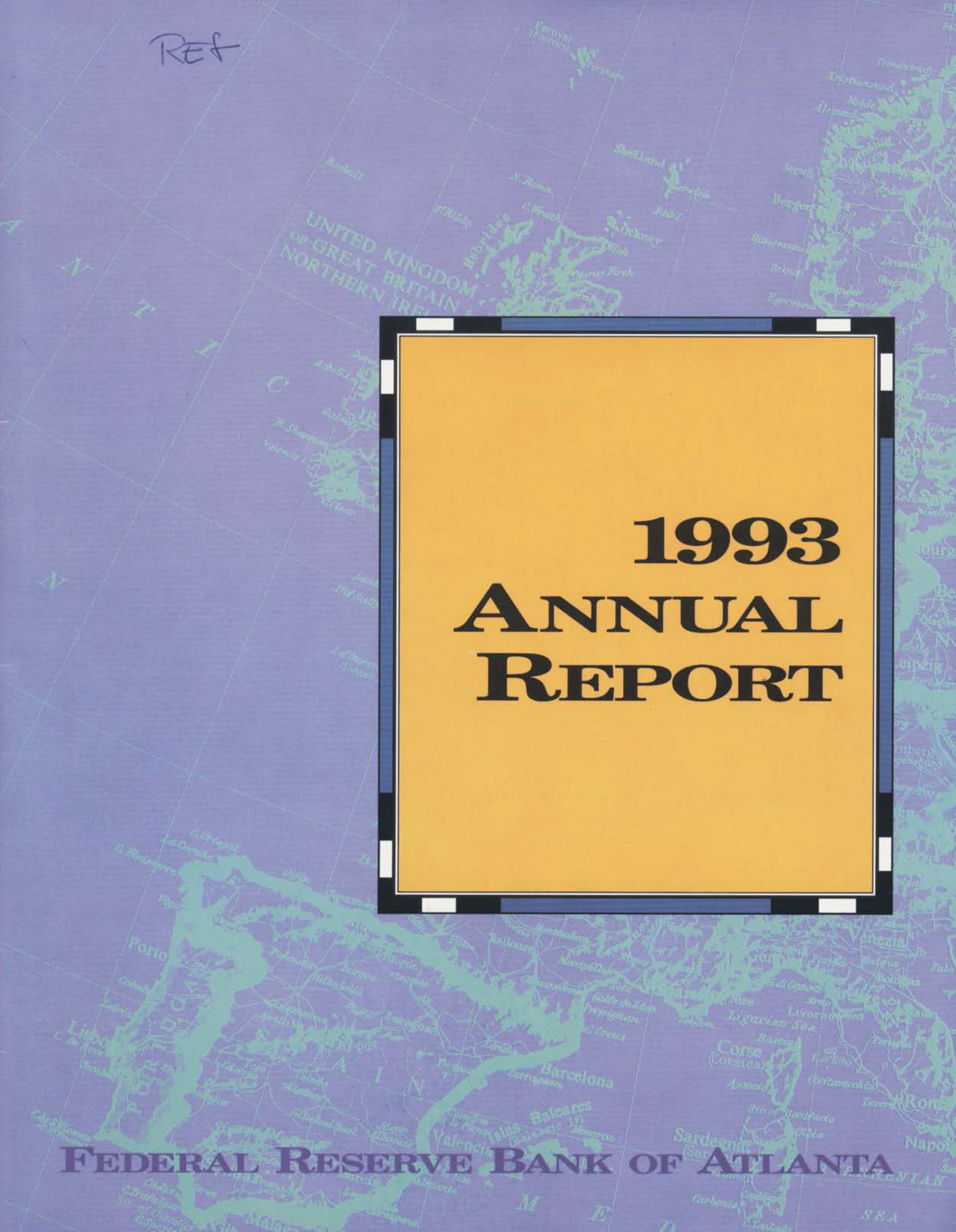

1993 Annual Report

Federal Reserve Bank of Atlanta

1993 ANNUAL REPORT

Contents

Message from the President 5

In Pursuit of Economic Well-Being:
The Ultimate Policy Goal in Search of a Measure 7

Sixth District Highlights 16

Directors 24

Officers 30

Financial Statements 34

Message from the President

The 1993 annual report of the Federal Reserve Bank of Atlanta features some of our accomplishments for the year along with the consolidated financial statements of the Atlanta, Birmingham, Jacksonville, Miami, Nashville, and New Orleans offices. The names of all directors and officers who served the Sixth District during the past year are listed as well.

In addition to the review of the year's developments, this report includes a discussion of measures of economic performance, particularly as they relate to the ultimate goal of economic policy—well-being. Output measures like gross domestic product and employment provide valuable information but do not tell the whole story. The essay reviews some of the recent attempts to bring measures of economic well-being more explicitly into the policy debate and explores the problem confronting policymakers who must attempt to shape policies that foster well-being in the absence of definitive measurements.

I would like to express my appreciation to all of the Sixth District's directors for their valuable counsel throughout the year. In particular, I want to acknowledge those directors whose service ended in 1993—Simpson Russell, who served on the head office board; Merle L. Graser and Hugh H. Jones, Jr., of the Jacksonville board; and James R. Tuerff, who was chairman of the Nashville board.

My special thanks go to outgoing Chairman of the Atlanta Board of Directors Edwin A. Huston, who served for two years in that position and two years as deputy chairman. I also wish to recognize E.B. Robinson, Jr., who ended his three-year tenure as a member of the Federal Advisory Council and who previously served six years as a head office director.

Robert P. Forrestal
President and Chief Executive Officer

In Pursuit of Economic Well-Being: The Ultimate Policy Goal In Search of a Measure

By Robert P. Forrestal

The year 1993 was a good one for many areas of the world, judging by several widely used measures of economic performance. In the United States gross domestic product (GDP) expanded by nearly 3 percent. The inflation rate, as measured by the consumer price index, declined from 3.1 percent in 1992 to 2.7 percent in 1993. Likewise, certain foreign economies, particularly those in Latin America, which only a few years ago had languished, enjoyed another year of healthy GDP growth while inflation remained much lower than had been the case in most of the 1980s. The Sixth Federal Reserve District, which encompasses Alabama, Georgia, Florida, and parts of Louisiana, Mississippi, and Tennessee, also had a good year, judging by employment statistics. Job growth outpaced that in the nation by a margin of 1 percentage point, with Georgia and Florida—the two largest states in terms of population—doing particularly well.

Because many policy objectives are specified in terms of output measures, economic policymakers often seem preoccupied with production data.

Despite this apparent good news on many fronts, there are other ways of looking at things—other standards of performance that can lead to different conclusions. Last August, for example, the U.S. government announced revised GDP figures for the period from 1990 to 1992. The new numbers showed that the economy grew more in 1990 and 1992 than previously reported and that the recession was not as deep in 1991. On the same day the government unveiled these figures, the results of a nationwide survey showed that consumer confidence stood at a low and depressed level.

