

# *The Federal Reserve System*



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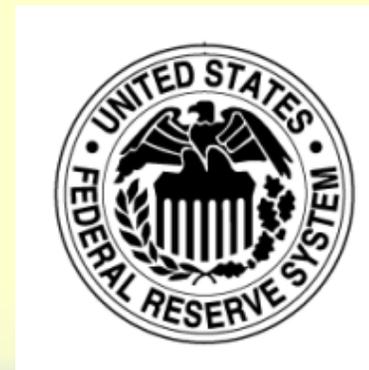
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**The views expressed in the presentation are mine and not the views of the Federal Reserve Bank of St. Louis or the Federal Reserve System.**

# *Goals For Today*

1. **The Federal Reserve**
  - Genesis and Evolution
2. **Structure of the FRS**
  - Then & Now
3. **Key functions of FRS**
  - Then & Now
4. **Basics of monetary policy**
  - Role of FOMC



# *In Plain English*

A cartoon illustration of a man named Buck, wearing a blue button-down shirt and khaki pants, standing with his hands on his hips and a friendly expression. A large white speech bubble with a drop shadow is positioned to his right, containing introductory text.

Hi, I'm Buck, your personal tour guide to the Federal Reserve. I'm here to introduce you to one of the most complex but effective institutions in the United States. But don't worry—I'll explain it all ...

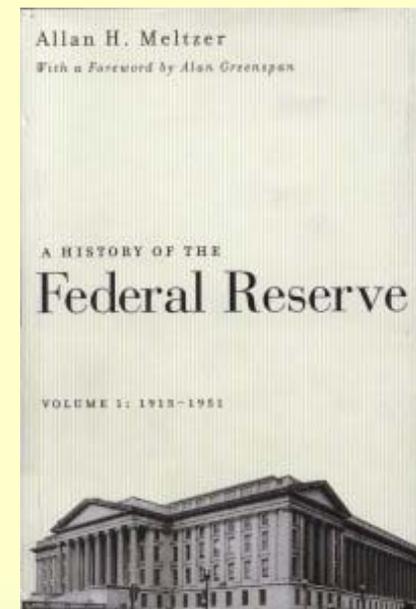
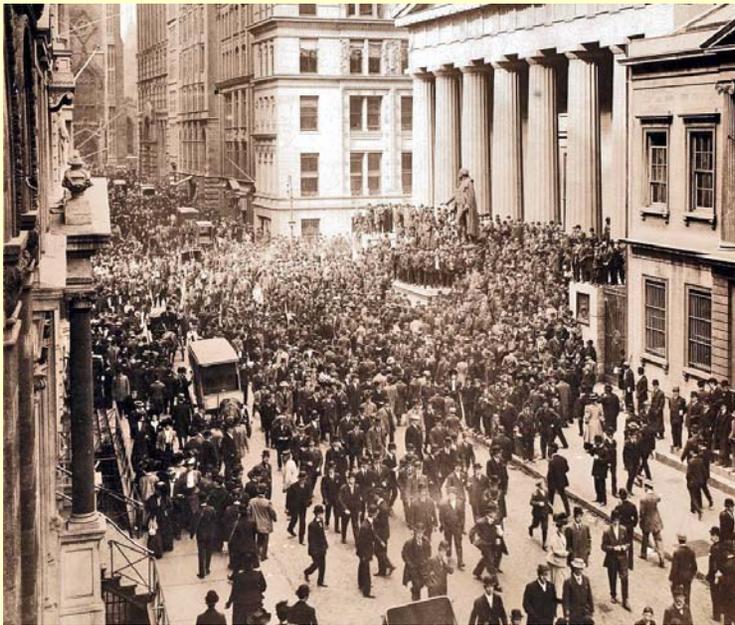
## *In Plain English:* **MAKING SENSE** OF THE FEDERAL RESERVE



Follow along for additional facts on the Fed.

# *The Federal Reserve*

- The Federal Reserve was created after a series of financial crises made it apparent that the U.S. needed a central bank.



