

The Fed: Who We Are, What We Do, and Why it Matters

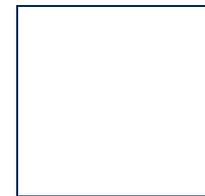
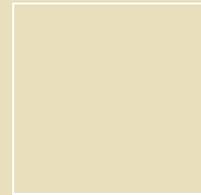
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Research Department

Reception for Honeywell Retirees
January 25, 2012



THE FEDERAL RESERVE BANK OF RICHMOND

RICHMOND ■ BALTIMORE ■ CHARLOTTE





Outline for Presentation

- Who is the Fed?
 - History of central banking in the United States – Where did the Fed come from?
 - Structure of the Fed
- What does the Fed do?
 - Mission
 - Primary functions
- How does the Fed influence the nation's economy?



First Bank of the United States: 1791-1811

Second Bank of the United States: 1817-1841





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Federal Reserve Act

Sixty-third Congress of the United States of America,
At the Second Session,
Began and held at the City of Washington on Monday, the first day of December, one thousand nine hundred and thirteen.

AN ACT
To provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.

It is enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this Act shall be the "Federal Reserve Act."

Whereas the word "bank" is used in this Act, the word shall be held to include State bank, banking association, and trust company, except where national banks or Federal reserve banks are specifically referred to.

The terms "national bank" and "national banking association" used in this Act shall be held to be synonymous and interchangeable. The term "member bank" shall be held to mean any national bank, State bank, or bank or trust company which has become a member of one of the reserve banks created by this Act. The term "board" shall be held to mean Federal Reserve Board, the term "district" shall be held to mean Federal reserve district, the term "reserve bank" shall be held to mean Federal reserve bank.

FEDERAL RESERVE SYSTEM

SEC. 1. As soon as practicable the Secretary of the Treasury, the Secretary of Agriculture and the Comptroller of the Currency, acting as "The Reserve Bank Organization Committee," shall designate not less than eight nor more than twelve cities to be known as Federal reserve cities, and shall divide the continental United States, excluding Alaska, into districts, each district to contain only one of such Federal reserve cities. The determination of said organization committee shall not be subject to review except by the Federal Reserve Board when organized. Provided, That the division shall be expeditious with due regard to the convenience and customary course of business and shall not necessarily be continuous with any State or States. The districts thus

of the Currency and by the Federal Reserve Board, or by the organization committee pending the organization of the Federal Reserve Board.

SEC. 20. If any clause, sentence, paragraph, or part of this Act shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder of this Act, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

SEC. 30. The right to amend, alter, or repeal this Act is hereby expressly reserved.

Charles Clark,
Speaker of the House of Representatives
Joe R. Marshall
Vice President of the United States and
President of the Senate

Approved 23 December, 1913.
Woodrow Wilson

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.



Makes Speech to Group of Democratic Leaders.
Conference Report Adopted in Senate by Vote of 43 to 26.
Banks All Over the Country Hasten to Enter Federal Reserve System.
Gov.-Ely W. Callahan Calls Passage of Bill a Fine Christmas Present.