Even now that U.S. economic growth seems quite strong, various troubling questions persist. Is this GDP growth enabling people to enjoy longer and healthier lives? Do individuals and families have time to enjoy the increased material goods they can purchase? In the Southeast, the good news about fast-growing states like Georgia is diminished by concerns about the persistence of poverty and the low levels of many quality-of-life indicators—statistics showing high infant mortality rates, poor achievement test results coupled with a higher-than-national-average percentage of high school dropouts, and the extensive degree to which state residents are dependent on government transfer payments as a source of income. In certain developing economies, such questions revolve around the environment. Is fast-paced growth resulting in significant pollution? Is industrialization being accompanied by such rapid urbanization that public health is actually deteriorating?

The statistics, particularly GDP and employment, that seem to embody good news right now are essentially output measures—that is, measures of what economies produce. Questions that raise other concerns about the meaning of such data center on the concept of well-being, or what economists term welfare. Because many policy objectives are specified in terms of output measures, economic policymakers such as legislators, central bankers, and state governors often seem preoccupied with production data. The Federal Reserve, for example, informs Congress twice a year of its forecasts for GDP, inflation, and employment as a means of ensuring that monetary policy is accountable to voters' elected representatives. State budgets are typically predicated on forecasts of overall economic activity for the coming year.

In fact the ultimate concern of policymakers is with well-being; economic policy's fundamental purpose is to improve social welfare.

Despite this seeming bias toward output measures, in fact the ultimate concern of policymakers is with well-being; economic policy's fundamental purpose is to improve social welfare. Well-being is an intrinsically subjective concept, however, and does not readily lend itself to measurement and aggregation. We remain dependent on the fact that the concepts of income and, by extension, output, are logically connected to well-being and that these types of data can provide insights beyond their literal significance. Income is related to welfare in the sense that the more income individuals (or societies) have, the greater their ability to purchase whatever makes them happy. In turn, output is related to income because the value of whatever is produced is equivalent to its purchase price, reflecting the income available to purchase it.

This understanding of how well-being, income, and output are related is helpful. It is also important that the measures of output we have available are good ones that have been developed over an extended period. For gauging overall economic output, we have progressed from depending on narrow indicators of banking and industrial activity to having today's comprehensive national income and products accounts. It is still not easy to measure income, but its conceptual linkage to output is well specified in an accounting sense.

As helpful as it is, this relationship between output, income, and well-being does not hold at every point in time, and even output measures are not perfect. Policymakers must nonetheless rely on the existing measures, incorporating their value while recognizing their limitations and pursuing improvements and alternative ways to approach the concept of well-being. This essay explores the problem of shaping policies that foster well-being in the absence of definitive measurements and reviews some recent attempts to bring measures of economic well-being more explicitly into the policy debate.

Output, Income, and Well-being

Economics as a discipline has traditionally recognized the importance of well-being and the difficulty of measuring it—either in individuals or society as a whole. At the individual level, economists know that preferences vary. Some people will be happiest spending $100 of income on tickets to a football game; others, on a classical music concert. At the regional level, Atlanta may enjoy much more rapid growth than the rest of Georgia, but that very fact may render life in a small South Georgia town preferable to those who value the pleasures of rural scenery, long-time neighbors, a short commute to and from work, and stability in general. Of course, differences in personal preferences can be dealt with at the conceptual level by assuming that two individuals will choose what makes them happiest given equal increases in income. This assumption justifies policy measures that are likely to enhance income and, in turn, output.

Over the long term there is a close correlation between output measures like GDP and others like employment and personal income. Indeed, in an accounting sense, national income equals a nation's total output of goods and services consumed domestically (that is, not by foreigners through exports). In turn, of course, as job growth creates the opportunity for higher incomes, people, on average, are in a better economic position to obtain the things that enhance their sense of well-being. What they obtain need not be solely material but can range from purely physiological needs like a better diet, roomier and safer living quarters, and nicer clothes to "higher" needs like a sense of community and opportunities for entertainment and intellectual stimulation that give a sense of self-esteem and self-actualization. However, as noted earlier, these relationships between output, income, and well-being do not always hold, especially in the short run.

For instance, following natural disasters, such as a hurricane or an earthquake, GDP usually expands because of the rebuilding needed. However, this GDP growth hardly captures the devastation wrought on the lives of those affected by the hurricane or earthquake. Statistics on wealth and the capital stock can gauge the extent of loss that has occurred in dollar terms. Even so, the psychic costs are immeasurable. It is ironic that efforts to restore individuals' sense of well-being to what it was earlier—through counseling and therapy, for instance—are recorded as increases in output measures.

Economics as a discipline has traditionally recognized the importance of well-being and the difficulty of measuring it—either in individuals or society as a whole.

Consider also that in the United States over the past twenty years, output has increased thanks in part to the fact that more people, particularly women, have been entering the labor force. In turn, two-wage-earner families have higher incomes and have been creating increased demand for services out of the home. These data tell only part of the story, however. One cannot infer from the increase in gross domestic output whether, for example, the second wage-earner began work outside the home out of choice or the necessity to support a family. Women who have entered the work force may have larger homes and more possessions but much less time to enjoy them. On the other hand, they may experience more freedom of action and a greater sense of self-fulfillment by participating in the workplace. Because of the myriad complexities and variables, it would simply be inaccurate to use GDP—or income and employment measures—as the basis for concluding that social well-being has been either harmed or enhanced as a result of this change in the participation of females in the labor force.

Moreover, this issue illustrates the fact that GDP has certain shortcomings as an output measure. For example, GDP does not assign any value to the work done (primarily) by women in the home—child-rearing, cleaning, cooking, and so forth. Only when these activities take place outside the home and are accompanied by formal transactions—fees for services—do they become part of GDP, yet these activities obviously have economic value.

Such criticisms of GDP need to be kept in perspective, however. As an output measure, GDP has the purpose of measuring overall economic activity, and it does so far more effectively than its predecessors. For example, before a precise formulation of GDP and other national income and product accounts was developed in the 1920s and 1930s, a widely used overall gauge of business activity was bank debits. This measure logged all bank withdrawals and because of, for example, double-counting, it was clearly a much less refined view of what was going on in an economy. Other measures focused on key sectors like freight car loadings and pig iron production, but these were much narrower in scope than today's standard output measures.

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Just how far we have come in effectively measuring overall economic activity can be seen if we compare GDP statistics in the United States and Europe with those in the former communist countries. These countries are simply not geared to observing market transactions; instead, statistical agencies are accustomed to tallying output of large state-run enterprises, which are shrinking in the wake of the move away from central planning to market reforms. The numerous exchanges between consumers and street vendors, small shopkeepers, and new businesses are often overlooked in official statistics because there is no appropriate record-keeping and collecting infrastructure in place. Thus, output measures in these economies will have serious downward biases until their components can be broadened and their implementation techniques improved.

