U.S. Banking & the Federal Reserve Timeline

Directions: Fill in the event that matches the date & fill in its impacted the economy in the corresponding box.

Event		Impact on U.S. Economy
	1775-1779	
	1836-1865	
	1840s	
	1861	
	1863	
	1900	
	1913	
	1929-1933	
	1933	
	1935	
	1971	

IMPORTANT EVENTS IN THE HISTORY OF MONEY & BANKING IN THE U.S.

Directions: The following events are not in order. Utilize the Significant Events handout to help identify when these events occurred. On the Timeline worksheet on the other side of this page, fill in the title (below they are in bold) of the event into the correct space and then provide a short summary as to how the event impacted the economy in the box provided.

1. **The Federal Reserve Act was passed** by Congress, orchestrated by President Woodrow Wilson, and established a much needed U.S. central bank. It also created the Federal Reserve notes, which eventually become the universal currency in the U.S.

2. **The Gold Standard Act** was passed, which defined a dollar as the equivalent to 1/20.67 of an ounce of gold. Though a variety of types of currency was still being used by Americans, they could now be exchanged for gold at the Treasury.

3. The Great Depression resulted in the failure of nearly 10,000 banks during this four-year period. **A "bank holiday" was declared by President Franklin Delano Roosevelt** to avoid bank runs.

4. **The Free Banking Era** allowed many state-chartered, city, and private businesses to issue their own paper money. This resulted in over 1600 banks, issuing more than 10,000 different kinds of paper currency.

5. During the Civil War **the National Bank Act was passed**, creating a system of national banks whose currencies were backed by the U.S. government securities. This Act allowed banks to issue a reliable and uniform currency for the nation. An amendment to the Act required taxation on state bank notes, but not on national bank notes.

6. To help build customer confidence in the banking industry **The Banking Act was passed, which established the Federal Deposit Insurance Corporation (FDIC).** This allowed for customer deposits to be insured in case of bank failures.

7. **The Continental Congress issued Continental Currency t**o help finance the American Revolution.

8. **The California Gold Rush increased the amount of gold coins,** which later allowed for the Gold Standard to be established as there was enough gold stock.

9. **President Nixon officially ends the Gold Standard** and the price of gold is now based on of supply and demand instead of a standard amount.

10. **The U.S. began to abandon the Gold Standard** by requiring citizen to turn in gold coins and no longer allowed citizens to redeem dollars for gold.

11. **To help fund the Civil War, Congress printed "greenbacks"**, which became a new legal tender. The color of the notes, helped to distinguish them from the state notes.

Once you've completed your timeline answer the following questions:

1. Who was in charge of the Fed during the 1990s?

2. In the 1980s, which act passed that allowed banks to begin offering more services, like investment banking?

3. What is one of the challenges the Fed faces going forward?

SIGNIFICANT EVENTS IN THE HISTORY OF U.S. MONEY & BANKING

1775-1791: U.S. Currency in the Beginning

To finance the American Revolution, the Continental Congress printed the new nation's first paper money. Known as "Continentals," the **fiat currency** notes were issued in a large quantity and that led to inflation, which, although mild at first, rapidly accelerated as the war progressed. Eventually people lost faith in the notes, and the phrase "Not worth a Continental" came to mean "utterly worthless."

The U.S. Constitution (Article 1 Sections 8 & 10) states that only the federal government can coin money and states cannot coin money, therefore, the federal government was no longer allowed to print paper currency and could only create coins. Printing money was left to the **states banks**.

1791-1811: First Attempt at Central Banking

At the urging of Treasury Secretary Alexander Hamilton, in 1791 Congress established the First Bank of the United States, headquartered in Philadelphia. It was the largest corporation in the country and was dominated by big banking and money interests. Many agrarian-minded Americans, uncomfortable with the idea of a large and powerful central bank, opposed it. By 1811 when the bank's 20-year charter expired, Congress refused, by one vote, to renew it.

1836-1865:The Free Banking Era

State-chartered banks and unchartered "free banks" took hold during this period, issuing their own notes, redeemable in gold or **specie**. Banks also began offering **demand deposits** to enhance commerce. In response to a rising volume of check transactions, the New York Clearinghouse Association was established in 1853 to provide a way for the city's banks to exchange checks and settle accounts. However, by the beginning of the Civil War, more than 1600 banks were issuing more than **10,000** different kinds of paper currency. Many did not have gold or silver backing, which was required. When people went to use their notes, merchants would often reject them if they showed up on the bad currency list.