WILSON SEES DAWN OF NEW ERA IN BUSINESS

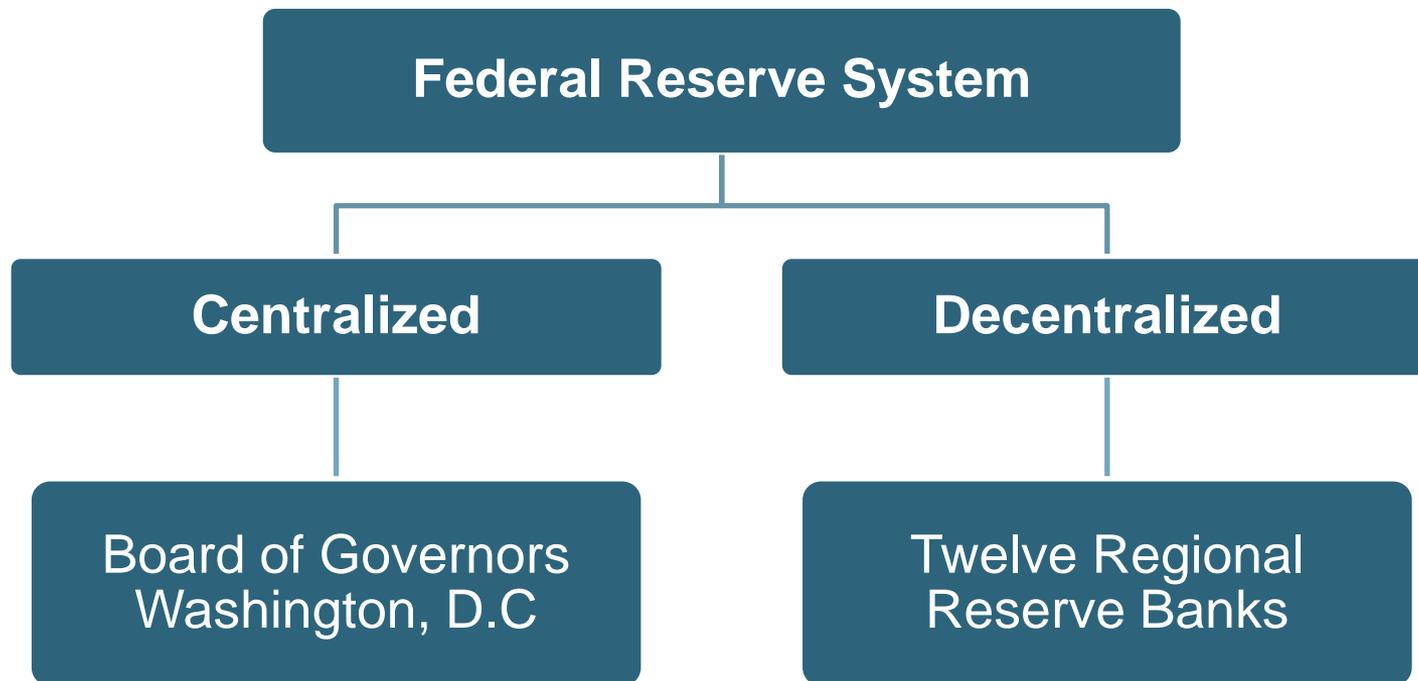
HOME VIEWS OF CURRENCY ACT FOUR PENS USED BY PRESIDENT