New Welfare Measures

Just as the economics profession and policy-related organizations like the U.S. Commerce Department have improved output measures over the years, there have been efforts to relate the concepts of GDP and welfare in more refined ways. In the 1970s, James Tobin and William Nordhaus, for example, developed a measure of economic welfare that estimated a value for and then netted out of total output those expenditures—for example, pollution abatement spending and police protection—prompted by efforts to offset the adverse consequences of other activity. Firms that create pollution historically have not had to absorb the costs of dealing with its effects. Instead, these are passed on to other individuals and society as a whole. Some of these costs were never included in an explicit valuation; others were counted as part of GDP in such forms as increased medical expenditures or direct expenditures on abatement. The Tobin and Nordhaus measure, by taking such costs into account, was a step toward better gauging social welfare in relation to GDP.

Efforts to produce measures of well-being continue. Within the past few years, several international organizations—the United Nations, the World Bank, and the International Monetary Fund (IMF)—have developed and begun to use alternative approaches to evaluating economic development. In addition, the Inter-American Development Bank this year included in its annual report on economic and social progress in Latin America a special report on the availability of education, health care, and nutrition to men and women throughout society because such investments promote development in the long run while enhancing welfare in the present.

> ***Economists and policymakers are actively seeking better ways to measure well-being and to understand its relationship to income and output.***

The United Nations has created a "Human Development Index" that measures quality of life by focusing on life expectancy, educational standards, and individual purchasing power in various countries. The results sometimes create a different impression of an economy's performance than output data alone. According to the most recent index (published in May 1993), for example, a developing Central American country like Costa Rica ranks much higher in its human development score than in its total output per capita. Specifically, Costa Rica ranked 76th by total output per capita but 42d by human development. This ranking reflects the fact that the average Costa Rican lives longer, receives more education, and drinks cleaner water than residents of many other nations.

In recent years, the World Bank has also moved away from relying solely on growth in GDP per capita as a way to measure whether people are becoming better off. In fulfilling its charter to help developing nations achieve the level of industrialized nations, the World Bank has relied in the past on growth in aggregate output as its standard. It has now moved toward incorporating measurements of poverty, based on consumption and income, and social indicators that reflect access to basic health care and education, such as infant mortality and adult literacy, into its overall view of growth.

The IMF has also changed the way that it compares living standards among nations. One of the problems with international comparisons of economic performance arises from the fact that there is no single unit of value among different countries. A developing country may afford a higher living standard than would be indicated by simply "translating" a basket of goods in one economy into the prices of another. Vacuum cleaners and dishwashers might be quite expensive in a developing economy, but housekeeping services, extremely cheap. In the past, the IMF compared national incomes on the basis of the exchange value of currencies. Acknowledging the differences in the prices of specific goods and services, the IMF now compares national incomes according to purchasing power, bringing the focus more on comparisons of actual living standards from country to country.

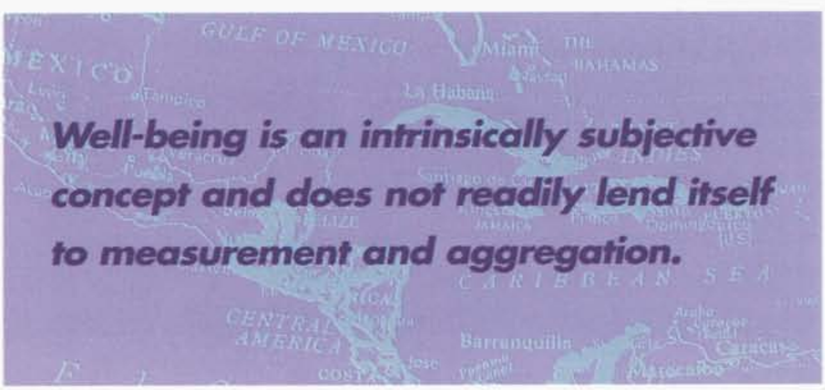
Several international organizations have developed and begun to use alternative approaches to evaluating economic development.

At the level of individual research, the new president of the American Economic Association, Amartya Sen, has developed an approach that uses, for example, mortality data to evaluate economic development in various nations. Sen concludes that measures of economic well-being such as the way nations handle famine, health care, sexual and racial inequality, and poverty are better gauges of economic development than output, income, or wealth and that more attention should be paid to the former type of indicators.

Assessing the New Measures

It is clear that economists and policymakers are actively seeking better ways to measure well-being and to understand its relationship to income and output. Many challenges remain, however. There are certainly technical questions that could be raised in regard to each of the institutional measures (questions beyond the scope of this discussion). At a more general level, a major concern is that there is no single or composite measure of welfare comparable to GDP for output. Indexes like those mentioned above and others have a basic weighting problem.

That problem becomes apparent in looking at another new index of well-being, the Index of Social Health, created by researchers at Fordham University. This measure attempts to reflect social well-being by considering such factors as drug abuse and the lack of affordable housing. According to this gauge, social well-being in the United States fell from around 70 in 1970 to about 36 in 1991. The problem facing policymakers in deciding how to react to such a report is that, while these are serious social problems that detract from the increasing prosperity the United States as a whole has enjoyed, just how serious they are deemed to be varies from individual to individual. As with other attempts to assess well-being, subjectivity becomes an issue. To achieve a single final number for the index, its creators must impose some standardization.



Well-being is an intrinsically subjective concept and does not readily lend itself to measurement and aggregation.

The same problem applies to the U.N. index or other numerical indicators like years of schooling or morbidity and mortality rates. Such measures may have some wide social consensus in developing economies but not necessarily in those that are advanced. Thinking just of the United States, it is clear that a high school education was once considered the basic necessity for effective participation in the work force, and the country could take pride in educating the majority of its citizens through this age level. Today, however, a high school diploma per se may be inadequate for obtaining the kind of job that would enable a person to own a home. Yet we do not know just how much or what kind of education is essential, and Americans would have a problem as a society agreeing on what constitutes a basic education. Likewise, we cannot all agree on standards for health care or cleanliness in the environment. What may be a luxury in a developing country may be deemed a necessity in an industrialized economy as the options available to larger numbers of people become much broader. This observation also shows that standards of well-being, even at the individual level, are not fixed but continually change.

Conclusion

Where does this discussion leave economists and policymakers? Clearly, it is encouraging that economists have advanced their work on measures of output, income, and others that define policy objectives. It is in the interest of policymakers to support the continuation of such attempts. At the Federal Reserve Bank of Atlanta, efforts have been made to refine our understanding of inflation, the savings rate, and consumer confidence. Welfare measures deserve resources too and are rightfully receiving increased attention. While such work goes on, policymakers must carry out their responsibilities on the basis of measures at hand. In this ongoing process, the work to date can help provide insights to those who make—and those who seek to understand and influence—policy decisions on the various ways of gauging an economy's performance.

This essay is based on ideas first presented in a speech delivered at the symposium on "Society and the University in the 21st Century" in Buenos Aires, Argentina, on October 19, 1993.

