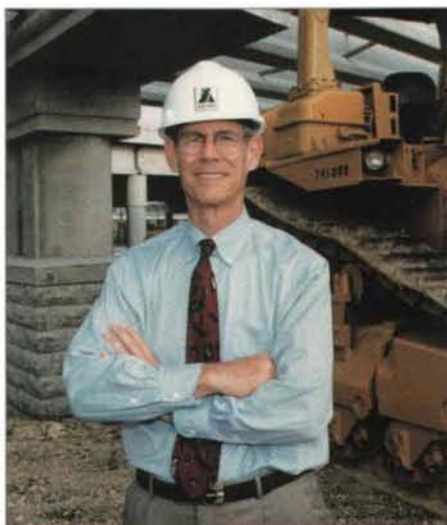
Real Compensation and Weekly Hours

Bureau of Labor Statistics.

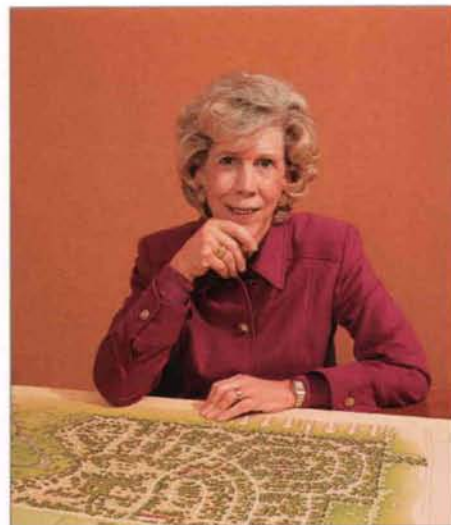
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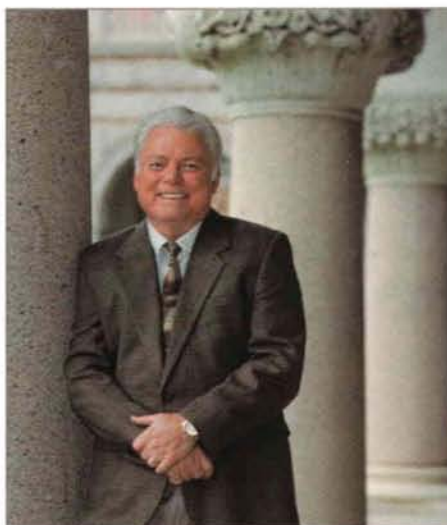
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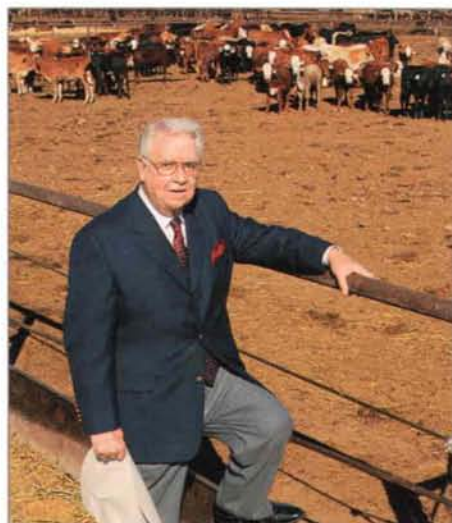
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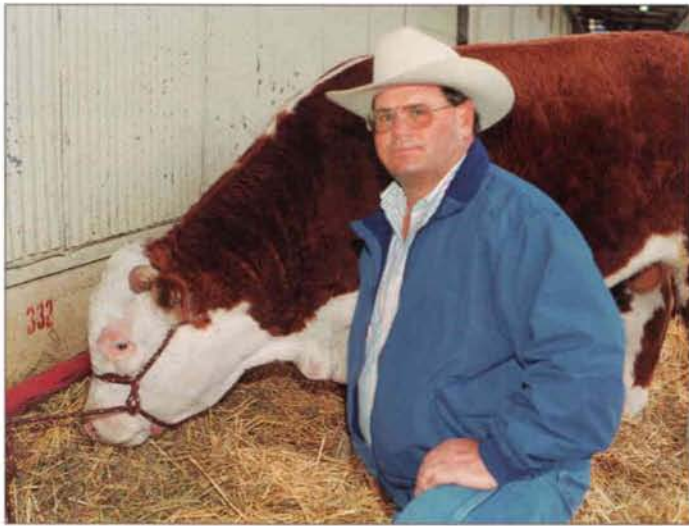


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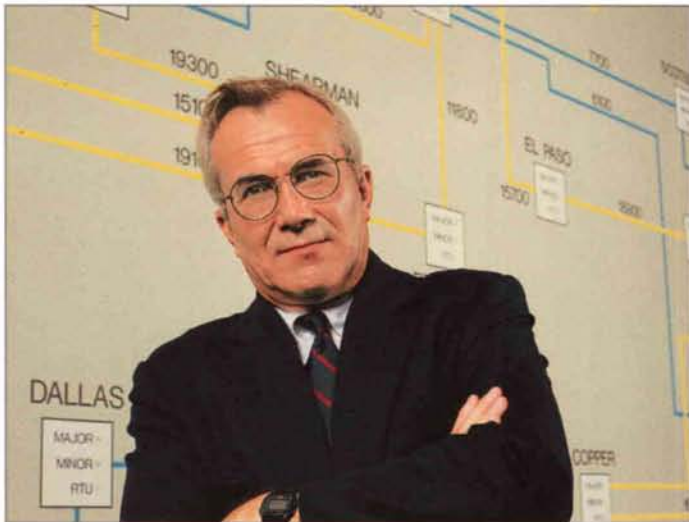
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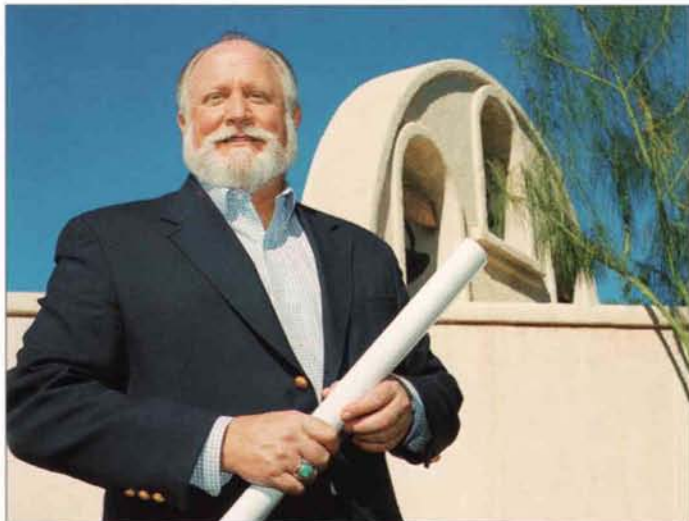
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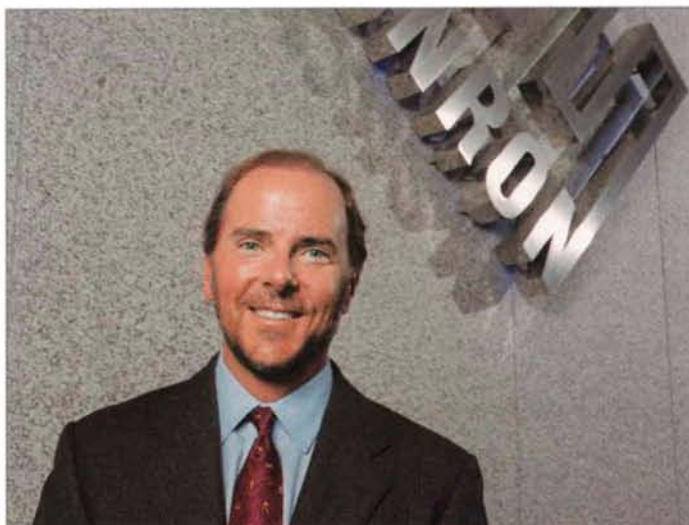