Aims to Make Prosperity Free to Have Unimpeded Momentum





The Compromise Borne Out





Centralized Part of the Fed: Board of Governors

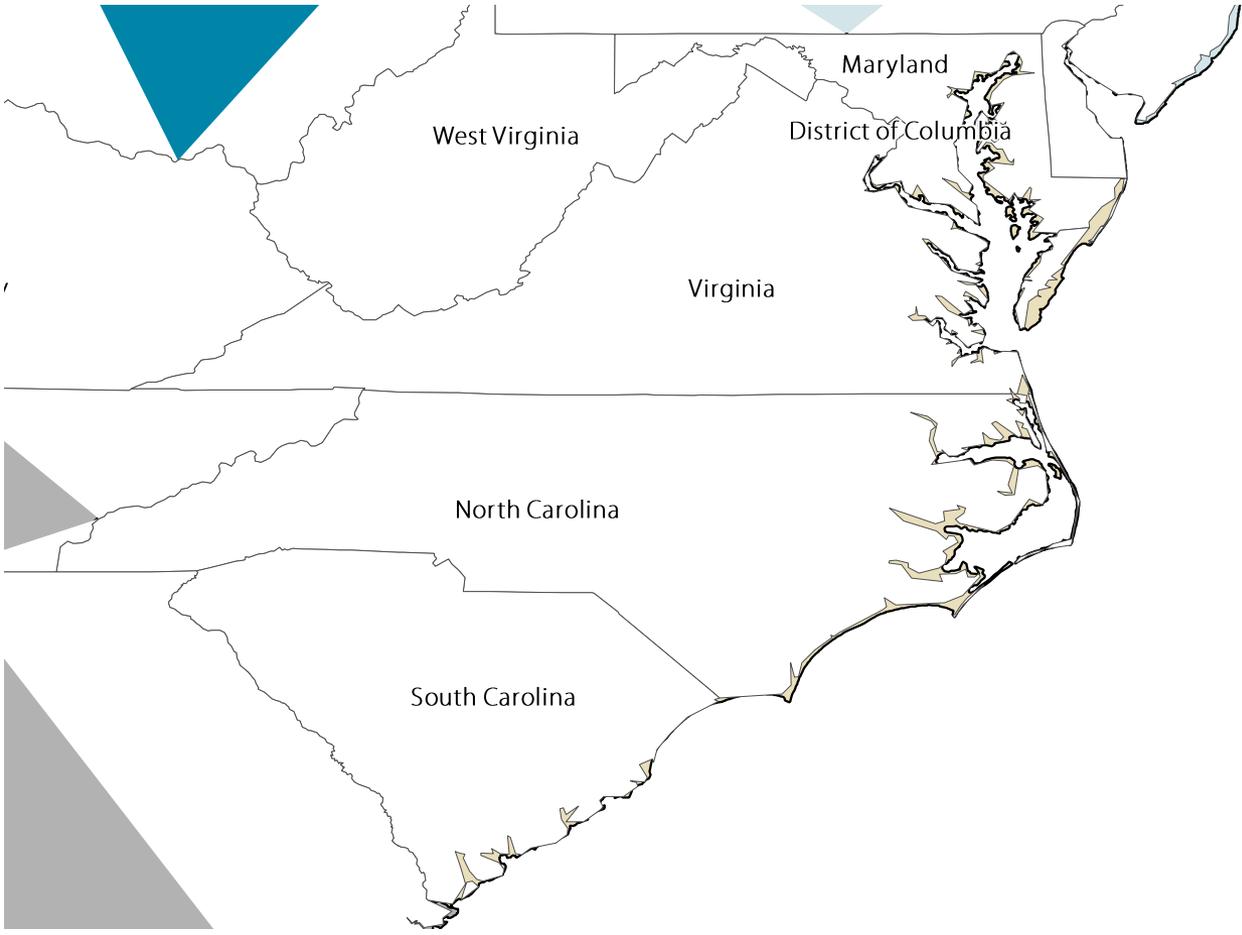




Decentralized Part of the Fed: Reserve Banks



Our Region: Fifth Federal Reserve District

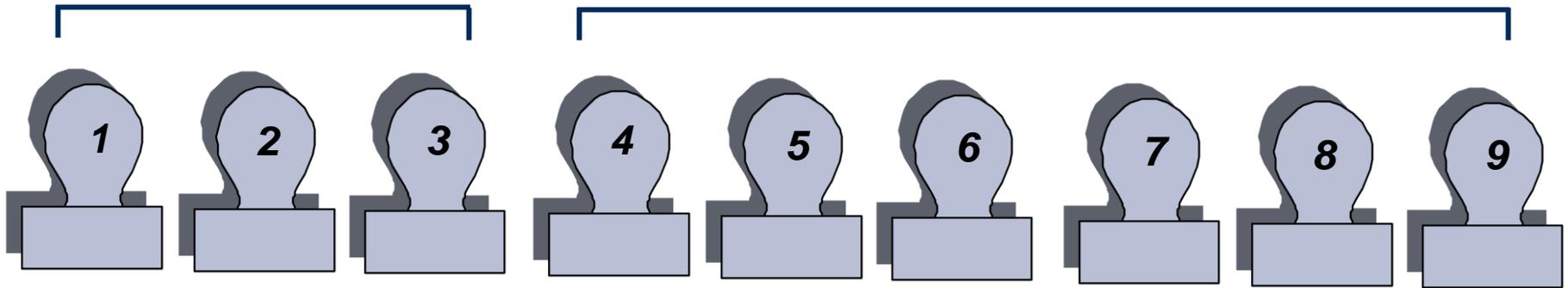




Federal Reserve Bank Board of Directors

