White Cascade, by sculptor Alexander Calder, hangs in the Eastburn Court of the Federal Reserve Bank of Philadelphia. The 100-foot long mobile consists of 14 aluminum discs connected by stainless steel rods and rotates clockwise. The 10-ton artwork was installed in 1976, during construction of the building, which is located on Independence Mall in Center City Philadelphia.
At the Federal Reserve’s founding in 1913, Congressman Carter Glass said that the Federal Reserve System would be an “adventure in finance.” Definitions of adventure aside, the 20th century has been eventful for the Federal Reserve Bank of Philadelphia, and as the century approaches its close, we take a look back. Quotes in this report are drawn from annual reports published by the Philadelphia Fed over the past 85 years; after each, the original publication date appears in parentheses.
More than any other year in recent memory, 1999 caused us to contemplate the future and the past. Here at the Philadelphia Fed, we spent the year anticipating, and preparing for, the century date change. As we did, we reflected on our 85-year history.

The Federal Reserve System was our nation’s third attempt at establishing a central bank. Ironically, one of the secrets of its success is that it is a central bank that is not too centralized. The System is composed of 12 District banks and the Board of Governors in Washington, a structure that enables the Fed to incorporate regional sensibilities into System-wide policy discussions.

Over the decades, the Fed has become an integral participant in the American economy. The Federal Reserve helped organize the payments system, regulated financial institutions, and as it matured, executed monetary policy to support our national prosperity. In the Third Federal Reserve District, the Bank strove to stay current with changing economic conditions in the region and to help meet the financial needs of those who live and work here. This remains our challenge in the new century.

The new year also brings me to a pivotal point: In May I will step down as president of the Federal Reserve Bank of Philadelphia. I want to take this opportunity to thank those who have been indispensable to the Bank’s success over the last 19 years. Thanks to my colleagues here at the Philadelphia Fed, in Washington, and throughout the System. Thanks also to the financial, business, and civic communities, and to our ultimate customers, consumers throughout the Third District. Your efforts, advice, and support have made my tenure very rewarding.

I am pleased to report that midnight of December 31st passed quietly in the financial world. Computer systems performed well, records were retained and updated on schedule, cash was available, and the banking public remained confident that their funds were secure. Banks and their customers moved into the year 2000 virtually without a hitch, thanks to the excellent preparation of those at depository institutions and at the Fed.

Given the dire predictions of Y2K chaos that circulated early in the year, the banking community faced a dual challenge. First, bankers had to be certain that their institutions were ready for the rollover. Then they had to communicate to the public that the banking system would remain sound through the transition. Congratulations to all of you whose months of diligent work made the rollover uneventful. The results affirm the confidence demonstrated by the public in our nation’s financial system.

President

First Vice President
President Edward G. Boehne (left) and First Vice President William H. Stone at the Second Bank of the United States, Philadelphia.
THE CREATION OF THE FEDERAL RESERVE

The Nation’s Central Bank

The Federal Reserve is sometimes described as the “bankers’ bank,” or the “federal government’s bank,” phrases that underscore the Fed’s integral role in the U.S. economy and hint at the reasons behind its creation. As the nation’s central bank, the Federal Reserve System ensures the reliable flow of payments among banks, businesses, and individuals and provides banking services for the United States government. It also helps supervise and regulate the activities of commercial banks and bank holding companies. And the Fed is best known for its execution of monetary policy, using its control of bank cash reserves to influence the supply of money and availability of credit in the economy. All of these functions are directed toward a single goal: to promote a sound currency and foster sustained economic growth.

The need for a central bank was recognized long before the Federal Reserve was established in 1913; the concept had been tried – and had failed – twice. Both the First Bank of the United States (1791-1811) and the Second Bank of the United States (1816-1836) were created to give financial credibility to the young federal government and to avoid economic panics and depressions. Both were undone by states’ suspicion of ceding power to a centralized institution.

In the new central bank, this concern was resolved by balancing strong central authority with broad regional representation. Early in the 20th century, a compromise was crafted by President Woodrow Wilson, Congressman Carter Glass, and Senator Robert Owen. “The First and Second Banks...became extinct because they had serious flaws – their powers were overly concentrated, their locations too centralized, they were dominated by special interests, and they became snared in partisan politics...In contrast, the Federal Reserve System that was born on December 23, 1913 has a regional structure, all sorts of checks and balances, and a workable blend of public and private interests. In addition, it was carefully insulated from short-run politics.” (1988)