Sixth District Highlights

The Sixth District continues to be challenged by the tremendous changes that are reshaping the financial services industry. Bank merger and acquisition activity both inside and outside the District, the introduction of new technologies, and the advent of new payment system regulations particularly affected the provision of financial services in 1993. Despite these challenges, the District achieved 99.6 percent cost recovery for all priced services, falling only slightly short of its annual target of 100.5 percent.

Check Collection. To enhance existing services and to provide new products, the District embarked upon a two-year program to set up new check-processing hardware and software in all offices. New check-processing mainframe computers were installed in the Atlanta, Birmingham, and Jacksonville branches.

Financial Services

Birmingham and Jacksonville also began to use new software for check processing, payor bank service delivery, and check settlement and reconcilement. The District piloted a system that allows financial institutions to use Fedline terminals for sending electronic adjustments to the Federal Reserve in lieu of paper. In addition, two District offices tested an optical disk storage system that enhances the research and retrieval of adjustment information.

As a result of the District's efforts to promote electronic delivery of payor bank services, the number of customers for such services increased by 51 percent over 1992 levels. Approximately 17 percent of deposited volume was processed to provide MICR (magnetic ink character recognition) line information to paying banks. In late 1993 Sixth District offices introduced the new MICR presentment services price structure mandated for implementation by all Reserve Banks in January 1994.

In response to new collection options available in the marketplace and in anticipation of the Same Day Settlement (SDS) amendment to Regulation CC, to be implemented in January 1994, Sixth District offices developed and announced several new products that provide customers with more attractive pricing, later deadlines, and fewer sorting requirements. SDS will prompt financial institutions to evaluate the cost effectiveness of presenting items for collection through the Federal Reserve versus presenting them directly to the paying institution. Introducing several of the new services during the fourth quarter of 1993, ahead of the 1994 requirements, signaled the District's commitment to addressing financial institutions' needs. Most District offices also began offering ancillary services such as Canadian check collection, amount encoding, and return-item reclearing in

1993. Despite some volume losses associated with mergers and acquisitions and some financial institutions' increasing use of direct presentment in anticipation of SDS, the District's overall processed volume for 1993 was the same as in 1992.

Electronic Payments. By midyear the District achieved its goal of an all-electronic ACH, with 3,600 ACH participants receiving items electronically. The District implemented ACH processing schedules that allow more frequent deposits and deliveries throughout the day. In addition, the District consolidated all commercial ACH functions into the Atlanta office (for a projected annual cost savings of $750,000) while achieving healthy commercial year-over-year volume growth of 23.4 percent—the highest in the Federal Reserve System.

Both on-line and off-line funds transfer services, which had a volume growth of approximately 2.4 percent, were consolidated into the Atlanta office. All District branches implemented a significantly enhanced on-line net settlement service.

Securities Services. By the end of the year, the entire Federal Reserve System completed its formal withdrawal from priced definitive safekeeping services. The Sixth District will continue to maintain definitive safekeeping collateral accounts. The Jacksonville office, one of two consolidation sites for noncash processing in the System, had taken over noncash processing for all other Sixth District offices by August and for the remaining Districts, Dallas and St. Louis, by September.

Fiscal Services. For the Treasury Tax and Loan function, the District successfully implemented a "voice response" system that allows financial institutions to submit an advice of credit for federal tax deposits via telephone.

Cash Services. All District offices began using a cash inventory model developed through cooperation between the District's cash subcommittee and the research department. The model, customized for each branch, predicts cash requirements and helps determine the District's annual new-note order from the U.S. Treasury. In addition, the cash operations staff helped the five offices of the San Francisco District and the Philadelphia Reserve Bank install a minicomputer-based cash automation system developed by the Atlanta Bank.

Supervision and Regulation. The Sixth District constituency of state member banks remained stable at 118 institutions with $45.3 billion in assets. Top-tier bank holding companies under supervision totaled 656 with $253.2 billion in consolidated assets. The Reserve Bank's responsibility for international organizations included 108 institutions with total assets of $25.5 billion.

Passage of the Foreign Bank Supervision Enhancement Act (FBSEA) significantly broadened the Federal Reserve's direct responsibilities for supervising international banking. The act requires Federal Reserve approval for all applications by international banks to establish offices in

Supervision and Regulation

the United States. One criterion the Federal Reserve must verify is that the home country supervisor provides comprehensive supervision on a consolidated basis. This requirement has proved difficult to monitor, particularly in developing countries, thereby resulting in material delays in international application processing. FBSEA also requires annual examinations of U.S. offices of international banks. The Atlanta Fed entered into a formal agreement with the State of Florida for alternate examinations of that state's chartered international agencies; the Bank has had a similar, informal agreement with the State of Georgia for several years. These arrangements significantly reduce examination duplication for financially sound institutions.

Examination and monitoring procedures were updated to correspond with continued implementation of the Federal Deposit Insurance Corporation Improvement Act as well as to keep pace with changes in the banking industry such as the increased use of derivative financial instruments. Staff implemented new procedures, in response to changes in Regulation Y, for expanding the Bank's use of delegated authority in processing bank and bank holding company applications. Significant progress was made in training the recently expanded examination staff in the commercial bank, holding company, and consumer and community affairs areas. The department installed a new midrange computer to better meet its increasing automation needs.

Consumer and Community Affairs. A presidential mandate to reform the Community Reinvestment Act and the implementation of the Truth in Savings Act through Regulation DD brought new challenges to the consumer and community affairs staff. Examiners explored sophisticated new techniques for detecting unequal treatment during fair lending reviews of loan portfolios. Numerous educational programs and advisory services were offered to help bankers better implement consumer protection regulations. The staff continued to assist financial institutions in establishing community development corporations and consortia that promote safe and profitable lending activities in low- and moderate-income neighborhoods. The staff also conducted seminars on the Truth in Savings Act and highlighted credit access issues and innovative lending solutions through newsletters and workshops.

Discount and Credit. During 1993, Regulation A, Extensions of Credit by Federal Reserve Banks, was amended to implement Section 142 of the Federal Deposit Insurance Corporation Improvement Act, which places certain limitations on the availability of Federal Reserve credit for institutions in weak financial condition. These provisions became effective December 19, 1993. The discount function prepared for the completion of policy changes in the payments system risk program and implemented internal guidelines to better control risks associated with weakened depository financial institutions.

The discount rate remained unchanged at 3.0 percent in 1993.

Research. In 1993 the research department analyzed a broad range of policy-related issues. Staff members' efforts to bring research to bear directly on policy-making included proposals, conferences, and assistance to nations developing financial and monetary policy institutions.

One of the year's studies made strides in developing a dynamic model of the relationships between monetary and fiscal policies. Related research sought to separate specific economic impacts of monetary policy from other influences, an important step for analyzing the consequences of monetary policy actions.