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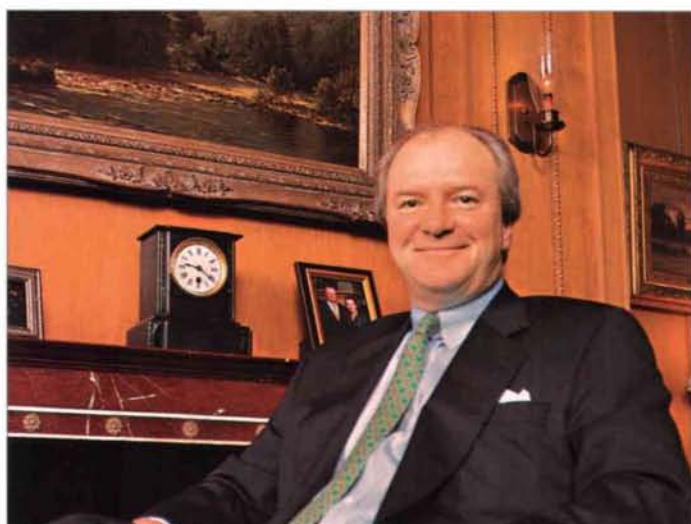
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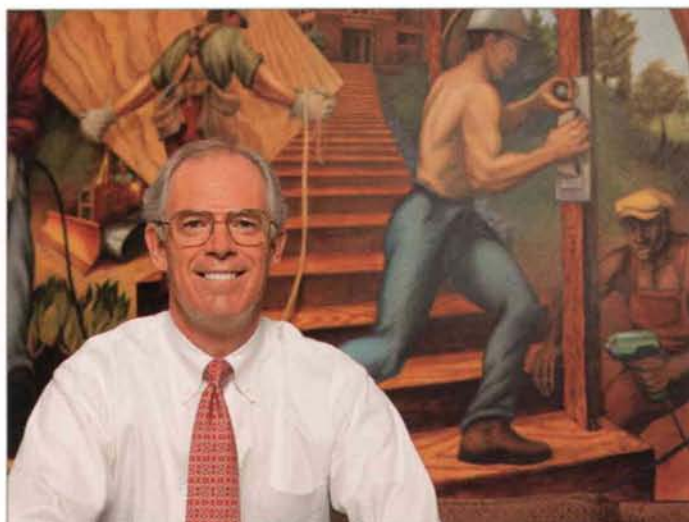
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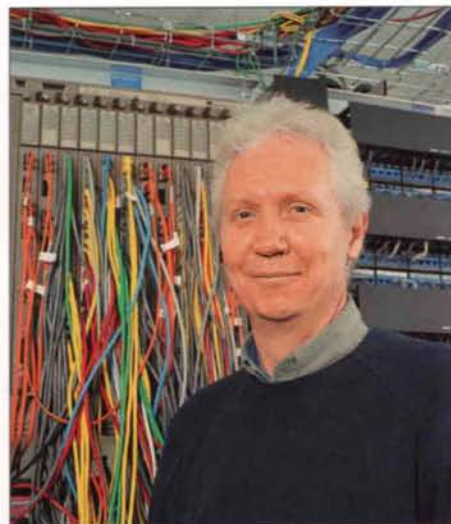


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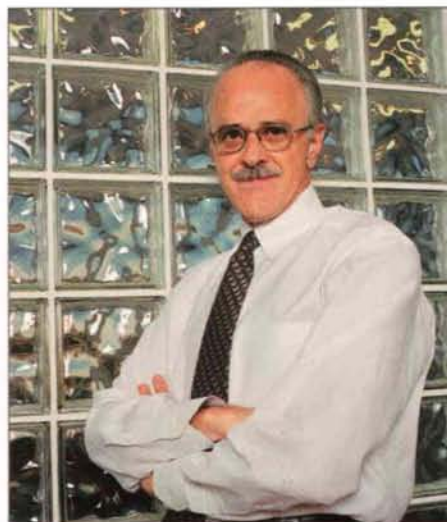
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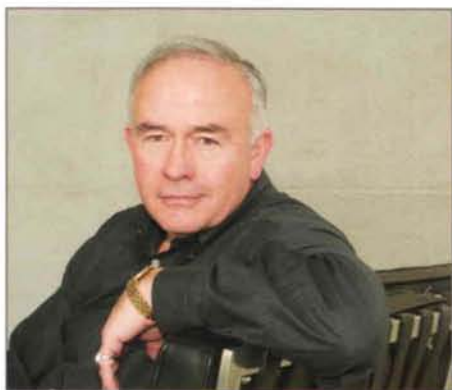
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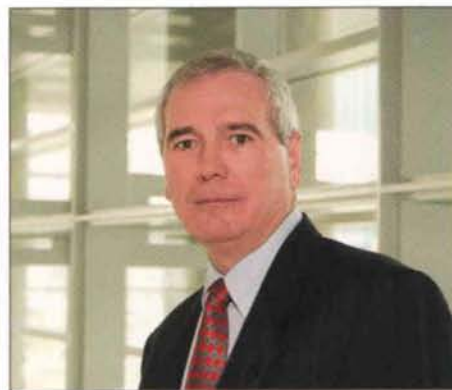
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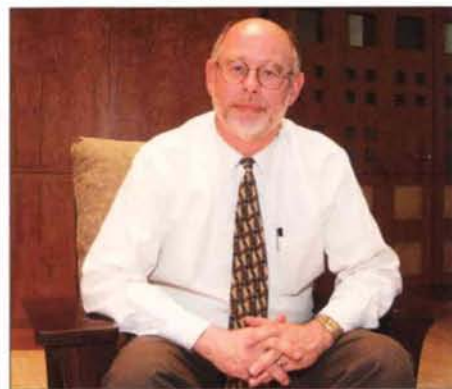
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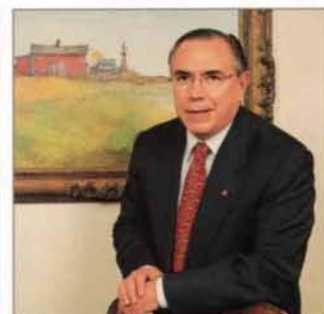
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Effective December 31, 2000