Represent Commercial Banks

Represent the Public

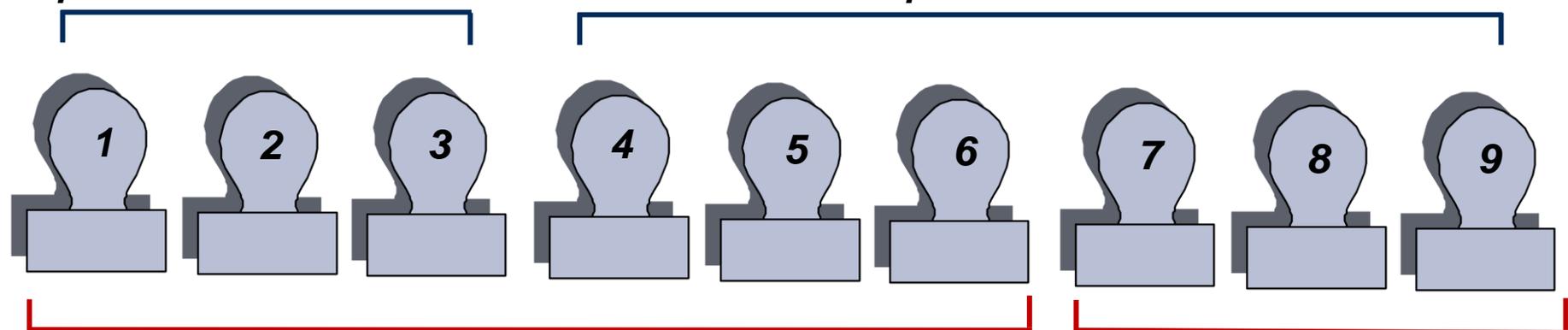




Federal Reserve Bank Board of Directors

Represent Commercial Banks

Represent the Public



Elected by Member Banks

Appointed by the Board of Governors





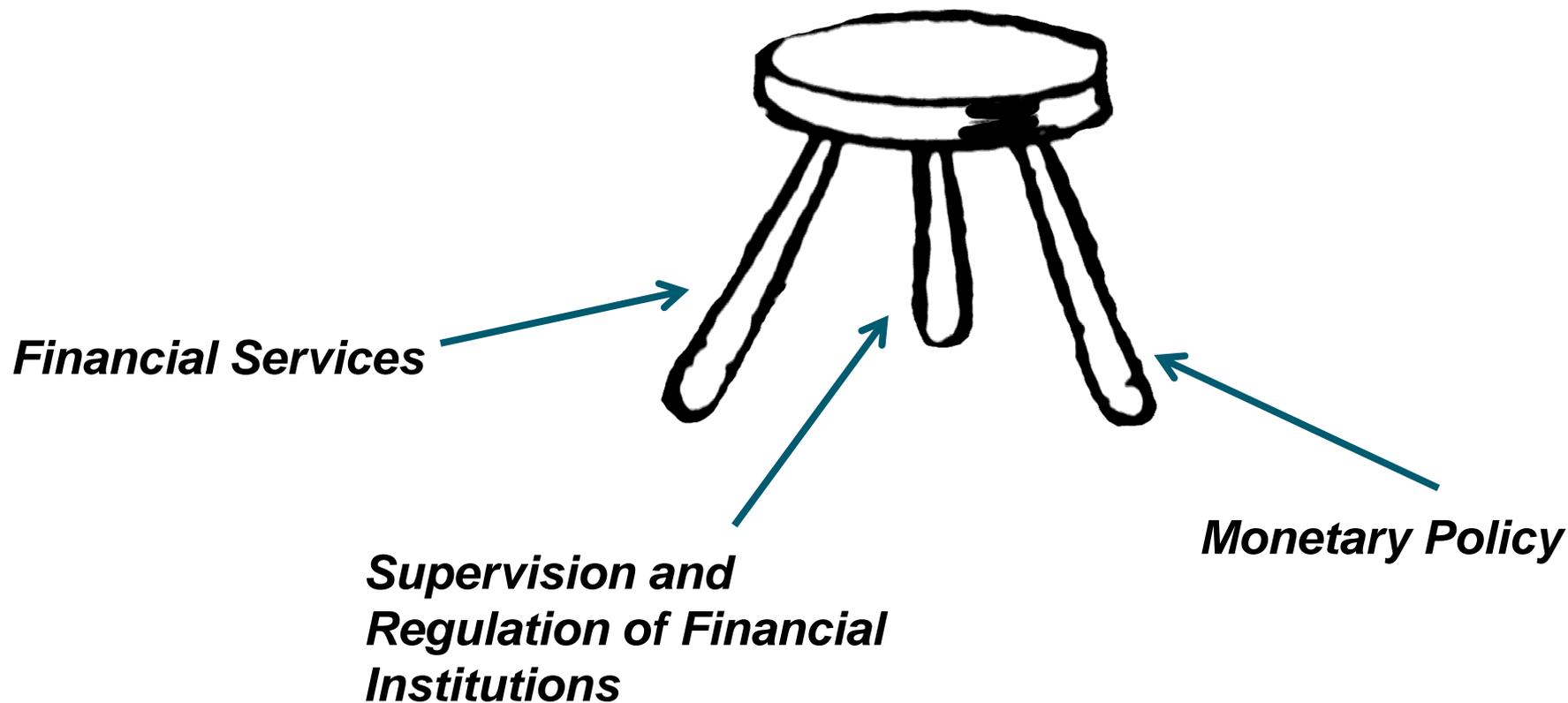
What Does the Fed Do Today?