# ***19th Century Roots of National Banking***

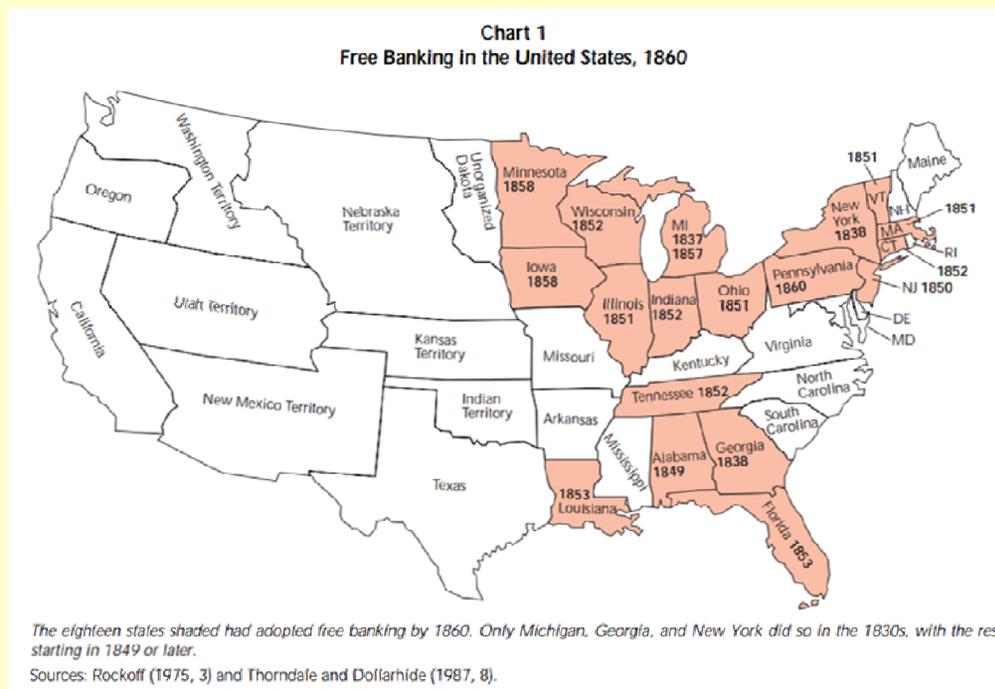


- *Second Bank of U.S.*
  - 1816 – 1836
  - Charter expired
- *Free Banking Era*
  - 1837 – 1864
  - State control
- *National Banks Era*
  - 1863 - 1913



# Era of State Controlled Banking

## 1837 – 1863



## ***National Banking Acts of 1863 & '64***

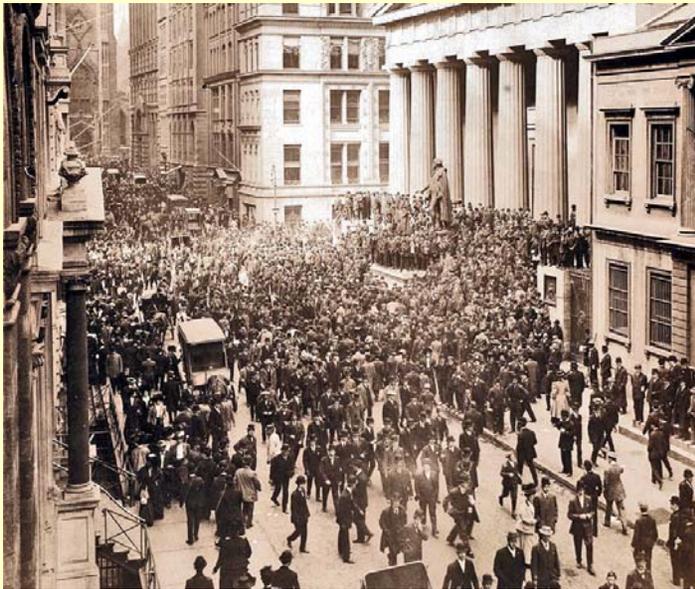
### ***Beginnings of Federal Control***

1. New system of national banks
  - Nationally chartered banks with stricter regulations
2. New uniform national currency
  - 10% tax on state bank notes
3. Borrowing to pay for Civil War
  - Secondary market for Treasury securities

# ***A Pattern of Panics***

<b>Year</b>	<b>What Happened?</b>
<b>1819</b>	Cotton prices ? Farm foreclosures when credit tightened
<b>1837</b>	Failure from wheat fields to Wall Street, lasting 6 years State & National bank failures
<b>1857</b>	RR speculation led to failure of Ohio LifeInsc. & Trust, a NYC bank Panicked investors filled Wall Street Hundreds of businesses failed
<b>1893</b>	Panic sell off of stocks in NYC Triggered 4-year depression >16,000 business failures including >150 RRs and 500 banks
<b>1907</b>	<b>The 'Bankers Panic'</b> <b>Failed attempt to corner copper market</b> <b>Knickerbocker Trust failed</b>

# THE PANIC OF 1907



## ***Pre-Crisis Stresses***



- **SF Earthquake of 1906**
- **Bank of England ↑ rates**
- **Stock market correction**
- **RR stock prices ↓ due to new regulations**
- **Rockefeller's Standard Oil fined \$29 Million for antitrust violations**

# THE PANIC OF 1907

FEDERAL RESERVE BANK OF ST. LOUIS | ECONOMIC EDUCATION

## The Panic of 1907: J.P. Morgan and the Money Trust

### Lesson Author

Mary Fuchs

### Standards and Benchmarks (see page 47)

### Lesson Description

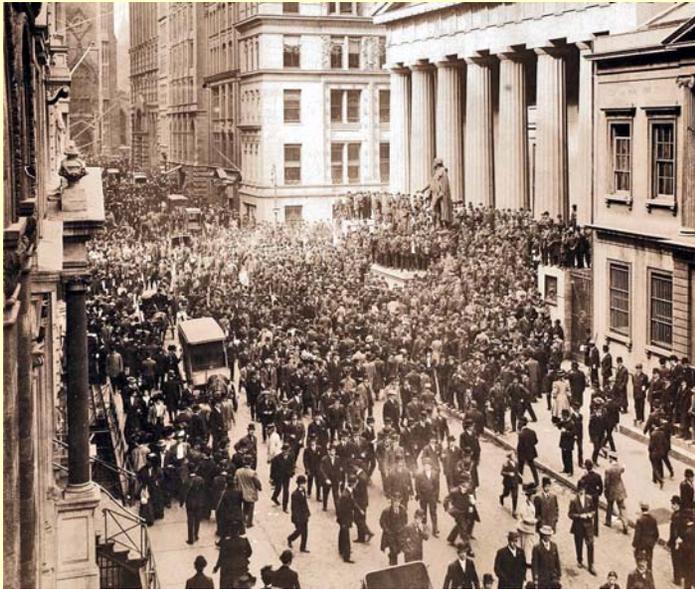
The Panic of 1907 was a financial crisis set off by a series of bad banking decisions and a frenzy of withdrawals caused by public distrust of the banking system. J.P. Morgan, along with other wealthy Wall Street bankers, loaned their own funds to save the country from a severe financial crisis. But what happens when a single man, or small group of men, have the power to control the finances of a country? In this lesson, students will learn about the Panic of 1907 and the measures Morgan used to finance and save the major banks and trust companies. Students will also practice close reading to analyze texts from the Pujo hearings, newspapers, and reactionary articles to develop an evidence-based argument about whether or not a money trust—a Morgan-led cartel—existed.