February 8, 2001

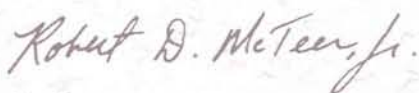
To the Board of Directors of the
Federal Reserve Bank of Dallas:

The management of the Federal Reserve Bank of Dallas (FRBD) is responsible for the preparation and fair presentation of the Statement of Condition, Statement of Income, and Statement of Changes in Capital as of December 31, 2000 (the "Financial Statements"). The Financial Statements have been prepared in conformity with the accounting principles, policies, and practices established by the Board of Governors of the Federal Reserve System and as set forth in the Financial Accounting Manual for the Federal Reserve Banks, and as such, include amounts, some of which are based on judgments and estimates of management.

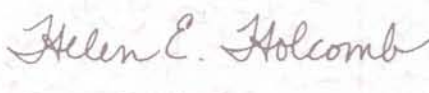
The management of the FRBD is responsible for maintaining an effective process of internal controls over financial reporting including the safeguarding of assets as they relate to the Financial Statements. Such internal controls are designed to provide reasonable assurance to management and to the Board of Directors regarding the preparation of reliable Financial Statements. This process of internal controls contains self-monitoring mechanisms, including, but not limited to, divisions of responsibility and a code of conduct. Once identified, any material deficiencies in the process of internal controls are reported to management, and appropriate corrective measures are implemented.

Even an effective process of internal controls, no matter how well designed, has inherent limitations, including the possibility of human error, and therefore can provide only reasonable assurance with respect to the preparation of reliable Financial Statements.

The management of the FRBD assessed its process of internal controls over financial reporting including the safeguarding of assets reflected in the Financial Statements, based upon the criteria established in the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, the management of the FRBD believes that the FRBD maintained an effective process of internal controls over financial reporting including the safeguarding of assets as they relate to the Financial Statements.



President
Federal Reserve Bank of Dallas



First Vice President
Federal Reserve Bank of Dallas

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of the
Federal Reserve Bank of Dallas:

We have examined management's assertion that the Federal Reserve Bank of Dallas ("FRB Dallas") maintained effective internal control over financial reporting and the safeguarding of assets as they relate to the Financial Statements as of December 31, 2000, included in the accompanying Management's Assertion.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants, and accordingly, included obtaining an understanding of the internal control over financial reporting, testing, and evaluating the design and operating effectiveness of the internal control, and such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control over financial reporting to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that the FRB Dallas maintained effective internal control over financial reporting and over the safeguarding of assets as they relate to the Financial Statements as of December 31, 2000, is fairly stated, in all material respects, based upon criteria described in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

PricewaterhouseCoopers LLP

March 2, 2001
Dallas, Texas

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Governors of the Federal Reserve System
and the Board of Directors of the Federal Reserve Bank of Dallas:

We have audited the accompanying statements of condition of the Federal Reserve Bank of Dallas (the "Bank") as of December 31, 2000 and 1999, and the related statements of income and changes in capital for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 3, the financial statements were prepared in conformity with the accounting principles, policies, and practices established by the Board of Governors of the Federal Reserve System. These principles, policies, and practices, which were designed to meet the specialized accounting and reporting needs of the Federal Reserve System, are set forth in the "Financial Accounting Manual for Federal Reserve Banks" and constitute a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2000 and 1999, and results of its operations for the years then ended, on the basis of accounting described in Note 3.

PricewaterhouseCoopers LLP

March 2, 2001
Dallas, Texas

Statements of Condition (in millions)

	December 31, 2000	December 31, 1999
ASSETS		
Gold certificates	\$ 514	\$ 575
Special drawing rights certificates	98	341
Coin	91	16
Items in process of collection	334	296
Loans to depository institutions	4	10
U.S. government and federal agency securities, net	15,341	24,112
Investments denominated in foreign currencies	513	616
Accrued interest receivable	179	243
Bank premises and equipment, net	168	178
Other assets	48	15
Total assets	\$ 17,290	\$ 26,402
LIABILITIES AND CAPITAL		
Liabilities		
Federal Reserve notes outstanding, net	\$ 9,754	\$ 15,269
Deposits:		
Depository institutions	939	1,246
Other deposits	3	6
Deferred credit items	298	269
Interest on Federal Reserve notes due U.S. Treasury	30	44
Interdistrict settlement account	5,829	9,087
Accrued benefit costs	53	51
Other liabilities	8	8
Total liabilities	\$ 16,914	\$ 25,980
Capital		
Capital paid-in	188	211
Surplus	188	211
Total capital	\$ 376	\$ 422
Total liabilities and capital	\$ 17,290	\$ 26,402

The accompanying notes are an integral part of these financial statements.