On November 14, 1914, the Federal Reserve opened for business. In the next 30 years, it would encounter two events that dramatically affected the history of the System and the nation: The Great Depression and World War II. These events radically altered Americans’ expectations of government and institutions. For the Fed, the depression and the war changed the ways in which the central bank carried out its mission, transforming it from a passive entity into one that initiated decisive action to ensure growth and stability for the economy.
The Federal Reserve, the nation’s third central bank, began operation in 1914. It consists of 12 District banks, each serving a specific geographic area, overseen by a Board of Governors in Washington, D.C. In Philadelphia, headquarters for the Third District, the Federal Reserve Bank was originally located at 406-408 Chestnut Street (above), near its predecessors, the First Bank of the United States and the Second Bank of the United States. Though the building no longer exists, all three locations are now part of Independence National Historical Park.
SERVING IN TIMES OF NATIONAL CRISIS

Facing the Depression

The depression that began with the stock market crash of 1929 was a watershed event in banking. Many financial institutions were swept away in the ensuing financial panic, hysteria swallowing well and poorly run institutions alike. “Excessive demands of frightened or disturbed depositors are difficult to control and may quickly result in the suspension of a bank... Under present conditions the closing of a bank by no means is proof of incompetent management.” (1931)

The Philadelphia Fed and other Federal Reserve Banks worked as regulators and consultants to help banks cope. “Nearly 2,000 visits were received from bank officers during 1931 and members of the bank relations department made 1,800 visits to banks of the district. These visits and the activities of the...
bank examination department...reflected the bankers’ desire for advice in the handling of situations which had arisen outside of their usual operation.” (1931)

Economic distress quickly spread far beyond the financial system. Fortunes evaporated, businesses failed, and unemployment soared. Americans’ faith in the economic system was shaken. “The intensity and, most of all, the duration of the Great Depression were shocking, especially to people who had allowed themselves to believe that a ‘new era’ of permanent prosperity had arrived...” (1949)

People looked to government for help, and after his inauguration in 1933, President Franklin D. Roosevelt acted swiftly: “...mere relief gave way to

Though methods have changed, most Fed functions have not. From the beginning, Federal Reserve services have included bond sales, provision of loans and currency, check clearance, funds transfer, bank examination, and economic research. From left: Bookkeeping and Currency Counting (1918); Two views of the Currency Department (1951); World War I Liberty Bond poster (1917).
When banks were ordered closed in March 1933, about 640 financial institutions were operating in the Third District. The Philadelphia Federal Reserve authorized the reopening of 547 by the end of the month and a total of 606 by year-end.

Positive action by Government to move the flywheel of the economic machine off dead center...It soon resorted to 'pump priming'...Most wanted security at the expense of the laissez-faire tradition.” (1949)

To restore public confidence in banks, President Roosevelt declared a nationwide bank holiday – mandatory closure – in March of 1933 to give banks and their nervous customers time to catch their breath. Institutions were required to receive Fed approval to reopen. To further reassure savers, deposits were guaranteed up to $2,500 by the newly established Federal Deposit Insurance Corporation.

Reserve Banks were important sources of capital during the depression, both providing funds for banks to lend and making direct loans to commercial and industrial applicants. In 1934, the Philadelphia Fed approved $6.3 million in direct loans.

The passage of the Banking Act of 1935 also laid the groundwork for the Fed’s future role in setting monetary policy. The act gave the Board of Governors the power to set reserve requirements for member banks and required that boards at Federal Reserve Banks meet every 14 days to reset the discount rate, the interest charged on loans to banks. Most important, the Banking Act established the Federal Open Market Committee. The FOMC, composed of the seven Fed Governors and five of the 12 Reserve Bank presidents, was to direct the use of the Fed’s most powerful monetary tool, open market operations. Buying and selling securities in the open market would enable the Fed to manage the flow of reserves to banks, thereby influencing banks’ capacity to supply money and credit to the economy.
The advance of technology…the proper role of government in the economy…the financial stability of the individual…and the astounding time in which they lived, these were all concerns of the people at the Federal Reserve Bank of Philadelphia in 1949. Their thoughts, recorded as the second half of the 20th century was about to start, echo ours, poised at the beginning of the 21st.

“The machine [computer] does not think; men have built into it an extremely limited degree of judgement…Its technical powers are huge, yet its capacities are completely limited by the ability of its operators…”

“While government’s intervention seems to have solved some pressing problems, it has created others…As each economic group seeks security or advantage through government support, and as government strives to maintain a high level of employment by bolstering the economy wherever weakness appears, the path of least resistance is likely to be continual concession and compensation. It is easier to make competing upward adjustments than to face squarely the need for choosing among alternatives…”

“Undoubtedly more people are concerned more about finance now than was the case in 1900. It is no longer ‘high finance’ carried on by a select few. Today more than two-thirds of the employed people pay a federal income tax; in 1920 the proportion was only one-twelfth. Over half the population owns life insurance, as against about one-tenth at the start of the century; about one-half owns United States Savings Bonds; and one-twelfth of the spending units holds corporate securities. These facts mean a wider participation and interest in the financial problems of government, business and consumers…”