Further innovative work considered potential monetary shocks to the economy. One analysis treated credit arising from payments system settlement practices as money and developed an innovative proposal for controlling payments system risk. A related study proposed a new analytic approach to measuring systemic payments system risk, and another traced the role of liquidity shocks in banking panics during the national banking era.

In the area of international economic policy issues, one study cast doubt on the long-run efficacy of widely adopted "incomplete" macroeconomic policy coordination agreements. An analysis that expanded a popular model of sovereign debt negotiations underlined possible reasons for the length and unpredictability of these talks. Additional research found that investment in education contributed significantly to long-term economic growth.

Staff economists conducted several studies on interest rates and inflation. One of these outlined the complexities of using the Treasury yield curve as an indicator of future inflation; another proposed a model for estimating bounds on the real rate of interest before actual inflation rates are known. Further research on the yield curve tested and generally rejected a recently developed yield curve model.

The role of regulatory intervention in troubled financial institutions was central to much of the staff's analysis. In a series of studies, the staff helped develop a model that yielded an optimal intervention strategy for troubled banks in which ownership and management are separately motivated, proposed an intervention strategy under the provisions of the Federal Deposit Insurance Corporation Improvement Act, and analyzed determinants of savings and loan failure during the early 1980s. In addition, one study pointed out the flaws in a short-cut method of measuring interest rate risk and proposed a convenient, more effective alternative while another analyzed the influence of fixed costs in banks' economies of scale. More general financial research explored the information content of asset prices and the process through which expectations are formed.

Bringing together academic experts and policymakers to discuss the policy relevance of recent research, the department organized conferences on macroeconomics, financial derivatives, and, with the public affairs department, southeastern state fiscal issues. In addition, staff economists served as advisors on financial and monetary institutions in nations in Eastern Europe and the Far East.

Public Affairs. As the economy decelerated in early 1993, Congress scrutinized the Federal Reserve System's approach to monetary policy more closely. All twelve Reserve Bank Presidents gave testimony before the Senate Committee on Banking, Housing, and Urban Affairs early in the year, discussing economic conditions in their districts and commenting on the direction of monetary policy.

In addition to being involved in preparing for this testimony, public affairs staff continued their efforts to help the public, the media, and educators better understand the Fed's role in the economy. Specifically, the department held a teacher workshop called "The Fed: More than Just the Basics" for high school teachers in Georgia and Alabama.

Research

Efforts focused on international issues included publicizing the Bank president's views on the North American Free Trade Agreement. In addition, the department, working with the National Association of Business Economists, organized a conference in Miami on innovations in financing trade and investment in the burgeoning market economies of Central and South America. The department also arranged meetings throughout the Bank for more than thirty international delegations representing mainly central banks and commercial banks in such countries as Japan and Russia.

To aid in the current debate about the benefits and risks of new financial instruments and whether there is a need to regulate them, the public affairs department, together with the research department, produced a book of readings on financial derivatives. This reader brings together the numerous articles written in recent years by Atlanta Fed research economists about these complex and increasingly popular financial instruments.

As part of the Bank's ongoing efforts to disseminate information and research that can help strengthen the regional economy, the public affairs department organized a conference on the topic of "Financing Government in the Southeastern States." Cosponsored by the research and public affairs departments and Georgia State University's Policy Research Center, this fiscal capacity conference gained the attention of state lawmakers and citizen groups—a relatively new audience for the Atlanta Fed. The department also built an extensive data base of individuals involved in various ways with economic development throughout the region in order to develop a fruitful interchange of information and services.

Statistical Reports. The statistical reports department produced and distributed a videotape providing answers to the questions most frequently asked by respondents filing Home Mortgage Disclosure Act reports. The staff also conducted training sessions in Atlanta and Birmingham on procedures for filing the "Report of Transaction Accounts, Other Deposits, and Vault Cash," presented a seminar in Atlanta on reports prepared by agencies of foreign banks, and initiated a series of monthly staff training workshops on the uses of statistical reports data.

Department staff headed a System project to study the implications of interstate banking for data collection and analysis. Staff members were also involved in organizing and conducting the System's training programs keyed to various reports filed by depository institutions and in laying the groundwork for a revised version of standard processing software.

Reporting began on a new series collecting data on the condition of offshore branches managed by U.S.-based offices of foreign banks.

Automation Initiatives. In 1993 the District's automation resources were focused on the transfer of IBM mainframe computer processing from Atlanta to three Federal Reserve consolidated processing sites. Funds transfer and bookentry securities processing were successfully moved to Richmond in April, and remaining IBM mainframe applications processing was moved there in December. Also, nationwide processing of daylight overdraft reporting and pricing was centralized at the East Rutherford, New Jersey, site in May. With fully redundant backup processing capabilities available at the Dallas consolidated site, the District's electronic payment services will now be even more reliable.

As part of a multiyear national project, the Sixth District completed initial planning and site preparations for the installation of a high-speed, high-reliability communications network called Fednet to support automation consolidation and to allow for future growth in electronic payment services.

The Cryptographic Development and Support Project, under Sixth District leadership, assisted the Federal Reserve's Automation Consolidation Project by developing security procedures and automated processes for the transition of encryption support to the System's consolidation sites. A system was installed at the East Rutherford consolidation center that will enhance the management of encryption keys between consolidation sites and depository institution terminal devices.

Software Development Projects. Programming staff in Atlanta completed development of new software for the Federal Reserve's expense accounting system, known as PACS (Planning and Control System). The new PACS system is the Federal Reserve's first major client/server application to operate on multiple platforms (PC and mainframe). It will be implemented at one of the System's new consolidated data-processing sites and eventually will be used by most Federal Reserve Banks.

The Atlanta Fed also completed development of the new centralized billing (accounts receivable) system. The application will be implemented at one of the System's consolidated sites and will process work for all twelve Reserve Banks beginning in early 1994.

Atlanta has continued the development, maintenance, and support of the PC-based Fedline customer interface product, which provides financial institutions access to Federal Reserve electronic payment and information services. The District has also been instrumental in defining the next generation of Fedline, which will offer support of advanced operating platforms, new services, and enhanced operational features.

Programming staff in Atlanta continued to develop and support a system that provides full automation to the District's six cash services departments. Offices in the Philadelphia and San Francisco Districts have also begun using this system. Atlanta staff designed and developed a materials-handling interface to connect a mechanical, automated vault operation to the core cash automation software.

Payments System Risk Initiatives. Software releases for accounting, funds, securities, and Treasury Tax and Loan items were implemented to support revised procedures for measuring the amount of overdrafts in reserve and clearing accounts during the day. These changes, which were approved by the Board of Governors in September 1992 and became effective in October 1993, were implemented to mitigate the risk daylight overdrafts pose to the Federal Reserve and the payments system. A new software system for monitoring and reporting daylight overdraft activity was also tested and installed. Reserve Bank staff conducted seminars throughout the District to help financial institutions understand the new measurement procedures and to explain the pricing of daylight overdrafts that will take effect in April 1994.