### Grade Level

10-12



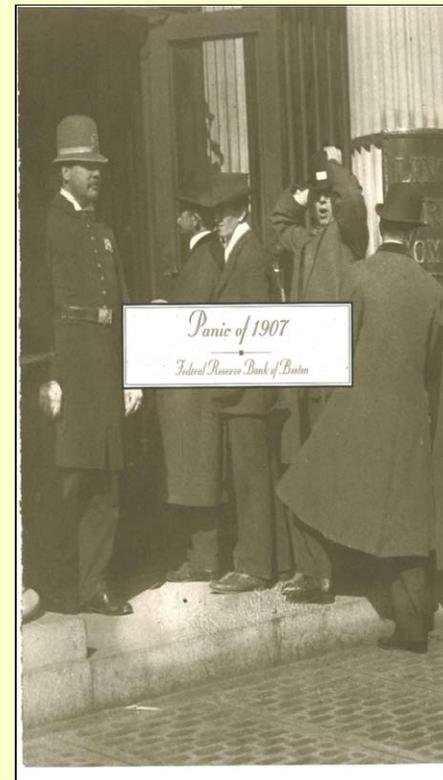
# ***The Knickerbocker Crisis***



**The Montana Copper King  
Fritz Augustus Heinze**

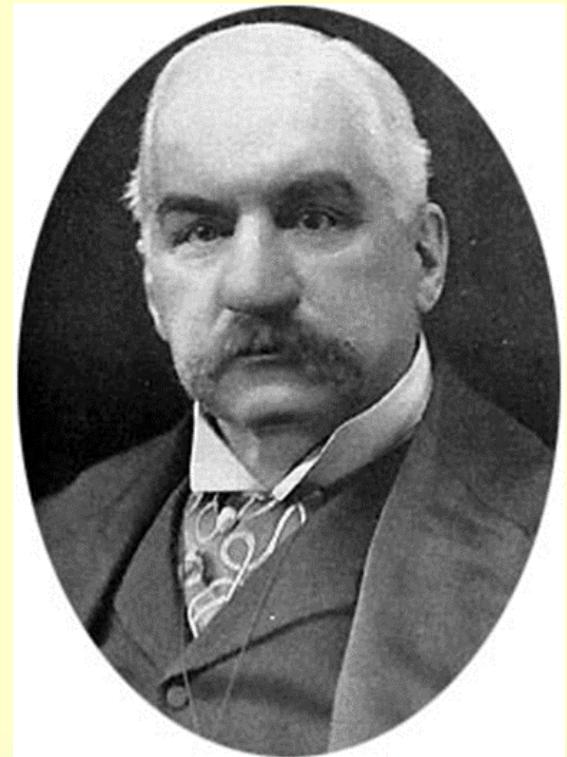
# Knickerbocker Trust

- NYC's 3<sup>rd</sup> largest
- Panic caused
  - Industrial Production ↓ by 11%
  - 2<sup>nd</sup> highest # of bankruptcies
  - Imports ↓ 26%
  - Unemployment ↑ by > 5%
  - Immigration ↓ by > 1/3 to 750,000 people in 1909
- Senator Nelson Aldrich\* investigates
  - \* John D. Rockefeller's father-in-law



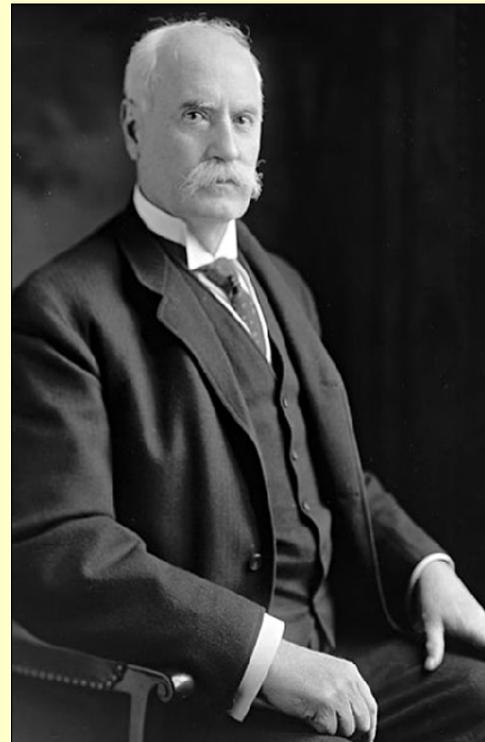
## *Ending the Panic of 1907*

- U.S. Treasury intervened.
- Rockefeller committed funds.
- Morgan persuaded solvent New York institutions, including his own, to lend emergency funds to shaky New York City banks.
- Panic of 1907 led to calls for currency and banking reforms, and resulted in the proposal of the Aldrich-Vreeland Act in 1908.