“To those of us who have lived through this half-century…and have gradually absorbed its material offerings into everyday living, the nature of the advance that has been made since 1900 is seldom noticed as the spectacular thing it really was.”
Supporting the War Effort

In both World Wars, and again during hostilities in Korea, the Federal Reserve assisted with the sale of government bonds to raise funds in support of the nation’s armed forces. The Fed’s Fiscal Agency Department, which conducted the sale of bonds during World War II, expanded from 39 staff members to 586 within five months of the bombing of Pearl Harbor. At the time, there were more than 1,400 organizations authorized to sell bonds in the Third District, and the Fed used its role as bond liaison to broaden its relationships with banks and industries throughout the region.

During the First and Second World Wars, savings bond sales were considered the most important function of the banking system. Not only did they provide much-needed financing for defense and a way for workers to participate in the war effort, bonds also provided a place for investing rapidly rising income, income that could not be spent on scarce consumer goods.

Just as it had provided direct industrial loans in the aftermath of the depression, the Fed extended credit to firms involved in defense work. The bank also advised bankers and contractors on the allocation and funding of defense production. The Philadelphia Fed was particularly active: “The volume of credit extended by this Bank directly or in participation with other banks...to industries primarily engaged in war work has increased over 80 percent, more than one-half of such loans now outstanding in the [Federal Reserve] System having been made by this Bank.” (1941) For governmental agencies such as the War Production Board, the Philadelphia Fed’s Research and Statistics Department furnished much-needed data on employment, income, production, distribution, inventories, prices, and banking.

In 1941 Congress enacted wide-ranging legislation directed toward several wartime economic goals: transferring resources to defense industries, curbing inflation and profiteering, promoting civilian savings to finance defense spending, and limiting the debt taken on by consumers, so it would not dampen their spending when the war was over. To help enforce this legislation, the Fed issued Regulation W, which set the terms under which consumers received credit.

Throughout World War II, the Fed anticipated the return to a peacetime economy. “As many as eight million men and women may be released from the armed forces. Unfinished contracts...will probably amount to $60 billion. Immense quantities of Government property will have to be removed before private plants can prepare for peacetime operations...The job of reconversion which industry faces consists of two essential parts. The first and less difficult is the reshaping of physical facilities and the reestablishment of assembly lines for the production of civilian goods. The second and more difficult part...is merchandising – adapting products to the market.” (1943)
In both World Wars, bond sales raised monies to support the armed forces and gave civilians a patriotic vehicle for saving and investment. Above: Soldiers transport government payroll (1951).
The combined experiences of the Great Depression and World War II shifted people’s view of government and the central bank. Economists’ thinking about the proper function of these institutions changed as well. Now, government was expected to actively promote and sustain economic stability. The Fed was similarly charged. It was no longer enough simply to provide credit for commerce. The central bank should use its control over the supply of money and credit to help manage overall demand for goods and services, to help the economy avoid the extremes of boom and bust, enabling it to prosper. “At first, the principal goal of Federal Reserve policy was assuring a sufficiency of credit to meet the needs of business…Eventually attention shifted more toward regulating the quantity of credit in order to maintain stability. Along with this shift there developed a better idea of the various factors that influence reserves and how the volume of member bank reserves influences the money supply.” (1949)

Before the Fed could pursue this new activist role, one vestige of its wartime mission had to be eliminated. During the war, the Fed was responsible for maintaining a ready market for U.S. government securities at steady interest rates, a responsibility that prevented it from responding fully to inflationary threats in the postwar economy. In 1951, the U.S. Treasury agreed with the Fed to free the central bank of its obligation to stabilize the government securities market so that it could more effectively promote stability in the larger economy. This agreement made it possible for the Fed to conduct monetary policy as it is known today, a function that has become its best-known. “When flexible rates are permissible…Federal Reserve authorities are free to follow policies of expansion, contraction, or neutrality as the situation warrants.” (1952)

For the next decade, the Fed set its influence against prevailing economic winds, increasing supplies of money and credit when the economy slackened, trimming them when the

Record-high interest rates in 1981 created many challenges for the Federal Reserve, one of which was to keep up with savers’ demand for high-yielding Treasury securities.
economy flew a little too high. “Monetary policy is simply one way of holding demands down so that prices don’t go up. It restrains demands now [through tighter credit] so that they may be better satisfied later …General monetary controls are designed…to interfere as little as possible in the detailed workings of the economy — leaving it up to the market place to distribute this overall supply.” (1960)

By the late 1960s, it was clear that simple monetary policy prescriptions were not enough. Military spending for the Vietnam War and domestic spending for the Great Society spurred demand that triggered inflation. Federal wage and price controls failed to restore order. And when the subsequent Middle East oil embargo drove worldwide oil prices skyward, the rate of inflation followed. By the late 1970s, Americans felt the economy was tearing apart as inflation spiraled upward.

