



Banking and the Federal Reserve

OKLAHOMA HISTORY CENTER EDUCATION DEPARTMENT

A **bank** is an important financial institution in the modern world. Many nations throughout the world have a central bank. These institutions act as financial agents for the governments that sponsor them, holding national funds, ensuring and regulating the value of their currency, and regulating their banks. The concept of a central bank is an old one. The United States chartered its first central bank in 1791. The **Federal Reserve** is the current central banking system of the United States of America. In 1913 Congress passed the Federal Reserve Act, which established the Federal Reserve. One of the most influential proponents of this act was Robert L. Owen, a senator from the young state of Oklahoma. Today, the Federal Reserve has a complex, but important, mission:



The First Bank of the United States, located on South 3rd Street in Philadelphia, Pennsylvania, built 1795–97 (courtesy Rare Book and Special Collections Division, Library of Congress).

1. To promote financial stability and sustainable economic growth
2. To foster the integrity, efficiency, and accessibility of payments and settlement systems
3. To promote the safety and soundness of the nation's banks

On this site, you can learn about the history of banks in the United States, how the Federal Reserve operates, the important figures of the Federal Reserve Act and American banking in the past, and also the basic concepts of the banking industry. Be sure to check out the activities, games, and coloring sheets when you are done!

Federal Reserve Act of 1913

In 1907, the failed attempt to corner the copper market by financiers caused a run on New York City banks. A bank **run** is when customers go to banks in large numbers and withdraw their money, which causes the bank to then call in their **loans** to other banks. The ripple effect spread throughout the country and the value of stocks at the New York Stock Exchange fell almost 50 percent. With the country on the verge of a crisis, it was a private citizen, J. P. Morgan, who stepped in to save the banks and halt the crisis. Many financiers and economists worried about what would have happened without J. P. Morgan, and began the call for a national bank that could perform similarly in the future.

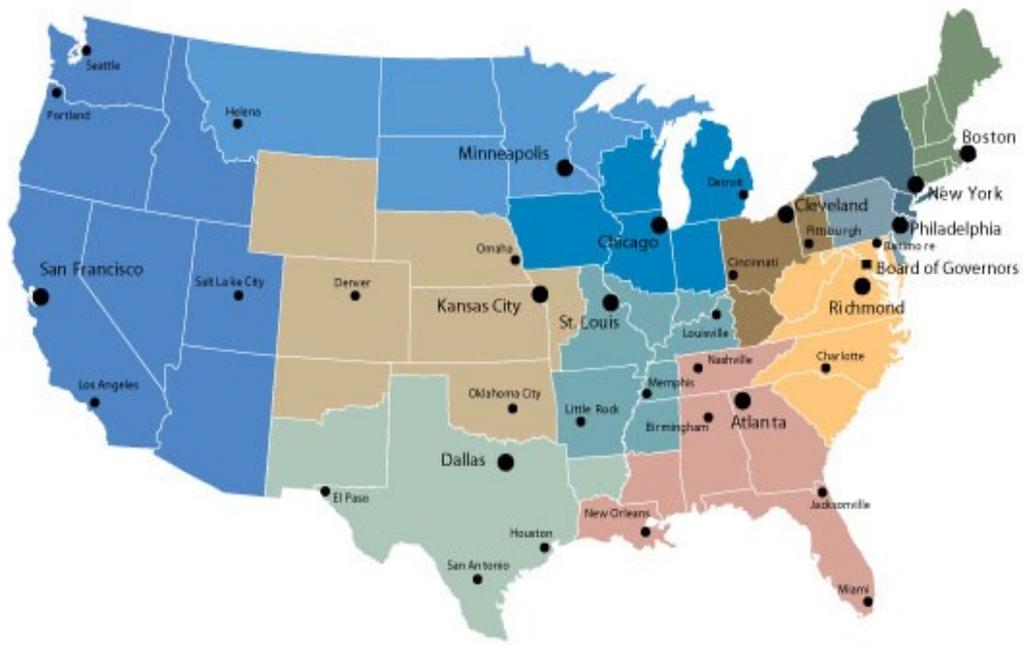
After the Panic of 1907, Congress began to seek a preventative solution so that a banking panic or run would never happen again. In order to accomplish this, they passed the Aldrich-Vreeland Act in 1908. The act allowed for the emergency production of **currency** in a crisis and created the National Monetary Commission. The Commission's job was to investigate any necessary changes to national banking and currency law. They spent three years researching the problem and settled on a plan to create the National Reserve Association.