Statements of Income (in millions)

FOR THE YEARS ENDED

	December 31, 2000	December 31, 1999
INTEREST INCOME		
Interest on U.S. government and federal agency securities	\$ 1,098	\$ 1,332
Interest on investments denominated in foreign currencies	9	9
Interest on loans to depository institutions	1	—
Total interest income	\$ 1,108	\$ 1,341
OTHER OPERATING INCOME		
Income from services	\$ 58	\$ 56
Reimbursable services to government agencies	14	11
Foreign currency losses, net	(46)	(19)
U.S. government securities losses, net	(3)	(1)
Other income	2	1
Total other operating income	\$ 25	\$ 48
OPERATING EXPENSES		
Salaries and other benefits	\$ 92	\$ 85
Occupancy expense	13	12
Equipment expense	10	11
Assessments by Board of Governors	17	31
Other expenses	55	50
Total operating expenses	\$ 187	\$ 189
Net income prior to distribution	\$ 946	\$ 1,200
DISTRIBUTION OF NET INCOME		
Dividends paid to member banks	\$ 12	\$ 13
Transferred to (from) surplus	100	(16)
Payments to U.S. Treasury as interest on Federal Reserve notes	834	1,203
Total distribution	\$ 946	\$ 1,200

The accompanying notes are an integral part of these financial statements.

**Statements of Changes in Capital
for the Years Ended December 31, 2000,
and December 31, 1999 (in millions)**

	Capital Paid-In	Surplus	Total Capital
BALANCE AT JANUARY 1, 1999 (4.5 MILLION SHARES)	\$ 227	\$ 227	\$ 454
Net income transferred from surplus	—	(16)	(16)
Net change in capital stock redeemed (0.3 million shares)	<u>(16)</u>	<u>—</u>	<u>(16)</u>
BALANCE AT DECEMBER 31, 1999 (4.2 MILLION SHARES)	\$ 211	\$ 211	\$ 422
Net income transferred to surplus	—	100	100
Surplus transfer to the U.S. Treasury	—	(123)	(123)
Net change in capital stock redeemed (0.4 million shares)	<u>(23)</u>	<u>—</u>	<u>(23)</u>
BALANCE AT DECEMBER 31, 2000 (3.8 MILLION SHARES)	<u>\$ 188</u>	<u>\$ 188</u>	<u>\$ 376</u>

The accompanying notes are an integral part
of these financial statements.

1. ORGANIZATION

The Federal Reserve Bank of Dallas ("Bank") is part of the Federal Reserve System ("System") created by Congress under the Federal Reserve Act of 1913 ("Federal Reserve Act"), which established the central bank of the United States. The System consists of the Board of Governors of the Federal Reserve System ("Board of Governors") and 12 Federal Reserve Banks ("Reserve Banks"). The Reserve Banks are chartered by the federal government and possess a unique set of governmental, corporate, and central bank characteristics. Other major elements of the System are the Federal Open Market Committee ("FOMC") and the Federal Advisory Council. The FOMC is composed of members of the Board of Governors, the president of the Federal Reserve Bank of New York ("FRBNY"), and, on a rotating basis, four other Reserve Bank presidents.

Structure

The Bank and its branches in El Paso, Houston, and San Antonio serve the Eleventh Federal Reserve District, which includes Texas and portions of Louisiana and New Mexico. In accordance with the Federal Reserve Act, supervision and control of the Bank are exercised by a board of directors. Banks that are members of the System include all national banks and any state-chartered bank that applies and is approved for membership in the System.

Board of Directors

The Federal Reserve Act specifies the composition of the board of directors for each of the Reserve Banks. Each board is composed of nine members serving three-year terms: three directors, including those designated as chairman and deputy chairman, are appointed by the Board of Governors, and six directors are elected by member banks. Of the six elected by member banks, three represent the public and three represent member banks. Member banks are divided into three classes according to size. Member banks in each class elect one director representing member banks and one representing the public. In any election of directors, each member bank receives one vote, regardless of the number of shares of Reserve Bank stock it holds.

2. OPERATIONS AND SERVICES

The System performs a variety of services and operations. Functions include formulating and conducting monetary policy; participating actively in the payments mechanism, including large-dollar transfers of funds, automated clearinghouse operations, and check processing; distributing coin and currency; providing fiscal agency functions for the U.S. Treasury and certain federal agencies; serving as the federal government's bank; providing short-term loans to depository institutions; serving the consumer and the community by providing educational materials and information regarding consumer laws; supervising bank holding companies and state member banks; and administering other regulations of the Board of Governors. The Board of Governors' operating costs are funded through assessments on the Reserve Banks.

The FOMC establishes policy regarding open market operations, oversees these operations, and issues authorizations and directives to the FRBNY for its execution of transactions. Authorized transaction types include direct purchase and sale of securities, matched sale-purchase transactions, purchase of securities under agreements to resell, and lending of U.S. government securities. The FRBNY is also authorized by the FOMC to hold balances of, and to execute spot and forward foreign exchange and securities contracts in, nine foreign currencies; maintain reciprocal currency arrangements ("F/X swaps") with various central banks; and "warehouse" foreign currencies for the U.S. Treasury and Exchange Stabilization Fund ("ESF") through the Reserve Banks.

3. SIGNIFICANT ACCOUNTING POLICIES

Accounting principles for entities with the unique powers and responsibilities of the nation's central bank have not been formulated by the Financial Accounting Standards Board. The Board of Governors has developed specialized accounting principles and practices that it believes are appropriate for the significantly different nature and function of a central bank as compared with the private sector. These accounting principles and practices are documented in the "Financial Accounting Manual for Federal Reserve Banks" ("Financial Accounting Manual"), which is issued by the Board of Governors. All Reserve Banks are required to adopt and apply accounting policies and practices that are consistent with the Financial Accounting Manual.

The financial statements have been prepared in accordance with the Financial Accounting Manual. Differences exist between the accounting principles and practices of the System and generally accepted accounting principles ("GAAP"). The primary differences are the presentation of all security holdings at amortized cost rather than at the fair value presentation requirements of GAAP, and the accounting for matched sale-purchase transactions as separate sales and purchases rather than secured borrowings with pledged collateral, as is generally required by GAAP. In addition, the Bank has elected not to present a Statement of Cash Flows. The Statement of Cash Flows has not been included, as the liquidity and cash position of the Bank are not of primary concern to users of these financial statements. Other information regarding the Bank's activities is provided in, or may be derived from, the Statements of Condition, Income, and Changes in Capital. Therefore, a Statement of Cash Flows would not provide any additional useful information. There are no other significant differences between the policies outlined in the Financial Accounting Manual and GAAP.