The mission of the Federal Reserve System is to foster the stability, integrity, and efficiency of the nation's monetary, financial, and payments systems to promote optimal economic performance.



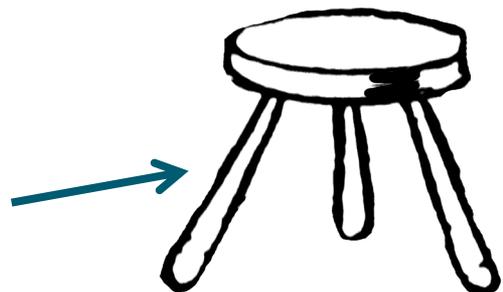


Three Legs of the Stool





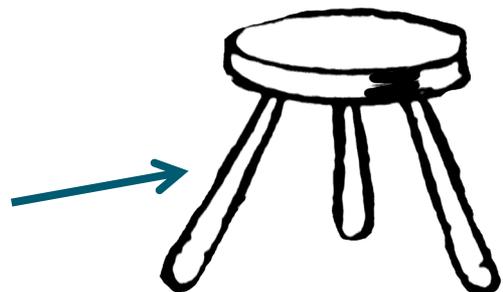
Financial Services





Financial Services

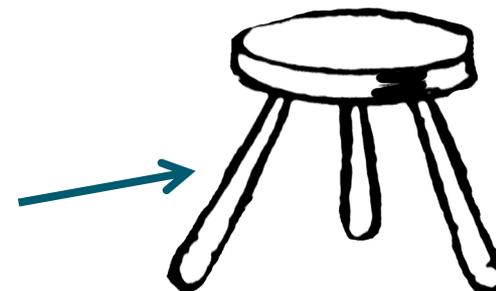
- Banker's bank





Financial Services

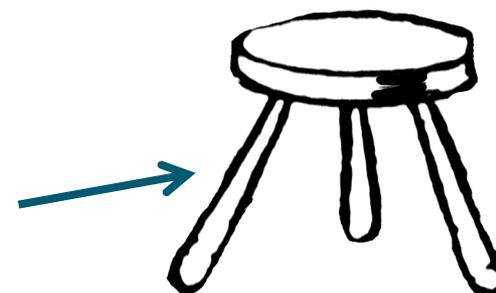
- Banker's bank
 - Check collection and processing