## ***Congress Enacts Aldrich-Vreeland--1908***

- National Monetary Comm.
- R.I. Senator Nelson Aldrich traveled to Europe to study models of central banking.
- Sought a private banking monopoly with little government influence

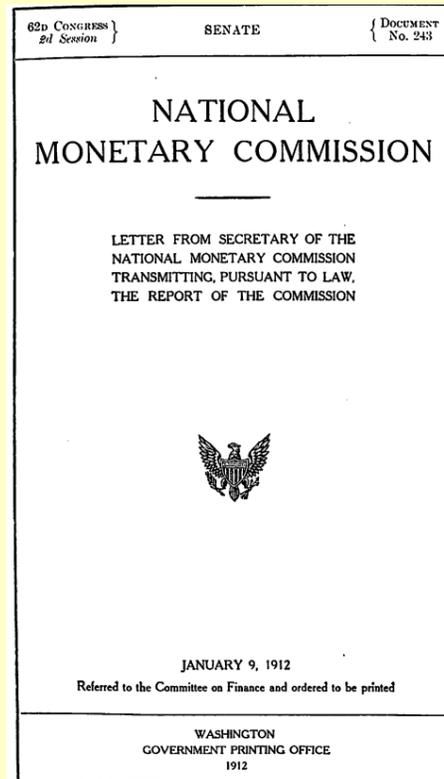


# Aldrich's Plan

- 15 Regional Banks
  - “Reserve Associations.”
- Led by national board of commercial banks
- Reserve Associations:
  - Emergency loans to member banks
  - Create an elastic currency.
  - Fiscal agent for the federal government
- Congress rejected
  - Pres. Wilson insisted on “a central board to control and coordinate the work of the regional reserve banks.



# Via FRASER



[http://www.llsdc.org/assets/FRA/docs/fra-lh\\_s-doc-62-243.pdf](http://www.llsdc.org/assets/FRA/docs/fra-lh_s-doc-62-243.pdf)

# The Federal Reserve Act Passes!

- Federal Reserve Act signed into law in 1913
  - Created FRS in 1914
- Fed created to
  - Influence supply of money and credit
  - Regulate and supervise financial institutions
  - Serve as fiscal agent for U.S. government.

DECEMBER 24, 1913—SIXTEEN PAGES. PRICE TWO CENTS.

## PRESIDENT'S SIGNATURE ENACTS CURRENCY LAW

Wilson Declares It the First of Series of Constructive Acts to Aid Business.



WASHINGTON, Dec. 23—President Wilson, signed the Glass-Steagall Currency Bill at 4:55 today in the presence of members of his Cabinet, the Congressional Committee on Banking and Currency and Democratic leaders in Congress gathered with a few minutes of the bill, is President, covered, 1913, Jan. 13

**WILSON SEES DAWN OF NEW ERA IN BUSINESS**  
aims to Make Prosperity Free to Have Unimpeded Momentum.

**HOME VIEWS OF CURRENCY ACT**  
A Christmas present to the people of the country," in the house of the bill, "I think "In and last night, "the President Wilson and the National Congress aim to be unobtrusive with the enactment of the Currency bill.

**FOUR PENS USED BY PRESIDENT**  
WASHINGTON, Dec. 23—President Wilson, signed the Glass-Steagall Currency Bill at 4:55 today in the presence of members of his Cabinet, the Congressional Committee on Banking and Currency and Democratic leaders in Congress gathered with a few minutes of the bill, is President, covered, 1913, Jan. 13

**Makes Speech to Group of Democratic Leaders.**

**Conference Report Adopted in Senate by Vote of 43 to 25.**

**Banks All Over the Country Hasten to Enter Federal Reserve System.**

**Gov-Elect Walsh Calls Passage of Bill A Fine Christmas Present.**

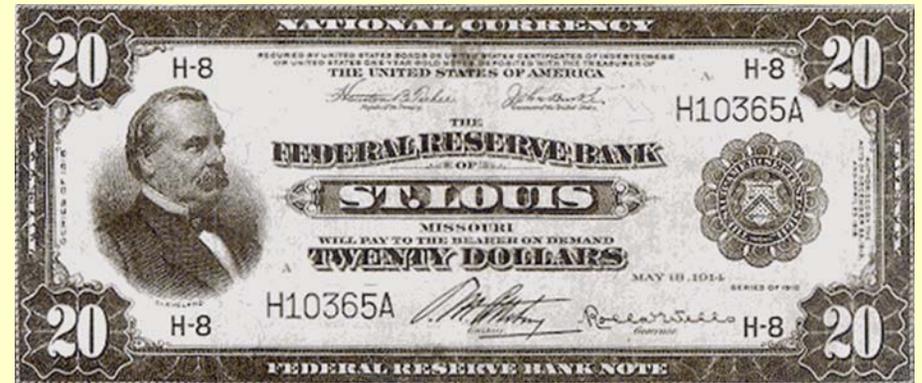
# *A Privately Owned System Operated In the Public Interest*

- **12 banks supervised by Federal Reserve Board**
  - Secy. Of Treasury (Chairman)
  - Comptroller of Currency
  - Appointed by Pres. to represent public's interests.
- **Fed duties**
  1. Influence supply of money and credit
  2. Regulate and supervise financial institutions
  3. Serve as fiscal agent for U.S. government.