Corporate Services

Facilities Management. The accounting, control, legal, public affairs, and research departments, part of the systems department, and the check adjustments unit moved into the 96,800 square feet of space leased in the Equitable Building, freeing space in the main building to permit renovation of its tightly constrained operations during 1994.

Human Resources. In October all District offices implemented a new job evaluation program that revalued and assigned new salary grades and ranges to all nonofficer jobs. The project, which involved more than two years of staff work and was assisted by an outside consultant, resulted in new job descriptions, an automated job evaluation system, and a new salary structure based on market pay practices. The new program enables the Bank to better respond to changing market factors and ensures that Bank jobs are assigned appropriate value as the business environment changes.

In January 1993, in an effort to help contain increasing costs, the Bank implemented a new managed care medical benefit to replace the traditional fee-for-service indemnity plan. The Bank continued to sponsor seven HMOs throughout the District.

A District group reviewed the Bank's current leave policies and administrative procedures to ensure compliance with the new Family and Medical Leave Act of 1993 (FMLA), which took effect in August. Information concerning the FMLA was distributed to all staff members.

Employees in all District offices were counseled about revised policies regarding sexual harassment and related issues of employee relationships and employee responsibilities. Employee relations counselors were established at each office to supplement normal channels of communication for problem resolution.

To support District employees whose jobs were affected by automation consolidation, human resources staff offered programs including career assessment and transition planning.

Auditing

The auditing department used one of the "big six" accounting firms to satisfy the "Audit Standards for Federal Reserve Banks" requirement for periodic quality assurance reviews, marking the first time an outside firm has reviewed Sixth District auditing. The review evaluated compliance with the standards and included several special-interest topics such as cost effectiveness of internal audit administration, management, and processes; audit coverage of the Bank's automation consolidation activities; and appropriateness of staff levels, qualifications, and training. The outside firm's report stated that the department was in full compliance with the standards and made several suggestions for consideration related to the requested special interest topics.

Auditing was heavily involved in the automation consolidation project, both in assisting with the review of environmental software at the consolidated sites and in monitoring and testing Atlanta systems throughout the transition. Department staff also monitored the controls on the production system in Atlanta prior to the move and reviewed the management of the project.

Atlanta continued to serve as the site for the System Center for Auditor Development (SCAD), which develops Fed-specific training programs for all auditors throughout the System. The department was in charge of a Systemwide audit of check collection float activity. The General Auditor was an active member of the System's Conference of General Auditors and the Committee on Audit Support Activities, and other District audit staff members served on several System committees and subcommittees dealing with various audit functions.

A number of prominent individuals discussed important domestic and international financial industry and economic concerns as part of the Bank's

1993 Distinguished Speakers Series. Speakers included Federal Reserve Chairman Alan Greenspan; Federal Reserve Governors Edward Kelley, John LaWare, and Wayne Angell; former White House Soviet specialist Condoleezza Rice; Scott E. Pardee, Chairman of Yamaichi International America, Inc.; A.W. Clausen, retired chairman, BankAmerica Corporation; David D. Hale, senior vice president and chief economist, Kemper Financial Companies; and John G. Medlin, Jr., chairman and chief executive officer, Wachovia Corp.

German Ambassador Immo Stabreit and Peter G. Rogge, Senior Vice President and Head of Economics and Corporate Systems for Swiss Bank Corporation, spoke to audiences of Atlanta business, academic, and community leaders. University of Florida president John Lombardi spoke at a joint meeting of the Sixth District's head office and branch directors.

The Advisory Council on Small Business, Agriculture, and Labor met twice with President Forrestal and Atlanta Fed staff to exchange views on business and credit conditions in the region. President Forrestal also met twice with the Financial Institutions Advisory Committee, which represents commercial banks, thrifts, and credit unions, to discuss issues of interest to financial institutions.

Secretary's Office

In conjunction with his monetary policy responsibilities, President Forrestal also met periodically with leaders representing business, academic, financial, consumer, labor, and other community interests throughout the District to discuss current economic and policy-related issues.

The Sixth District's Congressional Liaison program was reactivated in 1993, focusing on those who serve on the U.S. Senate and House Banking Committees. Participants included Georgia Representative John Linder, Alabama Representative Spencer Bachus, and Florida Representatives Jim Bacchus and Bill McCollum. Each toured the District branch nearest his congressional district and met with the branch's board of directors as well as business, financial, and other community leaders.

Board of Directors

Edwin A. Huston
Chairman
Senior Executive Vice President–Finance
Ryder System, Inc.
Miami, Florida

Leo Benatar
Deputy Chairman
Chairman and President
Engraph, Inc.
Atlanta, Georgia

Hugh M. Brown
President and Chief Executive Officer
BAMSI, Inc.
Titusville, Florida

J. Thomas Holton
President
Sherman International Corp.
Birmingham, Alabama

Victoria B. Jackson
President and Chief Executive Officer
DSS/ProDiesel, Inc.
Nashville, Tennessee

André M. Rubenstein
Chairman and Chief Executive Officer
Rubenstein Brothers, Inc.
New Orleans, Louisiana

Simpson Russell
Chairman and President
The First National Bank of Florence
Florence, Alabama

W.H. Swain
Chairman
First National Bank
Oneida, Tennessee

James B. Williams
Chairman and Chief Executive Officer
SunTrust Banks, Inc.
Atlanta, Georgia

Federal Advisory Council Member

E.B. Robinson, Jr.
Chairman and Chief Executive Officer
Deposit Guaranty National Bank
Jackson, Mississippi

Atlanta Directors, from left to right: (standing) Simpson Russell, W.H. Swain, Edwin A. Huston (Chairman), J. Thomas Holton, James B. Williams; (seated) Victoria B. Jackson, André M. Rubenstein. Not pictured: Leo Benatar (Deputy Chairman) and Hugh M. Brown.

Branch Directors

Birmingham

Donald E. Boomershine
Chairman
President
Better Business Bureau of
Central Alabama, Inc.
Birmingham, Alabama

S. Eugene Allred
Chairman, President, and
Chief Executive Officer
Frit Incorporated
Ozark, Alabama

Julian W. Banton
Chairman, President and
Chief Executive Officer
SouthTrust Bank of Alabama, N.A.
Birmingham, Alabama

Patricia B. Compton
President
Patco, Inc.
Georgiana, Alabama

Marlin D. Moore, Jr.
Chairman
Pritchett-Moore, Inc.
Tuscaloosa, Alabama

J. Stephen Nelson
Chairman and Chief Executive Officer
First National Bank of Brewton
Brewton, Alabama

Columbus Sanders
President
Consolidated Industries, Inc.
Huntsville, Alabama

Birmingham Directors, from left to right: (standing) S. Eugene Allred, Patricia B. Compton, Marlin D. Moore, Jr., J. Stephen Nelson; (seated) Julian W. Banton, Donald E. Boomershine (Chairman), Columbus Sanders.