The preparation of the financial statements in conformity with the Financial Accounting Manual requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Unique accounts and significant accounting policies are explained below.

a. Gold Certificates

The Secretary of the Treasury is authorized to issue gold certificates to the Reserve Banks to monetize gold held by the U.S. Treasury. Payment for the gold certificates by the Reserve Banks is made by crediting equivalent amounts in dollars into the account established for the U.S. Treasury. These gold certificates held by the Reserve Banks are required to be backed by the gold of the U.S. Treasury. The U.S. Treasury may reacquire the gold certificates at any time, and the Reserve Banks must deliver them to the U.S. Treasury. At such time, the U.S. Treasury's account is charged and the Reserve Banks' gold certificate accounts are lowered. The value of gold for purposes of backing the gold certificates is set by law at \$42-2/9 a fine troy ounce. The Board of Governors allocates the gold certificates among Reserve Banks once a year based upon Federal Reserve notes outstanding in each District at the end of the preceding year.

b. Special Drawing Rights Certificates

Special drawing rights ("SDRs") are issued by the International Monetary Fund ("Fund") to its members in proportion to each member's quota in the Fund at the time of issuance. SDRs serve as a supplement to international monetary reserves and may be transferred from one national monetary authority to another. Under the law providing for U.S. participation in the SDR system, the Secretary of the U.S. Treasury is authorized to issue SDR certificates, somewhat like gold certificates, to the Reserve Banks. At such time, equivalent amounts in dollars are credited to the account established for the U.S. Treasury, and the Reserve Banks' SDR certificate accounts are increased. The Reserve Banks are required to purchase SDRs, at the direction of the U.S. Treasury, for the purpose of financing SDR certificate acquisitions or for financing exchange stabilization operations. The Board of Governors allocates each SDR transaction among Reserve Banks based upon Federal Reserve notes outstanding in each District at the end of the preceding year.

c. Loans to Depository Institutions

The Depository Institutions Deregulation and Monetary Control Act of 1980 provides that all depository institutions that maintain reservable transaction accounts or nonpersonal time deposits, as defined in Regulation D issued by the Board of Governors, have borrowing privileges at the discretion of the Reserve Banks. Borrowers execute certain lending agreements and deposit sufficient collateral before credit is extended. Loans are evaluated for collectibility, and currently all are considered collectible and fully collateralized. If any loans were deemed to be uncollectible, an appropriate reserve would be established. Interest is recorded on the accrual basis and is charged at the applicable discount rate established at least every 14 days by the boards of directors of the Reserve Banks, subject to review by the Board of Governors. However, Reserve Banks retain the option to impose a surcharge above the basic rate in certain circumstances.

**d. U.S. Government and Federal Agency Securities
and Investments Denominated in Foreign Currencies**

The FOMC has designated the FRBNY to execute open market transactions on its behalf and to hold the resulting securities in the portfolio known as the System Open Market Account ("SOMA"). In addition to authorizing and directing operations in the domestic securities market, the FOMC authorizes and directs the FRBNY to execute operations in foreign markets for major currencies in order to counter disorderly conditions in exchange markets or to meet other needs specified by the FOMC in carrying out the System's central bank responsibilities.

Purchases of securities under agreements to resell and matched sale-purchase transactions are accounted for as separate sale and purchase transactions. Purchases under agreements to resell are transactions in which the FRBNY purchases a security and sells it back at the rate specified at the commencement of the transaction. Matched sale-purchase transactions are transactions in which the FRBNY sells a security and buys it back at the rate specified at the commencement of the transaction.

Effective April 26, 1999, FRBNY was given sole authorization by the FOMC to lend U.S. government securities held in the SOMA to U.S. government securities dealers and to banks participating in U.S. government securities clearing arrangements, in order to facilitate the effective functioning of the domestic securities market. These securities-lending transactions are fully collateralized by other U.S. government securities. FOMC policy requires FRBNY to take possession of collateral in excess of the market values of the securities loaned. The market values of the collateral and the securities loaned are monitored by FRBNY on a daily basis, with additional collateral obtained as necessary. The securities loaned continue to be accounted for in the SOMA. Prior to April 26, 1999, all Reserve Banks were authorized to engage in such lending activity.

Foreign exchange contracts are contractual agreements between two parties to exchange specified currencies at a specified price on a specified date. Spot foreign contracts normally settle two days after the trade date, whereas the settlement date on forward contracts is negotiated between the contracting parties, but will extend beyond two days from the trade date. The FRBNY generally enters into spot contracts, with any forward contracts generally limited to the second leg of a swap/warehousing transaction.

The FRBNY, on behalf of the Reserve Banks, maintains renewable, short-term F/X swap arrangements with two authorized foreign central banks. The parties agree to exchange their currencies up to a prearranged maximum amount and for an agreed-upon period of time (up to 12 months) at an agreed-upon interest rate. These arrangements give the FOMC temporary access to foreign currencies that it may need for intervention operations to support the dollar and give the partner foreign central bank temporary access to dollars it may need to support its own currency. Drawings under the F/X swap arrangements can be initiated by either the FRBNY or the partner foreign central bank, and must be agreed to by the drawee. The F/X swaps are structured so that the party initiating the transaction (the drawer) bears the exchange rate risk upon maturity. The FRBNY will generally invest the foreign currency received under an F/X swap in interest-bearing instruments.

Warehousing is an arrangement under which the FOMC agrees to exchange, at the request of the Treasury, U.S. dollars for foreign currencies held by the Treasury or ESF over a limited period of time. The purpose of the warehousing facility is to supplement the U.S. dollar resources of the Treasury and ESF for financing purchases of foreign currencies and related international operations.

In connection with its foreign currency activities, the FRBNY, on behalf of the Reserve Banks, may enter into contracts that contain varying degrees of off-balance sheet market risk, because they represent contractual commitments involving future settlement, and counterparty credit risk. The FRBNY controls credit risk by obtaining credit approvals, establishing transaction limits, and performing daily monitoring procedures.

While the application of current market prices to the securities currently held in the SOMA portfolio and investments denominated in foreign currencies may result in values substantially above or below their carrying values, these unrealized changes in value would have no direct effect on the quantity of reserves available to the banking system or on the prospects for future Reserve Bank earnings or capital. Both the domestic and foreign components of the SOMA portfolio from time to time involve transactions that can result in gains or losses when holdings are sold prior to maturity. However, decisions regarding the securities and foreign currencies transactions, including their purchase and sale, are motivated by monetary policy objectives rather than profit. Accordingly, earnings and any gains or losses resulting from the sale of such currencies and securities are incidental to the open market operations and do not motivate its activities or policy decisions.