# Practical Effects

- A new currency
  - Federal Reserve Notes
- A Lender of Last Resort
  - Discount Window
- A New Payments System



# ***What Happened Next?***



# Bank Holiday of 1933



## ***Glass-Steagall (1933)***



- Commercial banks no longer allowed to deal in securities
- Investment banks severed from commercial banks
- Limit use of bank credit for speculation
- Increased Fed's reg power over banks & BHCs
- Deposit insurance
- Created FOMC

# ***Big Changes: Banking Act of 1935***

## **BANKING ACT OF 1935**

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**HEARINGS**  
BEFORE A  
SUBCOMMITTEE OF THE  
**COMMITTEE ON BANKING AND CURRENCY**  
**UNITED STATES SENATE**  
SEVENTY-FOURTH CONGRESS  
FIRST SESSION  
ON  
**S. 1715 and H. R. 7617**  
BILLS TO PROVIDE FOR THE SOUND, EFFECTIVE, AND  
UNINTERRUPTED OPERATION OF THE BANKING  
SYSTEM, AND FOR OTHER PURPOSES

—  
[CONSOLIDATED]

APRIL 19 TO JUNE 3, 1935  
—

Printed for the use of the Committee on Banking and Currency

and Comptroller  
removed from Bd.  
had been chairman  
District Banks:

controlled by FOMC  
policy voting  
Board of Governors.  
rements  
s for each Federal  
ct  
for deposits at member

## ***Big Changes: Banking Act of 1935***

- Federal Reserve Board became Board of Governors of the Federal Reserve System
- New titles: Chairman of the Board of Governors
  - (previously Governor of the Federal Reserve Board).
  - 2<sup>nd</sup> in command now Vice Chairman of Board of Governors.
- All members of the Board became Governors.
- Secy of Treasury and Comptroller of Currency removed from Bd.
  - Treasury Secy had been chairman
- New title at District Banks: President
- OMO now controlled by FOMC
- New monetary policy voting rules favor Board of Governors.
  - Reserve requirements
  - Discount rates for each Federal Reserve district
  - Interest rates for deposits at member banks.

## ***U.S. Abandons Gold Standard (1971)***

- U.S. economy losing ground to Japan and Germany
- High military spending and foreign aid
- More \$ than Gold
  - \$35/ounce by law
- U.S. ended conversion by foreigners
- Attacked
  - high unemployment
  - high inflation
  - balance of payments
- End of Bretton Woods
- Nixon also implemented wage and price controls

# ***1970s--The Dual Mandate***

## **Federal Reserve Reform Act of '77**

- A Triple Mandate?
  - Employment
  - Prices
  - Long Term Interest Rates
- Increased Congressional oversight of FOMC
- Senate confirmation of Board of Governors' chairman and vice chairman
  - Limited to 4-year renewable terms.

## **Humphrey-Hawkins (1978)**

- Full Employment and Balanced Growth Act
- Focus on employment
  - unemployment should not exceed 3 %
  - inflation at 3 & or less\*
  - Inflation rate should be zero\*

# ***Dodd-Frank (2010)***

- Fed Chairman member of new Financial Stability Oversight Council
- New Position at The Fed
  - Vice Chairman for Supervision
- GAO conducts performance audits
- Required The Fed to issue prudent risk and capital standards for institutions under its supervision

## **Fed Changes Under Dodd-Frank**

Stability & Systemic Risk

Banking Supervision

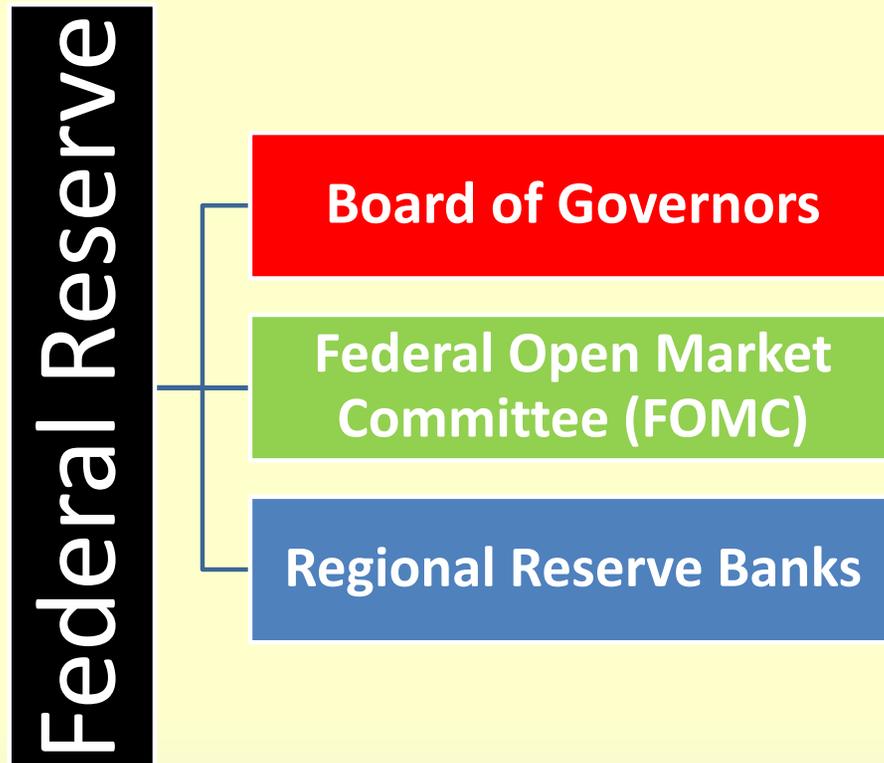
Consumer Protection

Payment, Clearing, Settlements

Fed Governance, Transparency,  
and Audit

## *The Federal Reserve System Today*

**Our central bank has  
3 structural elements**



# *The Board of Governors*

- **Independent agency of U. S. government**
  - 7 members
  - Appointed by President and confirmed by Senate
  - Staggered 14 year terms
- **Board of Governors**
  - Regulates financial institutions
  - Monetary policy input
  - Oversight of Reserve banks