The Fed took decisive action, dramatically raising interest rates and reversing the inflationary spiral. The Fed’s action was necessary but painful, sending the economy into the deepest recession since World War II had ended. Meanwhile, dramatic changes in the financial sector signaled new challenges for the Federal Reserve as a bank regulator and payments provider.

### DISAPPEARING BANKS: A LONG-TERM PERSPECTIVE

Consolidation is not new to banking, a fact that’s easy to miss for those of us who have witnessed only the most recent wave. Of the banks in existence in 1980, 43 percent had merged by 1994, a total of 6,300. Consider the following statistics, first published in the 1963 Annual Report of the Federal Reserve Bank of Philadelphia:

In 37 of the 42 years between 1920 and 1962, the number of banks in the United States declined. In the 1920s, many banks failed, and many avoided failure by agreeing to be absorbed by more profitable institutions. From 1930 to 1933, 9,000 institutions suspended operations or were liquidated, 2,000 more were consolidated or absorbed. And between 1952 and 1961, there were 1,500 bank mergers.
Market innovation and new legislation have made the past 25 years a time of increasingly intense competition for banks. Bankers have reconfigured what they do and how they do it. They have restructured, rethought functions, staked out new territories, and offered nontraditional products. They have merged, consolidated, and expanded, completely changing the banking landscape. As a bank regulator, the Federal Reserve has had to keep pace in this rapidly evolving environment.

When mutual fund companies introduced the money market mutual fund in the late 1970s, consumers learned that banks need not be their sole provider of financial services. Profitable deposits were successfully siphoned away from traditional savings accounts and certificates of deposit. Banks responded with new products, such as interest-bearing checking accounts and money market deposit accounts, which were legalized by the Monetary Control Act of 1980. While banks struggled to hold off nontraditional competitors, state legislation intensified competition within the banking industry by opening borders to banks from other areas. In the Third District, Delaware encouraged the establishment of banks by out-of-state holding companies, leading to the addition of 12 new banking institutions in 1982 alone. Pennsylvania passed more liberal branching laws, smoothing the way for statewide competition. Faced with stronger and more numerous competitors, many banks merged to survive. Smaller institutions were acquired by larger ones, while some survivors pursued narrower market segments.

Throughout this period, the Fed was required to verify the soundness of then-unfamiliar financial practices, such as repurchase agreements, leveraged buyouts, and off-balance-sheet commitments. “Deregulation has had a direct impact both on the volume of our supervisory workload and its complexity. Following passage of Pennsylvania legislation that liberalized rules on holding companies and branching, the number of applications for mergers, acquisitions, and other purposes made to this Bank almost tripled.” (1984)

Increasing competition and accelerating innovation in banking boiled over into some excesses. In 1993, Congress responded with the FDIC Improvement Act, which legislated more frequent examinations for banks, deposit insurance premiums based on portfolio risk, and prompt corrective action to reduce failures. “The competitive pressures of the 1980s had pushed too many banks into unwise excesses and, ultimately, failure. By 1990, a crisis atmosphere had developed, putting banks and their regulators on the defensive. The turmoil in banking rippled out into the economy, deepening the recession and slowing the process of recovery…With loan portfolios shrinking, revenues declining, and the regulatory burden mounting, some questioned whether the banking industry could survive. But bankers went to work, making the necessary adjustments, and their efforts paid off.” (1993)

The forces that reshaped banking in the 1980s continue to push the industry toward consolida-
tion and product innovation. As the century came to a close, passage of the landmark Financial Modernization Act of 1999 guaranteed that more change and more challenges lay ahead for banks and for the Fed as a regulator. To accommodate the increasing geographic scope and functional complexity of financial institutions, Fed regulatory personnel continue to develop expertise in specialized content areas and share this knowledge throughout the Federal Reserve System.

Though the task of regulating banks is not as straightforward as it once was, the Federal Reserve’s approach remains the same: communicate and consult. It has been this way since the Bank’s early days. “The bank examination department is not only concerned with the verification of assets and liabilities of banks, it also stands ready and is constantly being called upon to render assistance in the improvement of methods and operating policies.” (1928)

The Fed has always preferred consultation to issuing directives. In 1946, the Philadelphia Fed introduced field conferences as a way of keeping in touch with bankers throughout the Third District. Initially a forum for the discussion of postwar business, banking, and credit, the meetings proved so popular that they became an annual event and continue to be an “off-the-record forum for frank exchange of information and views on...national business and credit trends, monetary policy, consumer credit, operating ratios, and bank personnel.” (1956) In the spring of 1999, the tradition continued with field meetings in 10 locations, from Haddonfield, NJ, to Dover, DE, to Williamsport, PA.

