

President's Letter



The Federal Reserve is an adapting, evolving, and learning organization. In the Federal Reserve Bank of Cleveland's 2012 Annual Report, we take a close look at how it has changed since its creation 100 years ago.

Our essay describes some of the seminal episodes that have influenced the Federal Reserve as we know it today. Times have changed, economic theories have developed, and the Federal Reserve has adapted to meet new demands. In fact, over the course of its 100 years, the Federal Reserve has proved not only a willingness to change, but also an appetite for embracing and initiating change when necessary to carry out our mission.

The Federal Reserve was founded in 1913 in response to a severe banking crisis in 1907. Policymakers of the era believed that a central bank should be created to calm financial panics, supervise banks, and provide a stable currency. Those responsibilities largely endure, but many details have been refined and others added to reflect the growing complexity of the financial system in which the Federal Reserve operates. The evolution has occurred within the framework of evolving public expectations of what a central bank can and should do.

From a focus on financial stability to an explicit objective for inflation—the Federal Reserve’s recent actions are rooted in history. We cannot hope to understand modern-day Federal Reserve policies without this context.

The principles that guide current policies originated in lessons from the Great Depression, from stagflation in the 1970s, and from the savings and loan crisis of the 1980s, among others. I think it is safe to say we are still absorbing many lessons from the financial crisis of 2008, even as we incorporate wisdom gained in previous crises into our immediate response to this most recent episode.

I have participated in this evolution at the Federal Reserve Bank of Cleveland for the past 30 years, and I can attest to the significant change in our approach to almost everything we do. I would also emphasize that working at the Federal Reserve during the recent challenging economic times has been a humbling experience. History clearly shows the Federal Reserve has not been perfect. The last century is marked by misjudgments and no shortage of critics to point them out, but we have always strived to learn and incorporate lessons from the past into policies of the present.



The Federal Reserve Bank of Cleveland is a place of learning and adapting as well. In the operations section of this report beginning on page 33, First Vice President and Chief Operating Officer Greg Stefani describes how we as a Bank have transformed the way we do business. From paper to electronic, from manual to automated, we continue to evolve from an operations-based to a knowledge-based organization.

Much of how the Federal Reserve Bank of Cleveland has adapted and applied lessons learned throughout its history is owed to the guidance of the Bank’s boards of directors, in addition to our advisory councils across the District. We have a history and tradition of strong and sustaining leadership on our boards, and I’d like to offer an expression of gratitude to all of our directors, especially the four who completed their terms in office at the end of 2012:

- Alfred M. Rankin Jr., chairman, president, and CEO of NACCO Industries, Inc., who has served on the Cleveland board since 2006

- C. Daniel DeLawder, chairman and CEO of Park National Bank in Newark, Ohio, who has served on the Cleveland board since 2007
- Daniel B. Cunningham, president and CEO of the Long–Stanton Group, who has served on our Cincinnati Branch board since 2007
- Robert A. Paul, chairman and CEO of Ampco–Pittsburgh Corporation, who has served on the Pittsburgh Branch board since 2007

Al Rankin deserves a special thank you. He has provided strong leadership and support in numerous capacities since joining the Cleveland board and in serving as its chairman for the last three years. Al also enthusiastically stepped beyond those posts to lead the Conference of Chairs (a group of all the Federal Reserve Bank Board chairs and vice chairs) this past year. The business insight and expertise he brought to our board deliberations, and his active and genuine interest in the Fourth District and the Federal Reserve System, have been invaluable to me and our efforts.

I will miss all of our outgoing directors. All of them have been, and I’m sure will continue to be, tremendous advocates for the Federal Reserve.



One more thank you is in order—to our valued employees. From housing research, to the supervision of regional financial institutions, to helping evolve the payments industry to better meet the needs of our stakeholders, employees’ hard work, dedication, and contributions made 2012 a successful year for the Federal Reserve Bank of Cleveland.

A handwritten signature in cursive script that reads "Sandra Pianalto".

Sandra Pianalto
President and Chief Executive Officer