1840s: California Gold Rush

The gold rush in California increased the amount of gold coins in circulation and by the end of the Civil War, gold coins were everywhere. This helped to lead to the **Gold Standard** in early 1900s due to the increased supply of gold.

1861: Printing Greenbacks

The Civil War began in 1861, which required both the Union and the Confederacy to raise huge sums of money. When Congress failed to sell enough bonds to raise the money needed for the war, they decided to print paper currency for the first time. They printed $60 million in new currency that was not backed by gold or silver. This new currency was declared **legal tender** by Congress and was required to be accepted as payment. Due to the green ink on the reverse side they were called "**greenbacks**", which made them easy to distinguish from state notes that were black on the back.

1863: National Banking Act

During the Civil War the National Bank Act of 1863 was passed.This created **national banks**, which issued circulating notes that had to be backed by U.S. government securities. An amendment to the Act required taxation on state bank notes but not on national bank notes, effectively creating a uniform **national currency**. Despite taxation on their notes, state banks continued to flourish because of the growing popularity of demand deposits, which had taken hold during the Free Banking Era.

1873-1907: Financial Panics Prevail

Although the National Bank Act of 1863 established some measure of currency stability for the growing nation, **bank runs** and financial panics continued to plague the economy. In 1893 a banking panic triggered the worst depression the United States had ever seen, and the economy stabilized only after the intervention of financial mogul J.P. Morgan.It was clear that the nation's banking and financial system needed serious attention.

1900: The Gold Standard Act of 1900
The Gold Standard defined a dollar as the equivalent to 1/20.67 of an ounce of gold. People continued to use greenbacks, Gold Certificates, Silver Certificates, National Bank Notes, and other federal currency that specified the number of dollars they represented, but they could now be exchanged for gold at the Treasury. However, most people preferred paper currency to gold, so banks didn't need to keep much on hand. The main advantages of the gold standard are that people feel more secure about their currency and it prevented the government from creating too much money because gold is a scarce resource. Disadvantages include the fact gold is scarce, which causes slow economic grown as there is less money in circulation and if a large number of people decide to convert their currency at the same time the gold reserves could be drained and there could not be enough.

1907:A Very Bad Year
In 1907 a bout of speculation on Wall Street ended in failure, triggering a particularly severe banking panic. J.P. Morgan was again called upon to avert disaster. By this time most Americans wanted reform of the banking system, but the structure of that reform was cause for deep division among the country's citizens. Conservatives and powerful "money trusts" in the big Eastern cities were vehemently opposed by "progressives." But there was a growing consensus among all Americans that a central banking authority was needed to ensure a healthy banking system and provide for an elastic currency.

1913:The Federal Reserve System is Born
By December 23, 1913, when President Woodrow Wilson signed the Federal Reserve Act into law, it stood as a classic example of compromise—a decentralized **central bank** that balanced the competing interests of private banks and populist sentiment. The Fed was set up similar to a corporation. Any bank that joined had to purchase shares of stock in the system. As part share holders, banks own the Federal Reserve System, not the government. The Fed's currency is called the **Federal Reserve Notes**, which eventually replaced all other types of federal currency. It is a banker's bank, able to lend money to other banks during difficult periods.

1920s:The Beginning of Open Market Operations
FollowingWorld War I,Benjamin Strong, head of the NewYork Fed from 1914 to his death in 1928, recognized that gold no longer served as the central factor in controlling credit. Strong's aggressive action to stem a recession in 1923 through a large purchase of government securities gave strong evidence of the power of open market operations to influence the availability of credit in the banking system.During the 1920s the Fed began using open market operations as a monetary policy tool. During his tenure, Strong also elevated the stature of the Fed by promoting relations with other central banks, especially the Bank of England.