Once the primary source of information for Federal Reserve bank examiner, precise columns of numerals in ledgers have given way to complex calculations on computer spreadsheets. This evolution has demanded increasing technical and analytical skill on the part of Supervision and Regulation staff.
The Monetary Control Act of 1980, which made banks more competitive in the financial services marketplace, radically altered the position of the Fed in the marketplace as well. It transformed Reserve Banks into competitive providers of banking services. Prior to this, Reserve Banks had cleared checks and completed wire transfers free of charge and only for member institutions. When the Monetary Control Act mandated that the Fed offer services to any bank, thrift, or credit union at market prices, Reserve Banks were suddenly confronted with a host of new issues: how to keep current customers and attract new ones; how to market and price current products and develop new ones; and how to improve service and increase efficiency.

Like so many organizations, Reserve Banks met the challenge of a more competitive marketplace by drawing on its knowledge of and experience with its core businesses. The Fed had been established, fundamentally, to ensure the safe, reliable flow of funds among individuals, businesses, and banks. Since 1914, the Fed had supplied cash to banks, cleared checks, and transferred funds in ways that reflected evolving technology: by telegraph, telephone, and computer.

Early in its history, the Fed’s objective was to improve the efficiency of check payments. Float – dollars added to one account but not yet deducted from another – is a measure of payment inefficiency. “Before the establishment of the Federal Reserve System, many hundreds of millions of dollars of float were shown in the statements of the banks.”
Clearing checks has always been an important—labor-intensive—Fed function. As the volume of paper drafts increased, the Check Department relied on technology to process them more quickly and efficiently. Today, just a few people are needed to keep the 24-hour operation running smoothly.

Check clearing evolves: (top row, from left) 1918, 1940s, 1950s; (bottom row, from left) 1961 and two current views.
broader scale and the more widespread practice of sending checks, payable in other districts, directly to those districts.” (1928)

During the 1940s, the Fed’s check processing system proved valuable not only to the economy but to the war effort: “Should this central clearing of checks slow down, the tempo of business in war plants employing millions of war workers would be retarded…The department which handles this seemingly unimportant household detail has now been assigned the function of clearing ration checks, because it is recognized as an efficient, labor-saving organization.” (1942)

The ongoing emphasis on efficiency has led payments operations to become the most technologically advanced within the Federal Reserve. Manual operations prevailed into the 1940s, but soon gave way to punchcards read by tabulating machines. This equipment made it easier to process the Fed’s own payrolls and to keep a running total of securities being held for member institutions. In the 1930s, a weekend audit of securities held in the Federal Reserve vault typically kept 100 typists busy from Friday night until Sunday.

Late in the 1940s, check clearing became more streamlined with the arrival of machines to proof, endorse, sort, and list checks. Check collection and distribution, the responsibility of the Transportation Department, accelerated as horse-drawn wagons were replaced by automobiles and airplanes. The Philadelphia Fed, the first Federal Reserve Bank to set up its own transportation network, gradually expanded its coverage from Philadelphia’s near suburbs to cities at the edges of the Third District, collecting, clearing, and returning checks in ever shorter periods of time.

Computers arrived at the Philadelphia Fed in 1961, and by the end of the decade, payroll, deposit ledger, group clearings, and automatic cash letter charges were all computer-based functions. Automated Clearinghouse followed in 1974, reducing to just a few seconds the time it took to transfer millions between accounts.
Though the geographic dimensions of the Third District have not changed, technology has shrunk them by reducing the time it takes a check, a service request, or a person to get from here to there. Clockwise, from top: A new bank vehicle is put into service (1949); Collections Department (1950); Check transport takes to the air (1950).
The Philadelphia Fed was instrumental in the development of two computer-based Federal Reserve services: Treasury Direct and FedLine. Treasury Direct, the Federal Reserve’s computerized book-entry system for government securities, was developed by Philadelphia and the U.S. Treasury. It began operation in 1986. FedLine, the network that provides customers online access to all Fed services, was first tested in Philadelphia in 1987.