# The Board of Governors Today

- Chair Janet Yellen

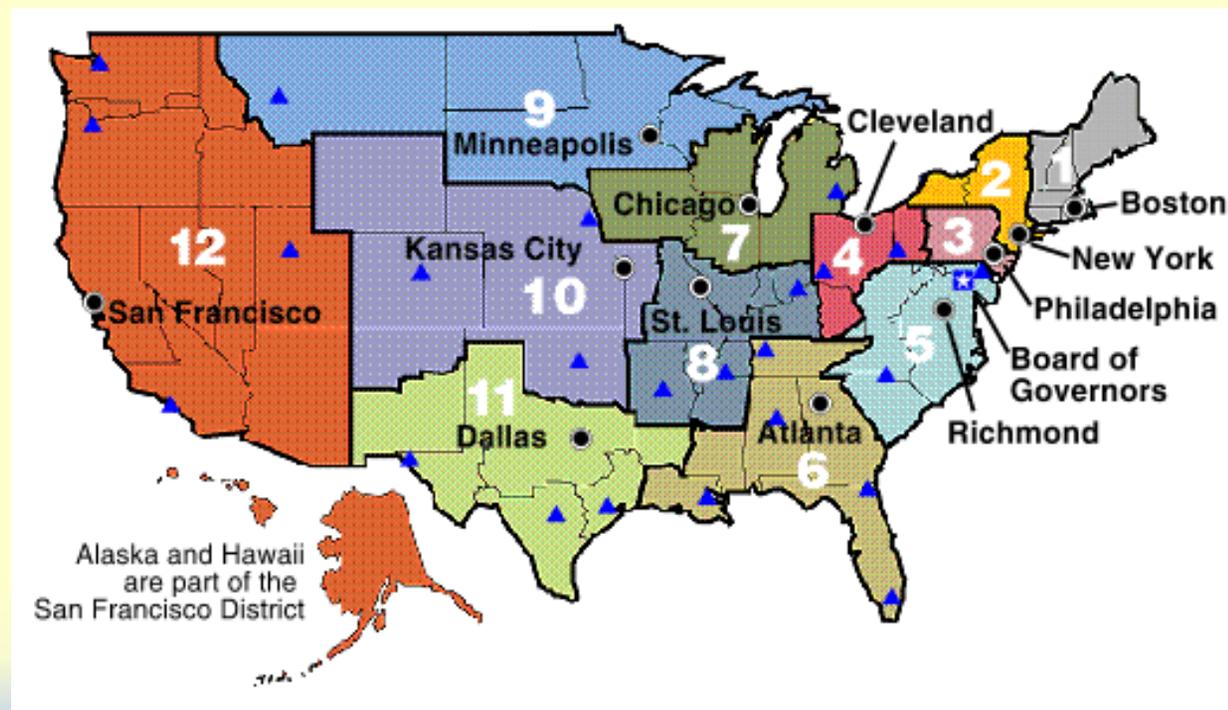


- Vice chair Stanley Fischer.



# *The 12 Federal Reserve Banks*

Each Federal Reserve District is served by an independent Reserve Bank. There are also 24 branch offices.



## *The Eighth Federal Reserve District*

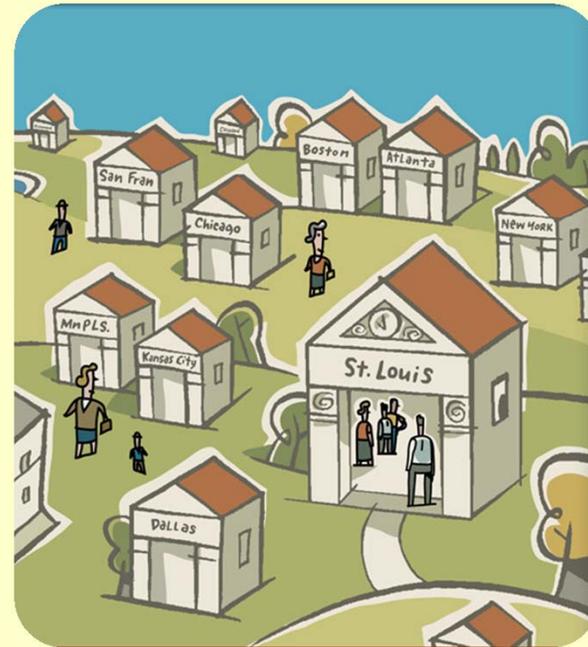
The **Federal Reserve Bank of St. Louis** was established in 1914, after the creation of the Federal Reserve System in 1913.



President James Bullard

# ***Roles of the Federal Reserve Banks***

- Conduct research on the economy
- Supervise banks in their regions
- Provide financial services to banks and the U.S. government.
- Present regional interests at FOMC meetings
  - Not government entities





## ***Financial Services--The Bank for Bankers***

- Reserve banks circulate currency, clear checks and provide several forms of electronic payment such as wire transfer and ACH.
- The Fed is the bank for the federal government; processing government checks, savings bonds and a significant portion of federal tax payments.