1929-1933:The Market Crash and the Great Depression
During the 1920s Virginia Rep. Carter Glass warned that stock market speculation would lead to dire consequences. In October 1929 his predictions were realized when the stock market crashed, and the nation fell into the worst depression in its history. From 1930 to 1933 nearly 10,000 banks failed. If account holders become worried about their bank, they would rush to withdraw money before it failed, creating a **bank run**. By March 6, 1933, newly inaugurated President Franklin Delano Roosevelt declared a **bank holiday** that lasted four days, while government officials grappled with ways to remedy the nation's economic woes. Many people blamed the Fed for failing to stem speculative lending that led to the crash, and some also argued that inadequate understanding of monetary economics kept the Fed from pursuing policies that could have lessened the depth of the Depression.

1933:The Depression's Aftermath
In reaction to the Great Depression,Congress passed the Banking Act of 1933. The Act also established the **Federal Deposit Insurance Corporation (FDIC)**, to insure customer deposits in case of bank failures, which had been a major issue at the beginning of the Depression. This helped to increase customer confidence, which decreased the number of bank runs. If a bank is in danger of collapsing, the FDIC can seize the bank, sell it to a stronger one, or liquidate it and pay off the depositors.

1935: Abandoning the Gold Standard
Due to bank failures and bank runs, gold stock held by the U.S. government had significantly shrank. In 1933 FDR a issued a series of orders that denied the gold standard to citizens. It required citizens to turn in their gold coins, which was later sold to foreign governments at a higher price. By 1935, U.S. citizens could no longer redeem dollars for gold, but foreign governments were allowed to do so at an increased price.

1935: More Changes to Come
The Banking Act of 1935 called for further changes in the Fed's structure, including the creation of the Federal Open Market Committee (FOMC) as a separate legal entity, removal of the Treasury Secretary and the Comptroller of the Currency from the Fed's governing board, and the establishment of members' terms at 14 years. Following World War II, the Employment Act added the goal of promoting maximum employment to the list of the Fed's responsibilities. In 1956 the Bank Holding Company Act named the Fed as the regulator for bank holding companies, and in 1978 the Humphrey-Hawkins Act required the Fed chairman to report to Congress twice annually on monetary policy goals and objectives.

1970s-1980s: Inflation and Disinflation
The 1970s saw inflation skyrocket as producer and consumer prices rose, oil prices soared, and the federal deficit more than doubled. By August 1979, when Paul Volcker was sworn in as Fed chairman, drastic action was needed to break inflation's stranglehold on the U.S. economy. Volcker's leadership as Fed chairman during the 1980s, though painful in the short term, was successful overall in bringing double-digit inflation under control.

1971: The Official End of the Gold Standard
Due to the changes made to the Gold Standard by FDR, the official price of gold had been steady from World War II till 1971, at $35 per ounce, which was still being sold to foreign governments, but was still unavailable to American citizens. On August 5, 1971, President Nixon took the final step to completely remove the U.S. from the Gold Standard and declared the U.S. would no longer redeem any dollars for gold. Since then, the price of gold has fluctuated with changes in supply and demand.

1980: Setting the Stage for Financial Modernization
The Monetary Control Act of 1980 required the Fed to price its financial services competitively against private sector providers and to establish reserve requirements for all eligible financial institutions.The Act marks the beginning of a period of modern banking industry reforms. Following its passage, interstate banking proliferated, and banks began offering interest-paying accounts and instruments to attract customers from brokerage firms. Barriers to insurance activities, however, proved more difficult to circumvent. Nonetheless, momentum for change was steady, and by 1999 the Gramm-Leach-Bliley Act was passed, in essence overturning the Glass-Steagall Act of 1933 and allowing banks to offer a menu of financial services, including investment banking and insurance sales.

1990s:The Longest Economic Expansion
Two months after Alan Greenspan took office as Fed chairman, the stock market plummeted— on October 19,1987. In response, he ordered the Fed to issue a one-sentence statement before the start of trading on October 20:"The Federal Reserve, consistent with its responsibilities as the nation's central bank, affirmed today its readiness to serve as a source of liquidity to support the economic and financial system." Since then, the Fed has used monetary policy on a number of occasions—including the credit crunch of the early 1990s and the Russian default on government bonds—to keep potential financial problems from adversely affecting the real economy. Greenspan's tenure has been marked by generally declining inflation and the longest peacetime economic expansion in our country's history.

2000 & Beyond
The Federal Reserve faces many new challenges in the financial services industry: deregulation, technological advances in the payments system, and the move to a global economy