JACKSONVILLE

JOAN D. RUFFIER
CHAIRMAN
General Partner
Sunshine Cafes
Orlando, Florida

PERRY M. DAWSON
President and Chief Executive Officer
Suncoast Schools Federal Credit Union
Tampa, Florida

MERLE L. GRASER
Vice Chairman
SunBank/Gulf Coast
Venice, Florida

ARNOLD A. HEGGESTAD
William H. Dial Professor of
Banking and Finance
College of Business Administration
University of Florida
Gainesville, Florida

HUGH H. JONES, JR.
Chairman
Barnett Bank of Jacksonville, N.A.
Jacksonville, Florida

LANA JANE LEWIS-BRENT
President
Paul Brent Designer, Inc.
Panama City, Florida

SAMUEL H. VICKERS
Chairman, President, and
Chief Executive Officer
Design Containers, Inc.
Jacksonville, Florida

Jacksonville Directors, from left to right: (standing) Hugh H. Jones, Jr., Samuel H. Vickers, Lana Jane Lewis-Brent, Merle L. Graser, Arnold A. Heggestad; (seated) Perry M. Dawson, Joan D. Ruffier (Chairman).

MIAMI

R. KIRK LANDON
CHAIRMAN
Chairman and Chief Executive Officer
American Bankers Insurance Group
Miami, Florida

ROBERTO G. BLANCO
Vice Chairman and Chief Financial Officer
Republic National Bank of Miami
Miami, Florida

E. ANTHONY NEWTON
President and Chief Executive Officer
Island National Bank and Trust Company
Palm Beach, Florida

STEVEN C. SHIMP
President
O-A-K/Florida, Inc.
Fort Myers, Florida

PAT L. TORNILLO, JR.
Executive Vice President
United Teachers of Dade
Miami, Florida

DOROTHY C. WEAVER
President
Intercap Investments, Inc.
Coral Gables, Florida

MICHAEL T. WILSON
President
Vinegar Bend Farms, Inc.
Belle Glade, Florida

Miami Directors, from left to right: (standing) Michael T. Wilson, Dorothy C. Weaver, Roberto G. Blanco, Steven C. Shimp; (seated) R. Kirk Landon (Chairman). Not pictured: E. Anthony Newton and Pat L. Tornillo, Jr.

Nashville

James R. Tuerff
Chairman
President
American General Corporation
Nashville, Tennessee

Williams E. Arant, Jr.
President and Chief Executive Officer
First National Bank of Knoxville
Knoxville, Tennessee

Harold A. Black
James F. Smith, Jr., Professor
of Financial Institutions
College of Business Administration
University of Tennessee
Knoxville, Tennessee

James D. Harris
President and Chief Executive Officer
Brentwood National Bank
Brentwood, Tennessee

William Baxter Lee III
Chairman and President
Southeast Services Corporation
Knoxville, Tennessee

Paula Lovell
President
Lovell Communications, Inc.
Nashville, Tennessee

Marguerite W. Sallee
President and Chief Executive Officer
Corporate Child Care
Management Services
Nashville, Tennessee

Nashville Directors, from left to right: (standing) James D. Harris, William Baxter Lee III, Harold A. Black, Williams E. Arant, Jr.; (seated) Marguerite W. Sallee, James R. Tuerff (Chairman), Paula Lovell.

NEW ORLEANS

LUCIMARIAN T. ROBERTS
CHAIRMAN
President
Mississippi Coast Coliseum Commission
Pass Christian, Mississippi

VICTOR BUSSIE
President
Louisiana AFL-CIO
Baton Rouge, Louisiana

ANGUS R. COOPER II
Chairman and Chief Executive Officer
Cooper/T. Smith Corporation
Mobile, Alabama

HOWARD C. GAINES
Chairman and Chief Executive Officer
First National Bank of Commerce
New Orleans, Louisiana

KAY L. NELSON
Managing Director
Nelson Capital Corporation
New Orleans, Louisiana

JO ANN SLAYDON
President
Slaydon Consultants and
Insight Productions and Advertising
Baton Rouge, Louisiana

THOMAS E. WALKER
President and Chief Executive Officer
Bank of Forest
Forest, Mississippi

New Orleans Directors, from left to right: (standing) Kay L. Nelson, Victor Bussie, Howard C. Gaines, Jo Ann Slaydon; (seated) Thomas E. Walker, Lucimarian T. Roberts (Chairman). Not pictured: Angus R. Cooper II.

CORPORATE OFFICERS

ROBERT P. FORRESTAL
President and Chief Executive Officer

JACK GUYNN*
First Vice President and
Chief Operating Officer

W. RONNIE CALDWELL*
Executive Vice President

SENIOR VICE PRESIDENTS

RICHARD R. OLIVER*
Senior Vice President

H. TERRY SMITH*
Senior Vice President

SHEILA L. TSCHINKEL*
Senior Vice President and
Director of Research

JOHN M. WALLACE**
Senior Vice President and
General Auditor

EDMUND WILLINGHAM
Senior Vice President and
General Counsel

* Management Committee
** Advisor to Management Committee

Management Committee Members, from left to right: (standing) Frederick R. Herr, Jack Guynn, Robert P. Forrestal, W. Ronnie Caldwell, John M. Wallace; (seated) James D. Hawkins, H. Terry Smith, Sheila L. Tschinkel, Richard R. Oliver.

