

President's Foreword

Resilience defined the U.S. economy in 2006. Despite risks posed by inflation and the housing sector, the economy continued to expand at a steady pace, creating millions of new jobs and maintaining a relatively low unemployment rate.

Nevertheless, within one of the wealthiest and most productive nations in the world, millions of our citizens continue to live in poverty. The U.S. poverty rate has stalled for the past 30 years and remains among the highest of all developed countries today.

Poverty imposes significant costs: the personal costs faced by those who live in poverty, and the national costs associated with poverty's consequences. People who grow up in poverty tend to acquire fewer job skills, earn less money, and experience worse health than those who are better off. Poor people also tend to live at the margins of our financial system, sometimes paying more for financial services than necessary and finding it difficult to accumulate savings.

Poverty saps the strength from communities as well as from people. In cities that are already coping with the stresses of industrial transformation, poverty is yet another obstacle to community development. Civic leaders struggle to provide housing, health care, and family assistance to their poorest residents. Sadly, too, children make up the largest share of people living in poverty

today. They—and we—will live with the social and economic consequences of their deprivation for decades to come.

This year's *Annual Report* essay reviews the persistence of poverty in America and suggests some reasons why the economy's rising tide has failed to lift all boats. In the end, we encourage civic leaders and policymakers to consider the crucial difference that better education and skill building can make in reducing poverty. Not surprisingly, the sooner children enjoy positive educational experiences, the greater the benefits for both them and society.

This essay is the latest in the Bank's ongoing research efforts to better understand the role that education, innovation, and human capital play in driving long-term economic growth.



Our research function is among many areas of the Bank that contributed to advancing our strategic objectives of leadership in thought and deed, operational excellence, and external focus in 2006.

Leadership in thought and deed challenges employees to help shape the policies, strategies, and practices of the Federal Reserve System. In 2006, the Bank's staff provided strong support in the areas of research, payments, banking supervision, and eGovernment assistance to the U.S. Treasury.



(L-R) R. Chris Moore, first vice president and chief operating officer;
Sandra Pianalto, president and chief executive officer;
Charles E. Bunch, chairman; and Tanny B. Crane, deputy chair.

In 2006, the Bank also made great strides in our strategic objective of operational excellence. The Bank's Cash and Check functions experienced significant growth, and our eGovernment and Treasury Retail Securities areas continued to maintain the highest levels of customer service and support.

Our third strategic objective, external focus, saw considerable progress as well, highlighted by the first full year of operation for our new Learning Center and Money Museum. More than 10,000 children and adults toured this facility to learn more about what gives money value. The Operational Highlights section of this report provides greater detail on all of these achievements.



The Bank's boards of directors and advisory councils in Cleveland, Cincinnati, and Pittsburgh provided outstanding support in guiding our success during the past year.

I am particularly indebted to our retiring chairman, Charles E. Bunch (chairman and CEO, PPG Industries), for his 10 years of outstanding service to the Federal Reserve Bank of Cleveland. His strong leadership—first as director and chairman of our Pittsburgh board and then as director, deputy chair, and chairman of our Cleveland board—has helped our Bank achieve remarkable growth and innovation during a decade of significant change.

I also extend my appreciation to another longtime director, Stephen P. Wilson (chairman, president, and CEO, Lebanon Citizens National Bank).

His nine years of service on the Cincinnati and Cleveland boards, including leadership on two board committees, have been marked by both lively debate and informed counsel.

Thanks also go to Charles Whitehead (retired president, Ashland Inc. Foundation) for six years of service on the Cincinnati board; and to James I. Mitnick (senior vice president, Turner Construction Company) and Kristine N. Molnar (executive vice president, WesBanco Bank) for six years of service on the Pittsburgh board. These three branch directors served in various leadership capacities on our board committees, and their insights have been invaluable.

The Federal Reserve Bank of Cleveland has defined a challenging strategic direction to drive our success in 2007 and beyond. To achieve our goals in thought leadership, operational excellence, and external focus, we depend on the brainpower, skills, and dedication of more than 1,500 employees in Cleveland, Cincinnati, and Pittsburgh.

Our Bank's officers and staff are the bedrock of all of our Bank's efforts to innovate and grow, and I offer them my heartfelt appreciation.

It is my continuing privilege to lead the Federal Reserve Bank of Cleveland.

Sandra Pianalto
President and Chief Executive Officer