

President's Foreword

What is the source of economic prosperity? In today's environment, where the slow pace of job creation tops the national agenda, it is tempting to answer that high-paying jobs lead to economic success. And in a region known for its industrial prowess, wouldn't those be *manufacturing* jobs? But that response begs the very question we seek to answer: how to get the most value from our resources over time.

The essay that follows examines the legacy and lessons of economic development during the last several hundred years, spanning agrarian, industrial, mass-production, and postindustrial economic systems. We conclude that education and flexibility are most important to stimulating innovation and economic growth. In an economic order marked by a growing and more diverse set of nations, invention is our greatest strength and flexibility our most valuable asset. Economic success comes from responding to the changes that innovation necessitates.



R. Chris Moore, first vice president; Robert W. Mahoney, chairman; and Sandra Pianalto, president.

The Federal Reserve Bank of Cleveland has not been immune to the challenge of change, but we are learning to embrace the opportunities those challenges present. In the “Operational Highlights” section of this report, we look at some of the ways that innovation and new technologies are transforming the payments system, and how these developments have altered the way we do business.

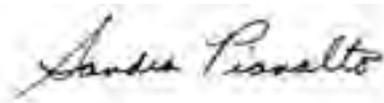
The trend that is sweeping our payments system is the substitution of electronics for paper. As the Federal Reserve System rationalizes and modernizes its check processing infrastructure, it is constructing a platform to capture checks earlier in the payments stream and convert them into electronic check images. The Federal Reserve is also facilitating electronic bill payment and presentment, helping investors to purchase U.S. savings bonds online, and speeding collections electronically for the U.S. Treasury.

The Federal Reserve Bank of Cleveland plays an important role in these projects, and to do so, we are hiring people with higher education and different skills than we did even a decade ago. We rely more on teams, and we benefit from putting better information into the hands of each employee. We value learning and the continuous improvement it brings.

Our Bank achieved many milestones last year—and that success would not have been possible without the guidance and support of our boards of directors in the Cleveland, Cincinnati, and Pittsburgh offices and the members of our advisory councils.

I am especially appreciative of the leadership of Robert W. Mahoney (retired chairman and chief executive officer, Diebold, Incorporated), who serves the Bank as chairman of the board. Mr. Mahoney also led the search committee that selected R. Chris Moore as our Bank's first vice president and chief operating officer. I also offer thanks to Cheryl L. Krueger (president and chief executive officer, Cheryl&Co.), who completed her second term of service on the Cleveland board in 2003. Ms. Krueger's valuable service to the Bank dates to 1995, when she began serving on our Business Advisory Council.

Finally, it is with heartfelt thanks that I recognize the officers and staff of the Federal Reserve Bank of Cleveland. In response to the whirlwind changes taking place in our industry, we are, together, reshaping the strategic direction of our organization to reflect a future of challenge, opportunity, and possibility. During this year—my first as the Bank's president—your unwavering support and continued dedication to our shared mission inspire me daily.



**President
and Chief Executive Officer**