Vice Presidents

Lois C. Berthaume
Vice President

Christopher G. Brown
Vice President

Francis J. Craven, Jr.
Vice President and
Director of Human Resources

Anne M. DeBeer
Vice President

William B. Estes III
Vice President

William C. Hunter
Vice President

Zane R. Kelley
Vice President

John R. Kerr
Vice President

B. Frank King
Vice President and
Associate Director of Research

Bobbie H. McCrackin
Vice President and Public Affairs Officer

James M. McKee
Vice President

John D. Pelick
Vice President

Mary S. Rosenbaum
Vice President

Ronald N. Zimmerman
Vice President

Assistant Vice Presidents

John H. Atkinson
Assistant Vice President

John R. Branscomb
Assistant Vice President

David F. Carr
Assistant Vice President

Thomas J. Cunningham
Research Officer

Chapelle D. Davis
Assistant Vice President

Steven J. Foley
Assistant Vice President

Jayne Fox-Bryan
Assistant Vice President and
Corporate Secretary

Cynthia C. Goodwin
Assistant Vice President

William R. Herbert
Assistant Vice President

Susan Hoy
Assistant General Counsel

Albert E. Martin III
Assistant General Counsel

Amelia A. Murphy
Assistant Vice President

Alvin L. Pilkinton, Jr.
Assistant General Auditor

Ted G. Reddy III
Assistant Vice President

Marion P. Rivers III
Assistant Vice President

William T. Roberds
Research Officer

Ronald J. Robinson
Assistant Vice President

Melinda J. Rushing
Assistant Vice President

Larry J. Schulz
Assistant Vice President

Robert T. Sexton
Assistant Vice President

Larry D. Wall
Research Officer

Jessie T. Watson
Assistant Vice President

Adrienne M. Wells
Assistant Vice President

Kian Kian Wong
Assistant Vice President

Branch Officers

Atlanta

Donald E. Nelson
Senior Vice President and
Branch Manager

William H. Smelt
Assistant Vice President and
Assistant Branch Manager

James L. Brown
Assistant Vice President

Robert A. Love
Assistant Vice President

Robert I. McKenzie
Assistant Vice President

William R. Powell
Assistant Vice President

Birmingham

Frederick R. Herr*
Senior Vice President and
Coordinating Branch Manager

Robert G. Dole
Assistant Vice President and
Assistant Branch Manager

Andre T. Anderson
Assistant Vice President

Frederic L. Fullerton
Assistant Vice President

Charles W. Prime
Assistant Vice President

Jacksonville

James D. Hawkins*
Senior Vice President and
Coordinating Branch Manager

Robert J. Slack
Assistant Vice President and
Assistant Branch Manager

Daniel A. Maslaney
Assistant Vice President

Jeffrey L. Weltzien
Assistant Vice President

Kimberly K. Winstel
Assistant Vice President

* Management Committee

Miami

James T. Curry
Vice President and Branch Manager

Juan del Busto
Assistant Vice President and
Assistant Branch Manager

Vicki A. Anderson
Assistant Vice President

Suzanna J. Costello
Assistant Vice President

Fred D. Cox
Assistant Vice President

Raul Dominguez
Assistant Vice President

Robert de Zayas
Assistant Vice President

Nashville

Melvyn K. Purcell
Vice President and Branch Manager

Lee C. Jones
Assistant Vice President and
Assistant Branch Manager

William W. Dykes
Assistant Vice President

Margaret A. Thomas
Assistant Vice President

Joel E. Warren
Assistant Vice President

E. Channing Workman, Jr.
Assistant Vice President

New Orleans

Robert J. Musso
Vice President and Branch Manager

Amy S. Goodman
Assistant Vice President and
Assistant Branch Manager

W. Jeffrey Devine
Assistant Vice President

Edward B. Hughes
Assistant Vice President

William E. Thompson III
Assistant Vice President

Patricia D. Van de Graaf
Assistant Vice President

Statement of Condition

Assets	December 31, 1992	December 31, 1993
Gold Certificate Account	$ 503,000,000	$ 509,000,000
Special Drawing Rights Certificate Account	318,000,000	318,000,000
Coin	38,246,964	55,405,739
Loans and Securities	10,228,575,482	13,696,686,093
Items in Process of Collection	1,304,767,107	775,094,869
Bank Premises	57,015,133	61,112,427
Other Assets	2,296,550,712	2,500,066,076
Interdistrict Settlement Account	3,833,067,333	2,185,366,572
Total Assets	$18,579,222,731	$20,100,731,776

Liabilities		
Federal Reserve Notes	$13,231,945,372	$14,959,906,004
Deposits*	4,100,864,625	3,632,354,668
Deferred Credit Items	600,199,151	736,272,042
Other Liabilities	66,933,183	132,352,262
Total Liabilities	$17,999,942,331	$19,460,884,976

Capital Accounts		
Capital Paid In	$ 289,640,200	$ 319,923,400
Surplus	289,640,200	319,923,400
Total Capital Accounts	$ 579,280,400	$ 639,846,800
Total Liabilities and Capital Accounts	$18,579,222,731	$20,100,731,776

* Includes depository institution accounts, collected funds due to other Federal Reserve Banks, U.S. Treasurer-General account, other and miscellaneous deposits

Statement of Earnings and Expenses

Earnings and Expenses	December 31, 1992	December 31, 1993
Current Income	$ 873,609,356	$ 861,700,654
Current Expenses	138,361,845	155,047,176
Cost of Earnings Credits	13,536,275	8,436,000
Current Net Income	$ 721,711,236	$ 698,217,478
Net Additions (Deductions)*	(94,804,216)	(18,793,851)
Assessment for Expenses of Board of Governors	11,888,400	13,209,600
Federal Reserve Currency Cost	15,152,205	16,958,398
Cost of Unreimbursed Treasury Services	3,010,027	3,084,435
Net Income before Payment to U.S. Treasury	$ 596,856,388	$ 646,171,194
Distribution of Net Earnings		
Dividends Paid	$ 16,384,793	$ 18,375,321
Payments to U.S. Treasury**	533,630,395	597,512,673
Transferred to Surplus	46,841,200	30,283,200
Total Income Distributed	$ 596,856,388	$ 646,171,194
Surplus Account		
Surplus January 1	$ 242,799,000	$ 289,640,200
Surplus December 31	$ 289,640,200	$ 319,923,400

* Includes gains/losses on sales of U.S. government securities and foreign exchange transactions

** Interest on Federal Reserve Notes

Summary of Operations

Services to Depository Institutions	1992 Items (thousands)	1992 Percent Change From One Year Ago	1993 Items (thousands)	1993 Percent Change From One Year Ago
Check Clearing				
U.S. Government Checks Processed	68,069	–1.4	66,783	–1.9
Commercial Checks Processed	3,016,132*	4.2	3,017,041	0.03
Electronic Payments				
ACH Commercial and Government Payments Processed	307,455	17.5	357,467	16.3
Wire Transfers of Funds	9,949	4.5	10,185	2.4
Cash Services				
Currency Orders Processed	98	0	98	0
Coin Orders Processed	50	4.2	51	2.8
Loans to Depository Institutions				
Loans Processed**	1,187	–36.8	808	–31.9
Securities Services				
On-Line Bookentry Transfers	56	–9.0	47	–16.8
Noncash Items Processed	460	–26.8	363	–21.0
Definitive Safekeeping Receipts	64	–32.6	34	–47.4
Services to U.S. Treasury				
U.S. Savings Bonds Issued	5,875	–15.5	5,794	–1.4
U.S. Savings Bonds Redeemed	79	–68.5	59	–25.5
Other Treasury Issues				
Issued	49	–27.9	38	–23.0
Redeemed	3	0	3	0
Deposits to Treasury Tax and Loan Accounts	738	–1.2	815	10.4
Food Coupons Destroyed	748,576	19.2	695,200	–7.1

* Number differs from that previously reported.

** Numbers shown are actual, not thousands.

Federal Reserve Bank of Atlanta

Head Office and Atlanta Branch
104 Marietta Street, N.W.
Atlanta, Georgia 30303-2713

Birmingham Branch
1801 Fifth Avenue, North
Birmingham, Alabama 35203-2104

Jacksonville Branch
800 West Water Street
Jacksonville, Florida 32204-1616

Miami Branch
9100 N.W. 36th Street
Miami, Florida 33178-2425

Nashville Branch
301 Eighth Avenue, North
Nashville, Tennessee 37203-4407

New Orleans Branch
525 St. Charles Avenue
New Orleans, Louisiana 70130-3480

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