Financial Services

- Banker's bank
 - Check collection and processing
 - Electronic funds transfers





Federal Reserve Financial Services

Creating Nationwide Solutions for Your Payment Needs

FedCash® Services

Check Services

Fedwire® Services

FedACH® Services

Access Solutions

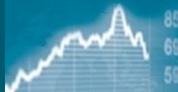
Treasury Services

Account Services

www.frbservices.org

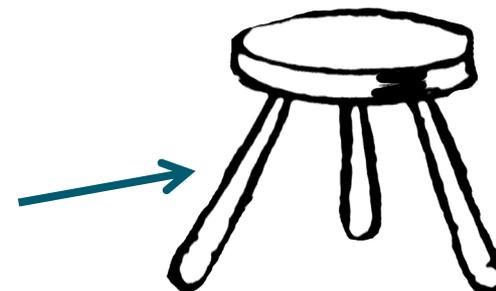


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Financial Services

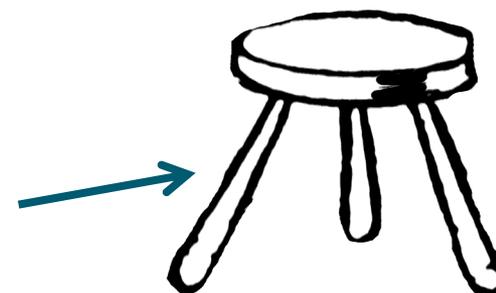
- Banker's bank
 - Check collection and processing
 - Electronic funds transfers
 - Currency and coin





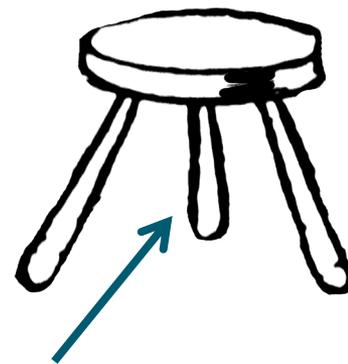
Financial Services

- Banker's bank
 - Check collection and processing
 - Electronic funds transfers
 - Currency and coin
- Treasury services





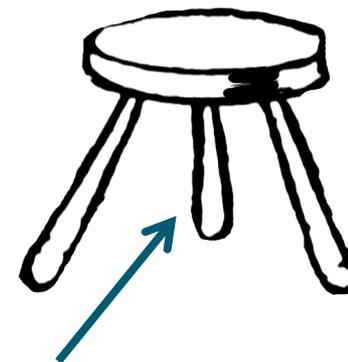
Supervision and Regulation





Supervision and Regulation

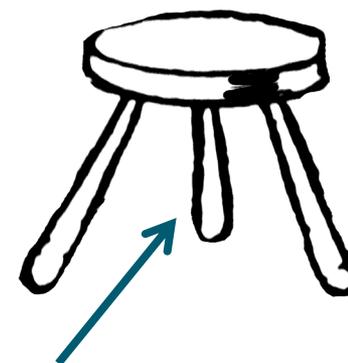
- Regulation





Supervision and Regulation

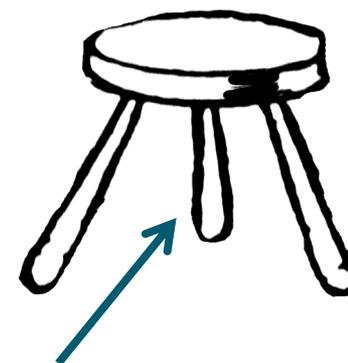
- Regulation
- Supervision
 - State member banks
 - Bank holding companies
 - Savings and loan holding companies (as of 2012)
 - Systemically important financial institutions (as of 2012)





Supervision and Regulation

- Regulation
- Supervision
 - State member banks
 - Bank holding companies
 - Savings and loan holding companies (as of 2012)
 - Systemically important financial institutions (as of 2012)
- Consumer Protection





Monetary Policy





Monetary Policy

- What is monetary policy?





Monetary Policy

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- What are the objectives of monetary policy?
 - “...promote effectively the goals of **maximum employment**, **stable prices**, and **moderate long-term interest rates**”





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- What is price stability and why do we care about it?





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- What is price stability and why do we care about it?
- How does the Federal Reserve affect employment and price stability?



