President’s Foreword

What is the source of economic prosperity? I posed this very same question in our Bank’s 2003 annual report, which examined economic development during the last several hundred years. In that report, we concluded that education and the flexibility to adapt to change are the most important factors in stimulating innovation and economic growth. Educated societies possess people who have the skills that enable them to induce change and then to successfully adapt.

It is one thing to tout the importance of our primary and secondary education systems—it is quite another to actually build and sustain these systems. Anyone who has read a newspaper during the past year knows that our education systems are under stress. Some people believe they are paying too much for education and receiving too little, while others argue we are not spending enough. Contention surrounds many issues—including the funding systems that support our schools, the measures we use to evaluate student achievement, the incentives and rewards we offer to school districts and their teachers, and competition from private education providers. Voters are refusing to pass school levies, parents are suing states, courts are battling their state legislatures, and state legislatures are arguing with the federal government.

If we truly want to discover why our schools are not meeting our expectations, we must reach a deeper understanding of the incentives and constraints facing the participants in our education system. Students are not widgets and teachers are not stamping presses, but that does not mean we cannot study education in the same way we study other industries. In the essay that follows, we bring an economic perspective to the topic of education in an effort to gain some fresh insights.
Our Bank has enjoyed a successful year, in which we made significant progress on our new strategic plan. We have greatly benefited from the insights and leadership of our boards of directors in the Cleveland, Cincinnati, and Pittsburgh offices, and the members of our advisory councils.

I offer a special measure of thanks to Robert W. Mahoney (retired chairman and chief executive officer, Diebold, Incorporated), who continues to serve the Bank as chairman of the board. I am also grateful to our two departing members of the Cleveland board, John R. Cochran (chairman and chief executive officer, FirstMerit Corporation) and Wayne R. Embry (former president and chief operating officer, Cleveland Cavaliers); and to the departing
chairman of our Cincinnati board, Dennis Cuneo (senior vice president, Toyota Motor North America, Inc.). Each of these directors has provided invaluable service to the Bank, and I truly appreciate their commitment.

The unwavering dedication of the officers and staff of the Federal Reserve Bank of Cleveland has moved our Bank closer to achieving our strategic objectives: leadership in thought and deed, operational excellence, and external focus. We highlight a few examples of that leadership in the first vice president’s message, which begins on page 21.

While our region continues to face many challenges, the Federal Reserve Bank of Cleveland strives to contribute to the well-being of our region and nation through our relationships with financial institutions, the U.S. Treasury, and the public. We will continue to conduct research on issues that are important to our region, and we have begun partnering with universities, foundations, and business groups that are engaged in economic growth and development.

It is an honor to serve this Bank, the Fourth Federal Reserve District, and the Federal Reserve System.

Sandra Pianalto
President and Chief Executive Officer