Despite the growing popularity of electronic funds, cash remains the most immediate and universal payment method, and it is cash that generates considerable conversation when its appearance changes. Witness the attention paid to the recently redesigned $100, $50, and $20 bills, and to the 1999 introduction of quarters representing each of the 50 states. This is nothing new. In 1929, the downsizing of currency was a topic of note. “The replacement of the old series, or large size paper money, kept certain departments of the bank busily engaged over a large part of 1929.” (1929)

Conversely, the 1969 withdrawal from circulation of $1,000, $5,000, and $10,000 notes slipped by almost unnoticed – perhaps because few people ever saw them anyway. At the time, the $10 bill was the most commonly used denomination.
ENSURING GROWTH AND STABILITY

The 1990s marked the longest period of uninterrupted economic growth in American history, an achievement supported by the Federal Reserve’s deft application of monetary policy. As Philadelphia Fed President Edward G. Boehne explained, “Monetary policy played a key role in helping to stimulate a durable expansion. Although a very accommodative monetary stance was appropriate to get the economy moving, a more neutral stance is essential to sustain growth. Lightening up on the monetary accelerator in a timely fashion is better than slamming on the brakes later.” (1993)

Though recent years have brought increasing acknowledgment of the Fed’s role in the expansion of the 1990s, the central bank’s most important contribution to it had come almost a decade earlier. In the early 1980s, the Fed laid the foundation for sustained prosperity when it took dramatic action to end runaway inflation. Bringing inflation under control ultimately yielded low interest rates and financial market stability, which created incentives to invest in new technologies and boost productivity.

The research function was added shortly after the founding of the Federal Reserve System “…for the purpose of collecting and interpreting such regional and national data as were not obtained by other agencies and for the assembling, in usable form, of other available information.” (1929)
The key to the Fed’s successful monetary policy is its focus on creating a financial environment that fosters sustained growth. That is a task that requires equal measures of economic art and science.

The Bank’s Research and Statistics Department brings academic discipline to Fed policy deliberations. The department conducts the monthly Business Outlook Survey, a widely recognized barometer of manufacturing in the Third District and the nation. Its bi-monthly Business Review and ongoing scholarly research projects apply theory to real-world situations.

The art of policymaking lies in the ability to discern the nuances of market behavior and to anticipate the impact of trends that elude statistical analysis. That art is crucial to good policymaking, and it comes to the Fed in a unique way through the boards of directors at Reserve Banks. Reserve Banks’ boards of directors represent not only banking, but business, industry, agriculture, labor, and community interests. As board members bring their experiences to bear on discount rate deliberations every two weeks, they infuse Fed thinking with realistic perspectives and fresh insights.

Over the years, the Philadelphia Fed has developed close relationships with many banking, business, and community leaders across the District whose contributions add significantly to the Fed’s ability to assess economic conditions and evaluate the need for policy action.

Anyone who witnessed the demise of the First Bank of the United States, and then the Second, two centuries ago would hardly have predicted the success of the Federal Reserve. The Fed has been an integral part of the 20th century and contributed to the financial stability and economic prosperity we experienced as the century drew to a close. What began as an adventure in finance has become an economic institution – a steadying influence on a system that has survived depression, exuberance, and everything in between.
The Federal Reserve Bank of Philadelphia has had three official addresses in its 85 years, all in Center City, all within a few blocks of each other. When it opened for business in 1914, the Fed was located at 406-408 Chestnut Street in an existing building that had taken just 10 days to prepare. When more room was needed, the bank leased space in two buildings nearby.

In 1918, the Philadelphia Fed moved into 925 Chestnut Street and over time acquired most of the block, which is why the location was commonly known as “10th and Chestnut.” The most notable feature of this structure, previously home to the Penn Mutual Insurance Company, was a vault suspended in thick glass, which made comings and goings completely visible from every angle, including the floor below.

Executive offices were housed in 925 Chestnut, which was the oldest building on the site and was originally known as the Horner Building. A wing was added in 1925 when a neighboring hotel was torn down. An adjacent structure, once home to the Producers and Consumers Bank, was purchased in 1925. Finally in 1932, the Fed purchased and demolished the Record Building, on the northeast corner of 10th and Chestnut. This became the
site of a new structure designed by Paul Cret, who had already designed the Benjamin Franklin Bridge, the Rodin Museum, and the Barnes Foundation Gallery. The new building opened in 1934; an addition was constructed in 1941. The garden, visible from Chestnut Street, was added in 1942, and two more floors were added in 1953.

Despite this expansion, the Fed had outgrown 10th and Chestnut by the 1970s and had dispatched employees to several other locations, including the Keystone AAA Building at 20th and Market, the Gimbel Building at 9th and Market, and the Public Ledger Building at 6th and Chestnut. Construction on the bank’s current home on Independence Mall, 6th and Arch Streets, began in 1971.