U.S. government and federal agency securities and investments denominated in foreign currencies comprising the SOMA are recorded at cost, on a settlement-date basis, and adjusted for amortization of premiums or accretion of discounts on a straight-line basis. Interest income is accrued on a straight-line basis and is reported as "Interest on U.S. government and federal agency securities" or "Interest on investments denominated in foreign currencies," as appropriate. Income earned on securities-lending transactions is reported as a component of "Other income." Gains and losses resulting from sales of securities are determined by specific issues based on average cost. Gains and losses on the sales of U.S. government and federal agency securities are reported as "U.S. government securities losses, net." Foreign currency-denominated assets are revalued monthly at current market exchange rates in order to report these assets in U.S. dollars. Realized and unrealized gains and losses on investments denominated in foreign currencies are reported as "Foreign currency losses, net." Foreign currencies held through F/X swaps, when initiated by the counterparty, and warehousing arrangements are revalued monthly, with the unrealized gain or loss reported by the FRBNY as a component of "Other assets" or "Other liabilities," as appropriate.

Balances of U.S. government and federal agency securities bought outright, investments denominated in foreign currency, interest income, amortization of premiums and discounts on securities bought outright, gains and losses on sales of securities, and realized and unrealized gains and losses on investments denominated in foreign currencies, excluding those held under an F/X swap arrangement, are allocated to each Reserve Bank. Effective April 26, 1999, income from securities lending transactions undertaken by FRBNY was also allocated to each Reserve Bank. Securities purchased under agreements to resell and unrealized gains and losses on the revaluation of foreign currency holdings under F/X swaps and warehousing arrangements are allocated to the FRBNY and not to other Reserve Banks.

e. Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over estimated useful lives of assets ranging from 2 to 50 years. New assets, major alterations, renovations, and improvements are capitalized at cost as additions to the asset accounts. Maintenance, repairs, and minor replacements are charged to operations in the year incurred. Internally developed software is capitalized based on the cost of direct materials and services and those indirect costs associated with developing, implementing, or testing software.

f. Interdistrict Settlement Account

At the close of business each day, all Reserve Banks and branches assemble the payments due to or from other Reserve Banks and branches as a result of transactions involving accounts residing in other Districts that occurred during the day's operations. Such transactions may include funds settlement, check clearing and automated clearinghouse ("ACH") operations, and allocations of shared expenses. The cumulative net amount due to or from other Reserve Banks is reported as the "Interdistrict settlement account."

g. Federal Reserve Notes

Federal Reserve notes are the circulating currency of the United States. These notes are issued through the various Federal Reserve Agents to the Reserve Banks upon deposit with such Agents of certain classes of collateral security, typically U.S. government securities. These notes are identified as issued to a specific Reserve Bank. The Federal Reserve Act provides that the collateral security tendered by the Reserve Bank to the Federal Reserve Agent must be equal to the sum of the notes applied for by such Reserve Bank. In accordance with the Federal Reserve Act, gold certificates, special drawing rights certificates, U.S. government and federal agency securities, tri-party agreements, loans to depository institutions, and investments denominated in foreign currencies are pledged as collateral for net Federal Reserve notes outstanding. The collateral value is equal to the book value of the collateral tendered, with the exception of securities, whose collateral value is equal to the par value of the securities tendered. The Board of Governors may, at any time, call upon a Reserve Bank for additional security to adequately collateralize the Federal Reserve notes. The Reserve Banks have entered into an agreement that provides for certain assets of the Reserve Banks to be jointly pledged as collateral for the Federal Reserve notes of all Reserve Banks in order to satisfy their obligation of providing sufficient collateral for outstanding Federal Reserve notes. In the event that this collateral is insufficient, the Federal Reserve Act provides that Federal Reserve notes become a first and paramount lien on all the assets of the Reserve Banks. Finally, as obligations of the United States, Federal Reserve notes are backed by the full faith and credit of the U.S. government.

The "Federal Reserve notes outstanding, net" account represents Federal Reserve notes reduced by currency held in the vaults of the Bank of \$22,713 million and \$21,412 million at December 31, 2000, and December 31, 1999, respectively.

h. Capital Paid-in

The Federal Reserve Act requires that each member bank subscribe to the capital stock of the Reserve Bank in an amount equal to 6 percent of the capital and surplus of the member bank. As a member bank's capital and surplus change, its holdings of the Reserve Bank's stock must be adjusted. Member banks are those state-chartered banks that apply and are approved for membership in the System and all national banks. Currently, only one-half of the subscription is paid-in, and the remainder is subject to call. These shares are nonvoting, with a par value of \$100. They may not be transferred or hypothecated. By law, each member bank is entitled to receive an annual dividend of 6 percent on the paid-in capital stock. This cumulative dividend is paid semiannually. A member bank is liable for Reserve Bank liabilities up to twice the par value of stock subscribed by it.

i. Surplus

The Board of Governors requires Reserve Banks to maintain a surplus equal to the amount of capital paid-in as of December 31. This amount is intended to provide additional capital and reduce the possibility that the Reserve Banks would be required to call on member banks for additional capital. Reserve Banks are required by the Board of Governors to transfer to the U.S. Treasury excess earnings, after providing for the costs of operations, payment of dividends, and reservation of an amount necessary to equate surplus with capital paid-in.

The Consolidated Appropriations Act of 2000 (Public Law 106-113, Section 302) directed the Reserve Banks to transfer to the U.S. Treasury additional surplus funds of \$3,752 million during the federal government's 2000 fiscal year. The Federal Reserve Bank of Dallas transferred \$123 million to the U.S. Treasury during the year ended December 31, 2000. Reserve Banks were not permitted to replenish surplus for these amounts during fiscal

year 2000, which ended September 30, 2000; however, the surplus was replenished by December 31, 2000.

In the event of losses or a substantial increase in capital, payments to the U.S. Treasury are suspended until such losses or increases in capital are recovered through subsequent earnings. Weekly payments to the U.S. Treasury may vary significantly.

j. Income and Costs Related to Treasury Services

The Bank is required by the Federal Reserve Act to serve as fiscal agent and depository of the United States. By statute, the Department of the Treasury is permitted, but not required, to pay for these services. The costs of providing fiscal agency and depository services to the Treasury Department that have been billed but will not be paid are immaterial and included in "Other expenses."

k. Taxes

The Reserve Banks are exempt from federal, state, and local taxes, except for taxes on real property, which are reported as a component of "Occupancy expense."