# *Regulation and Supervision*

The Fed – in partnership with other federal and state agencies –  
supervises and regulates thousands of financial institutions

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Bank  
Holding Companies



Savings & Loan  
Holding Companies



State Chartered  
Member Banks



Foreign Bank  
Operations

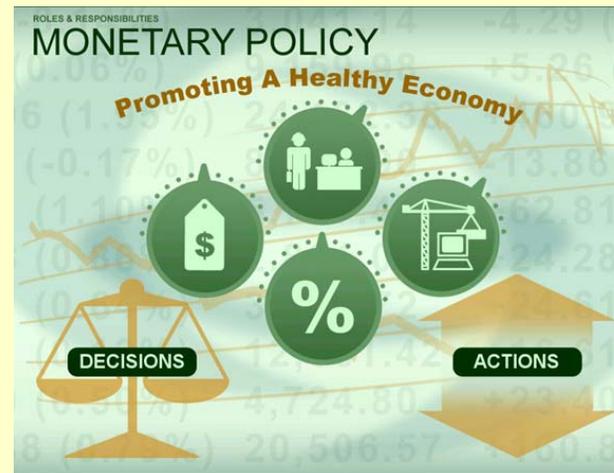
# *Regulation and Supervision*

- **Board of Governors writes rules that regulate financial institutions.**
- **Reserve banks supervise the enforcement of these rules by conducting bank and bank holding company examinations.**
- **Helps ensure that the nation's banking system is safe, sound and able to respond to financial crises.**
- **The Fed has historically acted as the lender of last resort.**



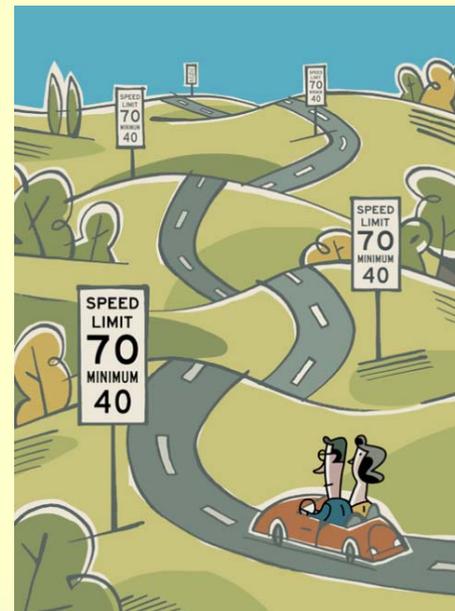
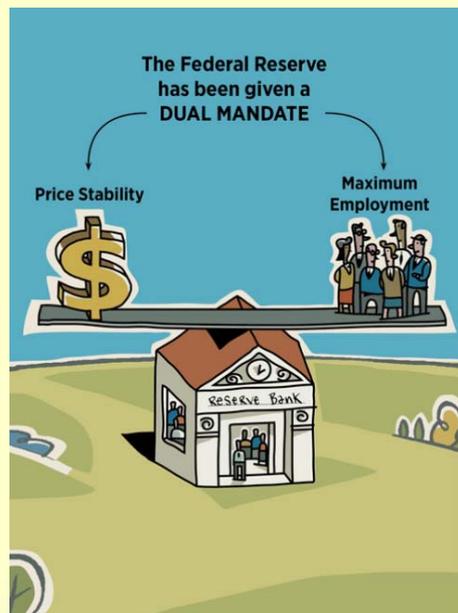
# Monetary Policy & the FOMC

- **Monetary policy** refers to Federal Reserve actions to stabilize the economy by influencing the amount of money and credit in the U.S. economy.
- Money and credit affect interest rates and the performance of the U.S. economy.



# Monetary Policy & the FOMC

Manages the nation's money supply to help the economy achieve maximum sustainable economic growth.



# *Monetary Policy & the FOMC*

## 12 voting members

- Seven members of the Board of Governors
- President of the New York Federal Reserve
- Four Reserve Bank Presidents on a rotating basis

Year				
2013	Boston	Chicago	St. Louis	Kansas City
2014	Philadelphia	Cleveland	Dallas	Minneapolis
2015	Richmond	Chicago	Atlanta	San Francisco

# Monetary Policy & the FOMC



HOW DOES  
THE  
**FOMC**  
VOTE?

NATIONAL MONETARY POLICY

BOARD OF GOVERNORS

7



VOTES EVERY YEAR

REGIONAL PRESIDENTS

5



VOTES EVERY YEAR

ALTERNATING VOTE

>> 12 VOTES

PREPARED BY THE FEDERAL RESERVE BANK OF CHICAGO  
WWW.FEDERALRESERVE.GOV/FOMC

BOARD OF GOVERNORS  
REGIONAL PRESIDENTS

Note: Dark blue indicates current voting members

## FOMC MEETINGS 2015

- JANUARY 21-28
- MARCH 17-18\*
- APRIL 28-29
- JUNE 16-17\*
- JULY 28-29
- SEPTEMBER 16-17\*
- OCTOBER 27-28
- DECEMBER 15-16\*