The Fed’s most recent move took place on July 10, 1976. Because the relocation involved the transfer of billions of dollars, the date and time of the move was a carefully guarded secret. At midnight, a caravan of armored trucks threaded along the five-block route, accompanied by 24 cars of Secret Service agents, with weapons drawn. Philadelphia police and Federal Reserve security guards lined the streets and watched from rooftops. A helicopter hovered overhead. Five hours later, without incident, the Fed was home again.
Pictured in the Board Room 1918: The first Philadelphia Board of Directors: (seated, from left) George W. F. Gaunt, Edwin S. Stuart, William H. Peck, George W. Norris; (standing, from left) Deputy Chairman George M. LaMonte, Chairman Richard L. Austin, Governor Charles J. Rhoads, Alba B. Johnson, and M. J. Murphy.

Pictured in the Board Room 1999: Philadelphia Fed Board Chairman Joan Carter (left) and Deputy Chairman Charisse R. Lillie. Ms. Carter is President & COO, UM Holdings Ltd., Haddonfield, NJ; Ms. Lillie is a partner at Ballard Spahr Andrews & Ingersoll, Philadelphia, PA.
Pictured in the vault area from left: Glenn A. Schaeffer, President, Pennsylvania Building and Construction Trades Council, Harrisburg, PA; David B. Lee, President & CEO, Omega Bank, National Association, State College, PA; and Robert D. Burris, President & CEO, Burris Foods, Inc., Milford, DE.

Pictured in the Eastburn Court from left: J. Richard Jones, President and CEO, Insignia/ESG Jackson-Cross, Philadelphia, PA; Rufus A. Fulton, Jr., Chairman, President and CEO, Fulton Financial Corporation, Lancaster, PA; and Howard E. Cosgrove, Chairman and CEO, Conectiv, Wilmington, DE.
In 1999, there was one promotion in our official staff. Howard M. James became Assistant Vice President in the Supervision, Regulation, and Credit Department.

**Officers**

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President

William H. Stone, Jr.  
First Vice President

Donald F. Doros  
Executive Vice President

William A. Bonifield, Jr.  
Senior Vice President and Manager Cash/Fiscal Product Office

Michael E. Collins  
Senior Vice President and Lending Officer

Richard W. Lang  
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Ronald B. Lankford  
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Gerard A. Callanan  
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Vice President and Economist

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Vice President and Associate Director of Research

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Linda K. Kirson  
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*Administrative Services Officer and Security Officer*

Alice J. Menzano  
*Assistant Vice President and Cash/Fiscal Product Officer*

Edward Morrison  
*Operations Officer*

Camille M. Ochman  
*Assistant Vice President*

A. Reed Raymond, III  
*Assistant Vice President and Examination Review Officer*

Patrick M. Regan  
*Assistant Vice President and Information Security Officer*

Richard A. Sheaffer  
*Assistant Vice President*

Ronald R. Sheldon  
*Assistant Vice President*

Stephen J. Smith  
*Assistant Counsel*

Marie Tkaczyk  
*Assistant Vice President*

Sharon N. Tomlinson  
*Assistant Vice President and Planning Officer and Assistant Secretary*

Richard A. Valente  
*Assistant General Auditor*

Elisabeth C. Videira-Dzeng  
*International Examinations Officer*

Bernard M. Wennemer  
*Assistant Vice President*

Anthony J. White  
*Financial Services Officer*

Michael P. Zamulinsky  
*Assistant Vice President*
Advisory Councils

Community Bank Council

Chairman
Jay M. Ford, President & CEO
Crest Savings Bank, SLA, Wildwood Crest, NJ

Deputy Chairman
Gerald A. Nau, President & CEO
Great Valley Savings Bank, Reading, PA

Theodore D. Bessler, President & CEO
Shore Community Bank, Toms River, NJ

Stephen C. Nelson, President & CEO
Artisans’ Bank, Wilmington, DE

Daniel L. Price, Sr., President & CEO
Century Savings Bank, Bridgeton, NJ

Theodore H. Reich, Chairman & President
Jersey Shore State Bank, Williamsport, PA

Thomas F. Robinson, President & CEO
Malvern Federal Savings Bank, Paoli, PA

Kenneth R. Shoemaker, President & CEO
Orrstown Bank, Shippensburg, PA

John R. Stranford, President & CEO
Third Federal Savings Bank, Newtown, PA

Thomas A. Vento, President & CEO
Prudential Savings Bank PASA, Philadelphia, PA

W. Jack Wallie, President & CEO
East Stroudsburg Savings Association, Stroudsburg, PA

Robert C. Wheeler, Chairman
Grange National Bank, Tunkhannock, PA

Credit Union Council

Chairman
William J. Lavage, President & CEO
Service First FCU, Danville, PA

Deputy Chairman
John D. Buchinski, President & CEO
Wheatland FCU, Lancaster, PA

Margaret B. Coan, Executive Vice President
K of C FCU, Philadelphia, PA

James E. Everhart, Jr., Manager
Louviers FCU, Newark, DE

Virginia M. Fifer, CEO & Manager
Atlantic City Electric Company Employees FCU, Mays Landing, NJ
Anthony R. Hinds, CEO
DPL FCU, Newark, DE