4. U.S. GOVERNMENT AND FEDERAL AGENCY SECURITIES

Securities bought outright are held in the SOMA at the FRBNY. An undivided interest in SOMA activity, with the exception of securities held under agreements to resell and the related premiums, discounts, and income, is allocated to each Reserve Bank on a percentage basis derived from an annual settlement of interdistrict clearings. The settlement, performed in April of each year, equalizes Reserve Bank gold certificate holdings to Federal Reserve notes outstanding. The Bank's allocated share of SOMA balances was 2.959 percent and 4.983 percent at December 31, 2000, and December 31, 1999, respectively.

The Bank's allocated share of securities held in the SOMA at December 31 that were bought outright was as follows (in millions):

	2000	1999
Par value:		
Federal agency	\$ 4	\$ 9
U.S. government		
Bills	5,289	8,795
Notes	7,106	10,886
Bonds	2,745	4,135
Total par value	\$ 15,144	\$ 23,825
Unamortized premiums	288	453
Unaccreted discounts	(91)	(166)
Total allocated to Bank	\$15,341	\$24,112

Total SOMA securities bought outright were \$518,501 million and \$483,902 million at December 31, 2000, and December 31, 1999, respectively.

The maturity distribution of U.S. government and federal agency securities bought outright, which were allocated to the Bank at December 31, 2000, were as follows (in millions):

Maturities of Securities Held	Par value		
	U.S. Government Securities	Federal Agency Obligations	Total
Within 15 days	\$ 534	\$ —	\$ 534
16 days to 90 days	3,224	—	3,224
91 days to 1 year	3,714	—	3,714
Over 1 year to 5 years	3,929	4	3,933
Over 5 years to 10 years	1,641	—	1,641
Over 10 years	2,098	—	2,098
Total	\$15,140	\$ 4	\$15,144

At December 31, 2000, and December 31, 1999, matched sale–purchase transactions involving U.S. government securities with par values of \$21,112 million and \$39,182 million, respectively, were outstanding, of which \$625 million and \$1,952 million were allocated to the Bank. Matched sale–purchase transactions are generally overnight arrangements.

5. INVESTMENTS DENOMINATED IN FOREIGN CURRENCIES

The FRBNY, on behalf of the Reserve Banks, holds foreign currency deposits with foreign central banks and the Bank for International Settlements and invests in foreign government debt instruments. Foreign government debt instruments held include both securities bought outright and securities held under agreements to resell. These investments are guaranteed as to principal and interest by the foreign governments.

Each Reserve Bank is allocated a share of foreign currency-denominated assets, the related interest income, and realized and unrealized foreign currency gains and losses, with the exception of unrealized gains and losses on F/X swaps and warehousing transactions. This allocation is based on the ratio of each Reserve Bank's capital and surplus to aggregate capital and surplus at the preceding December 31. The Bank's allocated share of investments denominated in foreign currencies was approximately 3.275 percent and 3.818 percent at December 31, 2000, and December 31, 1999, respectively.

The Bank's allocated share of investments denominated in foreign currencies, valued at current exchange rates at December 31, was as follows (in millions):

	2000	1999
European Union euro:		
Foreign currency deposits	\$ 152	\$ 165
Government debt instruments including agreements to resell	90	97
Japanese yen:		
Foreign currency deposits	90	12
Government debt instruments including agreements to resell	180	340
Accrued interest	1	2
Total	\$ 513	\$ 616

Total investments denominated in foreign currencies were \$15,670 million and \$16,140 million at December 31, 2000, and December 31, 1999, respectively.

The maturity distribution of investments denominated in foreign currencies that were allocated to the Bank at December 31, 2000, were as follows (in millions):

Maturities of Investments Denominated in Foreign Currencies	
Within 1 year	\$ 481
Over 1 year to 5 years	14
Over 5 years to 10 years	14
Over 10 years	4
Total	\$ 513

At December 31, 2000, and December 31, 1999, there were no open foreign exchange contracts or outstanding F/X swaps.

At December 31, 2000, and December 31, 1999, the warehousing facility was \$5,000 million, with no balance outstanding.

6. BANK PREMISES AND EQUIPMENT

A summary of bank premises and equipment at December 31 is as follows (in millions):

	2000	1999
Bank premises and equipment:		
Land	\$ 30	\$ 32
Buildings	114	116
Building machinery and equipment	24	26
Construction in progress	—	1
Furniture and equipment	79	80
	247	255
Accumulated depreciation	(79)	(77)
Bank premises and equipment, net	\$ 168	\$ 178

Depreciation expense was \$11 million for each of the years ended December 31, 2000, and December 31, 1999.

On June 30, 2000, the Houston office sold its building for \$4 million, net of costs of the sale of \$309,000, with a corresponding leaseback agreement allowing the Houston office use of the facility for up to five years while a new building is under construction. The sale is considered a sale-leaseback, with the lease classified as an operating lease. The sale resulted in a loss of \$2 million. Seventy-five percent of the sales price is financed with a promissory note due when the premises are vacated, but no sooner than four years from the date of purchase. The note, which contains no stated rate of interest, was discounted using the then current Treasury borrowing rate of 6.298 percent. The leaseback agreement stipulates that no rent is due during the lease term, with the Houston office responsible for property taxes and maintenance. Deferred rent expense of \$1 million was imputed using current rental rates for a comparable facility with similar stipulations.

7. COMMITMENTS AND CONTINGENCIES

At December 31, 2000, the Bank was obligated under noncancelable leases for premises and equipment with terms ranging from one to approximately five years. These leases provide for increased rentals based upon increases in real estate taxes, operating costs, or selected price indices.

Rental expense under operating leases for certain operating facilities, warehouses, and data processing and office equipment (including taxes, insurance, and maintenance when included in rent), net of sublease rentals, was \$699,000 and \$484,000 for the years ended December 31, 2000, and December 31, 1999, respectively. Certain of the Bank's leases have options to renew.

Future minimum rental payments under noncancelable operating leases and capital leases, net of sublease rentals, with terms of one year or more at December 31, 2000, were as follows (in thousands):

	Operating
2001	\$ 506
2002	506
2003	190
2004	109
2005	38
Total	\$ 1,349

At December 31, 2000, there were no other commitments and long-term obligations in excess of one year.