\* MEETING ASSOCIATED WITH A SUMMARY OF ECONOMIC PROJECTIONS AND A PRESS CONFERENCE BY THE CHAIR

# *Monetary Policy & the FOMC*

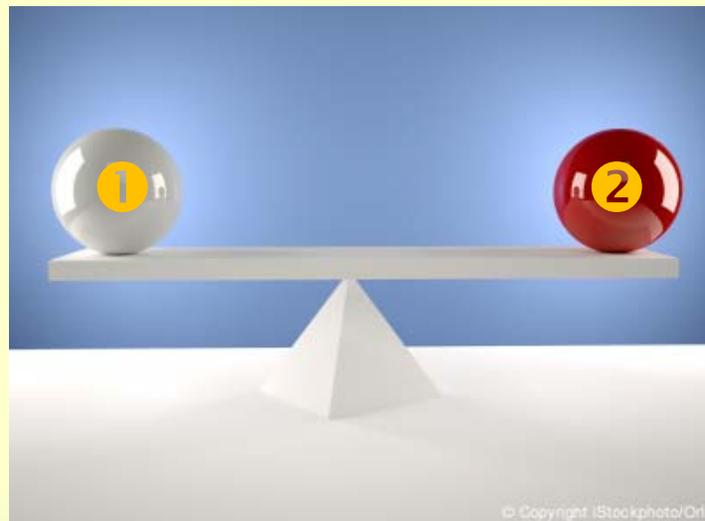
**FOMC meets 8 times a year.**

**\* Meeting includes economic projections and press conference.**



# *The Dual Mandate*

The Federal Reserve's mission is to promote the two coequal objectives: 1) maximum employment and 2) price stability.



## ***Four Tools of Monetary Policy***

- 1. Discount rate:** The interest rate charged by the Federal Reserve to banks for loans obtained through the Fed's discount window.
- 2. Reserve requirements:** Funds that Banks must hold as cash in their vaults or on deposit at a Reserve Bank.
- 3. Open market operations: Buying and selling government securities through primary dealers by the Federal Reserve to influence the money supply.**
- 4. Interest on Reserves:** Interest paid by Federal Reserve banks on required and excess reserves held by banks.

# Online Monetary Policy Course

The screenshot shows a web browser displaying the 'Monetary Policy' course page. The page has a green header with the title 'Monetary Policy' and the date 'Thursday May 9, 2013'. A navigation menu on the left includes 'Welcome', 'Pre-Test', 'Lesson 1', 'Lesson 2', 'Lesson 3', 'Course Conclusion', 'Post-Test', 'Student Survey', and 'Discussion Board'. The main content area features a 'Welcome' section with a 'Glossary' link and an image of a hand holding a coin. Below the image is a paragraph of introductory text about the Federal Reserve and its goals, followed by a 'Proceed to the Next Page' button with a right-pointing arrow.

Welcome **Scott** | [LOG OUT](#)

## Monetary Policy

Thursday  
May 9, 2013

**Welcome**

[Glossary](#)

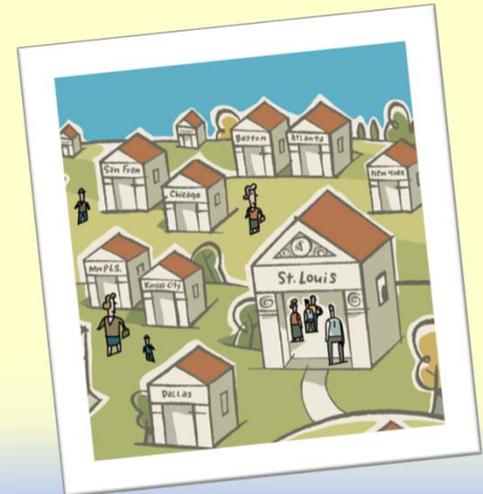
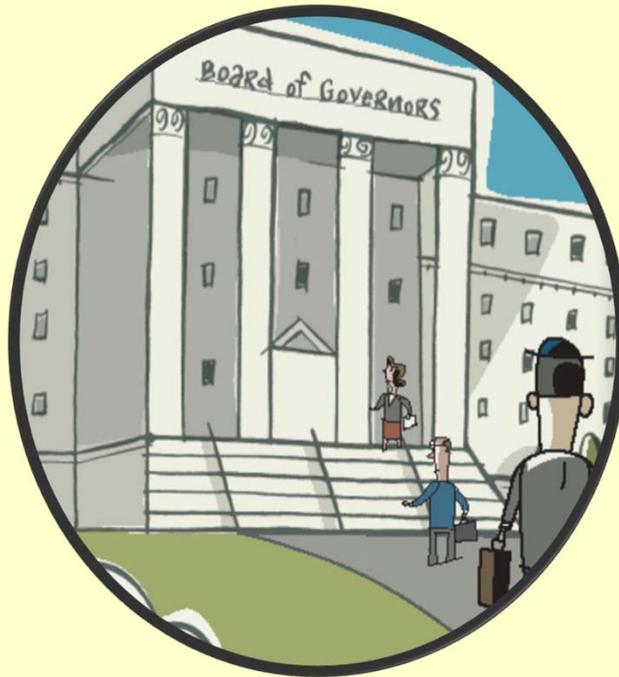


Have you heard of the [Federal Reserve](#)? Perhaps you have seen a news report about the Fed and heard references to interest rates, [inflation](#), and [unemployment](#). What have you heard about [monetary policy](#) and how it affects interest rates, inflation, and unemployment?

In an effort to provide the nation with a safer, more flexible, and more stable monetary and financial system, Congress created the Federal Reserve in 1913. The Fed has two primary goals for the economy—maximum employment and price stability. The Fed uses monetary policy to help achieve these goals. The structure of the Fed allows it to implement monetary policy with minimal political pressures to its day-to-day operations. In this course, you will learn how the Fed uses its monetary policy tools to promote the economic goals of maximum employment and price stability.

[Proceed to the Next Page](#) 

# Card Sort Activity



**Questions?**

**Please feel free to contact me.**



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