John P. Kebles, CEO
Choice One FCU, Wilkes-Barre, PA

David G. Keffer, CEO & Manager
Cornerstone FCU, Carlisle, PA

Paul J. Ladd, CEO & Manager
Garden State FCU, Moorestown, NJ

Lee T. MacMinn, President & CEO
Freedom Credit Union, Philadelphia, PA

Ignacio I. Morales, Manager
Borinquen FCU, Philadelphia, PA

Steven D. Schlundt, President & CEO
Atlantic City Firemen’s FCU, Northfield, NJ

Small Business & Agriculture Council

Chairman
Joan R. Henderson, President
J.R. Henderson & Associates, Lancaster, PA

Deputy Chairman
Thomas K. Leidy, President & Chairman
Leidy’s, Inc., Souderton, PA

Cary S. Borish, Co-President
Marathon Grill, Philadelphia, PA

Peter Bylone, Manager
Vineland Produce Auction, Vineland, NJ

Della L. Clark, President
The Enterprise Center, Philadelphia, PA

Dennis E. Duffy, President
Duffy, Dolcy & McManus, Absecon, NJ

Daniel R. Hawbaker, President
Glenn O. Hawbaker, Inc., State College, PA

Janis Herschkowitz, President & CEO
PRL, Inc., & Subsidiaries, Cornwall, PA

David C. Hileman, Owner
Hilecrest Farms, Tyrone, PA

Philip B. Mitman, Owner
Bixler’s Jewelers, Easton, PA

Jay Windsor, President
Lakeside Greenhouses, Inc., Laurel, DE
The trend toward electronic payments and consolidation in the banking industry produced some dramatic shifts in our business volumes in 1999. Because of the ongoing campaign to sign up recipients of U.S. government payments for direct deposit, the volume of government ACH payments we process continued to rise, and the number of government checks we process continued to decline.

The decline in food coupons reflects state governments’ shift from paper coupons to electronic debit cards as a means of distributing benefits. The sharp decline in our electronic book-entry transfers reflects a national pattern of bank mergers, consolidations, and interstate branching that is shifting volumes among Federal Reserve Districts.

Our gains in commercial checks processed and the decline in our commercial ACH payments processed are the result of bank consolidations and mergers in our District.

We began outsourcing some coin processing in 1998, and as a result, the volume of coin processed in the Bank continued to decline in 1999.

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<tbody>
<tr>
<td>Wire Transfer of Funds</td>
<td>7.7 million transfers</td>
<td>$22.7 trillion</td>
<td>7.9 million transfers</td>
<td>$23.2 trillion</td>
</tr>
<tr>
<td>ACH:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>245.2 million</td>
<td>$300.4 billion</td>
<td>220.2 million items</td>
<td>$269.7 billion</td>
</tr>
<tr>
<td>Commercial</td>
<td>109.3 million</td>
<td>$268.5 billion</td>
<td>136.4 million items</td>
<td>$391.1 billion</td>
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<tr>
<td>Check processing:</td>
<td></td>
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</tr>
<tr>
<td>U.S. Government</td>
<td>32.3 million</td>
<td>$33.7 billion</td>
<td>37.3 million checks</td>
<td>$38.2 billion</td>
</tr>
<tr>
<td>All other</td>
<td>1,124.4 million</td>
<td>$1,723.6 billion</td>
<td>909.5 million checks</td>
<td>$1,338.4 billion</td>
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<tr>
<td>Cash operations:</td>
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<tr>
<td>Currency processed</td>
<td>1,575.8 million</td>
<td>$30.1 billion</td>
<td>1,360.4 million notes</td>
<td>$21.4 billion</td>
</tr>
<tr>
<td>Coin processed</td>
<td>21.9 thousand bags</td>
<td>$10.3 million</td>
<td>55.1 thousand bags</td>
<td>$6.5 million</td>
</tr>
<tr>
<td>Loans to depository institutions</td>
<td>219</td>
<td>$365 million</td>
<td>212 loans</td>
<td>$314 million</td>
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</thead>
<tbody>
<tr>
<td>Electronic book-entry transfers</td>
<td>40,500</td>
<td>$241 million</td>
<td>1.5 million transfers</td>
<td>$19.9 trillion</td>
</tr>
<tr>
<td>Food coupons processed</td>
<td>18.6 million coupons</td>
<td>$99.0 million</td>
<td>91.6 million coupons</td>
<td>$484.3 million</td>
</tr>
</tbody>
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