Under the Insurance Agreement of the Federal Reserve Banks dated March 2, 1999, each of the Reserve Banks has agreed to bear, on a per-incident basis, a pro rata share of losses in excess of 1 percent of the capital paid-in of the claiming Reserve Bank, up to 50 percent of the total capital paid-in of all Reserve Banks. Losses are borne in the ratio that a Reserve Bank's capital paid-in bears to the total capital paid-in of all Reserve Banks at the beginning of the calendar year in which the loss is shared. No claims were outstanding under such agreement at December 31, 2000, or December 31, 1999.

The Bank is involved in certain legal actions and claims arising in the ordinary course of business. Although it is difficult to predict the ultimate outcome of these actions, in management's opinion, based on discussions with counsel, the aforementioned litigation and claims will be resolved without material adverse effect on the financial position or results of operations of the Bank.

8. RETIREMENT AND THRIFT PLANS

Retirement Plans

The Bank currently offers two defined benefit retirement plans to its employees, based on length of service and level of compensation. Substantially all of the Bank's employees participate in the Retirement Plan for Employees of the Federal Reserve System ("System Plan") and the Benefit Equalization Retirement Plan ("BEP"). The System Plan is a multi-employer plan with contributions fully funded by participating employers. No separate accounting is maintained of assets contributed by the participating employers. The Bank's projected benefit obligation and net pension costs for the BEP at December 31, 2000, and December 31, 1999, and for the years then ended, are not material.

Thrift Plan

Employees of the Bank may also participate in the defined contribution Thrift Plan for Employees of the Federal Reserve System ("Thrift Plan"). The Bank's Thrift Plan contributions totaled \$3 million for each of the years ended December 31, 2000, and December 31, 1999, and are reported as a component of "Salaries and other benefits."

9. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS AND POSTEMPLOYMENT BENEFITS

Postretirement Benefits Other Than Pensions

In addition to the Bank's retirement plans, employees who have met certain age and length-of-service requirements are eligible for both medical benefits and life insurance coverage during retirement.

The Bank funds benefits payable under the medical and life insurance plans as due and, accordingly, has no plan assets. Net postretirement benefit costs are actuarially determined, using a January 1 measurement date.

Following is a reconciliation of beginning and ending balances of the benefit obligation (in millions):

	2000	1999
Accumulated postretirement benefit obligation at January 1	\$ 32.7	\$ 36.7
Service cost—benefits earned during the period	1.0	1.3
Interest cost of accumulated benefit obligation	2.3	2.2
Actuarial loss (gain)	0.1	(6.6)
Contributions by plan participants	0.3	0.3
Benefits paid	(1.5)	(1.2)
Accumulated postretirement benefit obligation at December 31	\$34.9	\$32.7

Following is a reconciliation of the beginning and ending balance of the plan assets, the unfunded postretirement benefit obligation, and the accrued postretirement benefit cost (in millions):

	2000	1999
Fair value of plan assets at January 1	\$ —	\$ —
Contributions by the employer	1.2	0.9
Contributions by plan participants	0.3	0.3
Benefits paid	(1.5)	(1.2)
Fair value of plan assets at December 31	\$ —	\$ —
Unfunded postretirement benefit obligation	\$ 34.9	\$ 32.7
Unrecognized prior service cost	14.4	15.5
Unrecognized net actuarial gain (loss)	(3.2)	(3.1)
Accrued postretirement benefit costs	\$46.1	\$45.1

Accrued postretirement benefit costs are reported as a component of "Accrued benefit costs."

At December 31, 2000, and December 31, 1999, the weighted-average assumption used in developing the postretirement benefit obligation was 7.5 percent.

For measurement purposes, an 8.75 percent annual rate of increase in the cost of covered health care benefits was assumed for 2001. Ultimately, the health care cost trend rate is expected to decrease gradually to 5.5 percent by 2008, and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A 1 percentage point change in assumed health care cost trend rates would have the following effects for the year ended December 31, 2000 (in millions):

	1 Percentage Point Increase	1 Percentage Point Decrease
Effect on aggregate of service and interest cost components of net periodic postretirement benefit costs	\$ 0.2	\$ (0.2)
Effect on accumulated postretirement benefit obligation	1.8	(1.7)

The following is a summary of the components of net periodic postretirement benefit costs for the years ended December 31 (in millions):

	2000	1999
Service cost—benefits earned during the period	\$ 1.0	\$ 1.3
Interest cost of accumulated benefit obligation	2.3	2.2
Amortization of prior service cost	(1.0)	(1.0)
Recognized net actuarial loss	—	0.3
Net periodic postretirement benefit costs	\$ 2.3	\$ 2.8

Net periodic postretirement benefit costs are reported as a component of "Salaries and other benefits."

Postemployment Benefits

The Bank offers benefits to former or inactive employees. Postemployment benefit costs are actuarially determined and include the cost of medical and dental insurance, survivor income, and disability benefits. Costs were projected using the same discount rate and health care trend rates as were used for projecting postretirement costs. The accrued postemployment benefit costs recognized by the Bank at December 31, 2000, and December 31, 1999, were \$6 million each year. This cost is included as a component of "Accrued benefit costs." Net periodic postemployment benefit costs included in 2000 and 1999 operating expenses were \$1 million each year.

Volume of Operations

(UNAUDITED)

	Number of Items Handled (Thousands)		Dollar Amount (Millions)	
	2000	1999	2000	1999
SERVICES TO DEPOSITORY INSTITUTIONS				
CASH SERVICES				
Federal Reserve notes processed	2,181,705	2,126,309	37,128	30,649
Currency received from circulation	2,327,013	1,958,586	38,054	60,357
Coin received from circulation	1,117,063	1,720,739	141	150
CHECK PROCESSING				
Commercial-processed	1,285,998	1,256,859	754,315	741,096
Commercial-fine sorted	112,186	143,445	37,657	47,638
U.S. government checks	22,795	23,533	21,400	22,834
ELECTRONIC PAYMENTS				
Automated Clearinghouse items originated	238,251	241,852	570,890	678,462
Funds transfers processed	13,050	12,346	15,524,004	14,623,121
Book-entry security transfers processed	84	96	1,791,126	1,845,114
LOANS				
Advances made	613*	92*	2,497	127
SERVICES TO THE U.S. TREASURY AND GOVERNMENT AGENCIES				
Issues and reinvestments of Treasury securities	39	11	1,575	736
Food coupons destroyed	293	2,691	1	14

*Individual loans, not in thousands.



ABOUT THE DALLAS FED

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.

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

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