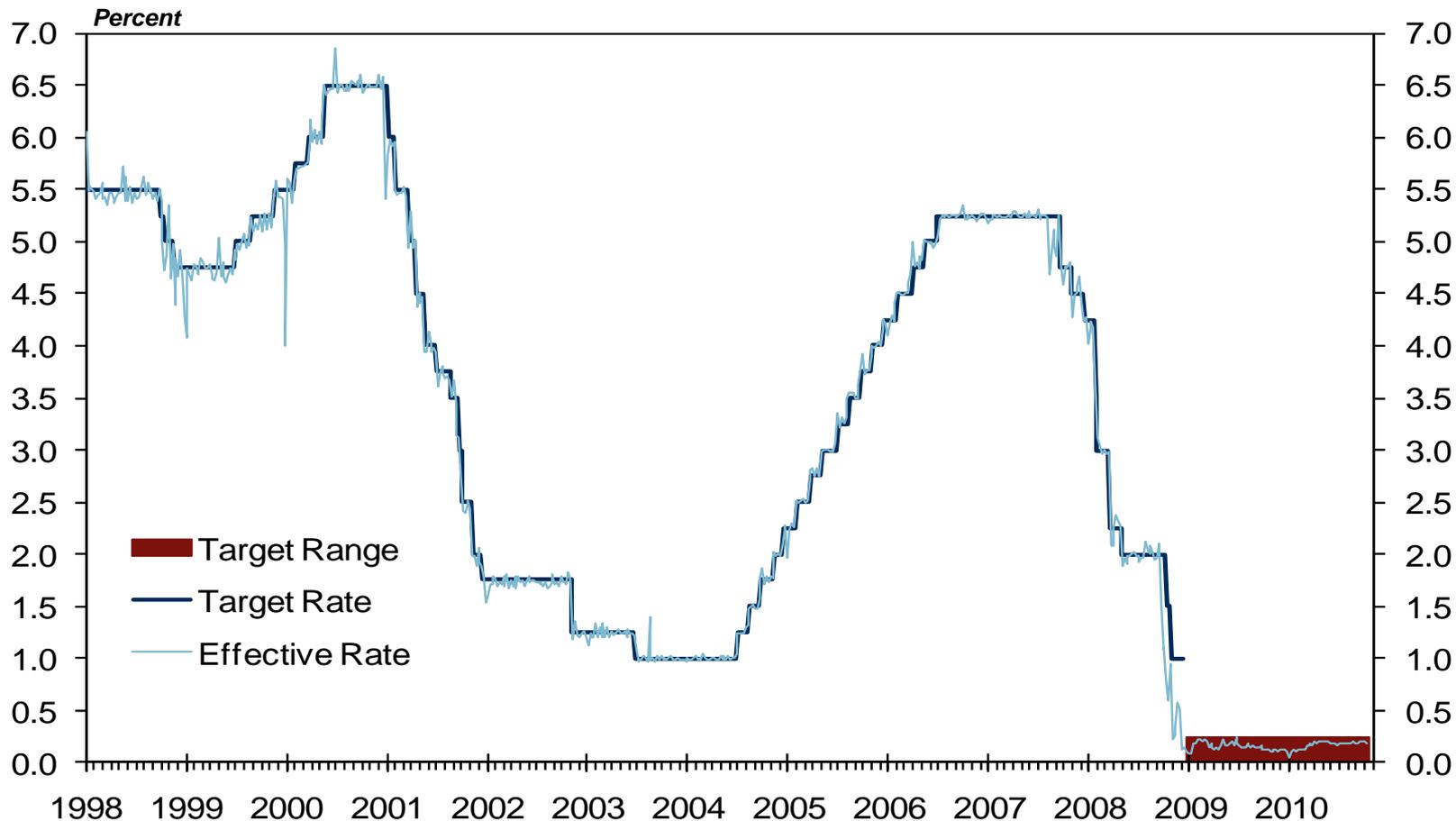


Who Conducts Monetary Policy?





Monetary Policy Instruments





Tools of Monetary Policy

- Open market operations (think Federal funds rate)
- Discount rate
- Reserve requirements
- Interest on reserves (new!)



What Else Does the Fed Do?

- Research





What Else Does the Fed Do?

- Research
- Community Development



What Else Does the Fed Do?

- Research
- Community Development
- Economic Education



What Else Does the Fed Do?

- Research
- Community Development
- Economic Education
- Regional Outreach



The Bottom Line

- The Federal Reserve System was created in 1913 to provide the nation with a safer, more flexible, and more stable monetary and financial system.
- Through payments services, supervision and regulation of financial institutions, implementation of monetary policy, and research and outreach efforts, the Board of Governors and the Federal Reserve Banks strive to fulfill that mission everyday.



The views expressed here are those of the author, and do not necessarily represent those of the Federal Reserve Bank of Richmond or the Federal Reserve System.



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