The Federal Reserve System

FOMC

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A Brief History

- Several bank panics in the 19th century, especially 1893 and 1907.
- National Banking Commission established in 1907. After five years of study, recommended Federal Reserve System.
- President Wilson signed law establishing Federal Reserve System in 1913.

The Basics of the System

- This is a "bank's bank".

- Only banks have accounts at Fed.
- Bank of England
- European Central Bank
- Bank of Japan

The Basics of the System

- **Twelve District Banks**

- Atlanta
- Boston
- Cleveland
- Dallas
- Denver
- Kansas City
- Minneapolis
- New York
- Philadelphia
- Richmond
- St. Louis
- San Francisco

The Basics of the System

- **Twelve District Banks**

- Board is one-third appointed by Board of Governors and two thirds elected by banks in district.
- Bank board elects its own president, subject to approval by Board of Governors.

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- **Board of Governors**

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- All appointed by President, subject to Senate confirmation.

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- **Federal Open Market Committee (FOMC)**

- Seven members of Board of Governors
- President of NY District Bank and four other district presidents on rotating basis.

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- **This group sets monetary policy.**

The Ba

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The FOMC meets in Washington on Tuesday morning every six weeks throughout the year to review the economy's performance, and decides what action to take, if any, in regards to monetary policy.

monetary policy.

Independence of Fed

- 14 year terms
- District Banks have real independence and appoint 5 of 12 members of FOMC.
- President and Congress have little day-to-day control.

Independence of Fed

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- Most economists approve of this degree of independence
- Some argue that the independence of the Federal Reserve System makes it unresponsive to the will of the majority.

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Independence of Fed

Factoid:

Nations with independent central banks have lower inflation rates than nations where the central bank is subject to political control.

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