Many in both houses of Congress, as well as the banking world, attacked the plan proposed by the Commission. They felt it gave too much power to large banks and did not have enough oversight from the government or the public. During the 1912 election, opposition to the Commission's plan was a central piece of the Democratic Party's platform. The Democrats won a majority of congressional seats and the presidency in that election and decided to seek a different solution.

Two solutions came from Democratic Congressman Carter Glass of Virginia and Democratic Senator Robert L. Owen of Oklahoma. Glass was the first to recommend a regional district structure to the Federal Reserve. The bill that Glass suggested, though, only included minimal oversight. Senator Owen felt that there needed to be more government control over the system. Congress spent hours debating the two bills, and both Senator Owen and Congressman Glass convinced many to support their bills. Most of the arguments were about two main issues: Who had control over the central bank and how much control should they have?

Eventually, Senator Owen's bill passed in the Senate and Congressman Glass' bill passed in the House. This meant that the differences in the two bills would have to be worked out in conference. What came out of conference was the Glass-Owen bill, or the **Federal Reserve Act of 1913**. The bill created the federal reserve system of twelve districts. A regional bank would act on behalf of the American people and their government in each of those districts, along with branch offices that would be opened as needed in each district. All of the banks in the reserve system would be subject to the general oversight of the Federal Reserve Board of Governors, based in Washington, DC. The President of the United States would appoint these board members and the US Senate would confirm his appointments.

The bill created by Senator Owen and Congressman Glass would be one of the most important pieces of legislation passed by Congress in the twentieth century. While there would be bumps along the road, the Federal Reserve System would become an important institution in the financial stability of the United States and play a role in every major event in its history for the next one hundred years.



This map shows the twelve districts of the Federal Reserve System. Kansas City is the Federal Reserve Bank for District Ten. It has branch locations in Denver, Oklahoma City, and Omaha. The Tenth District serves seven states: Colorado, Kansas, Nebraska, Oklahoma, Wyoming, western Missouri, and northern New Mexico (map courtesy of the Federal Reserve Bank of Kansas City).



This is the Seal of the Board of Governors of the Federal Reserve System. If you would like to see a real-life version of this seal, just look at any paper money. It's always located left of the portrait on the front of the bill (image courtesy of the Federal Reserve Bank of Kansas City).



This is a picture of the Senate Banking Committee in session during the debate about the Federal Reserve Act of 1913. At the time, Robert L. Owen, pictured on the right, was head of the committee (image courtesy of the Federal Reserve Bank of Kansas City).

Biographies

Robert Morris



This is an image of *The Apotheosis of Washington*, a mural painted in the US Capitol building. It shows Mercury bestowing money upon Robert Morris (image courtesy of the Architect of the Capitol).

Robert Morris, a merchant from Philadelphia before the American Revolutionary War, distinguished himself as a strong and honest leader. So much so, the Continental Congress came to depend on him for most of the supplies used by the Continental Army and Navy throughout the war. After Congress ratified the Articles of Confederation, Morris accepted the position of financier. This made him the second most powerful man in the thirteen states after General Washington, as he controlled how all the monies collected by Congress were spent. Morris also pressed for the first **chartered** bank and first attempt at a central bank in North America, the Bank of North America. Robert Morris was one of two men from the American Revolution to sign the Declaration of Independence, the Articles of Confederation, and the US Constitution.

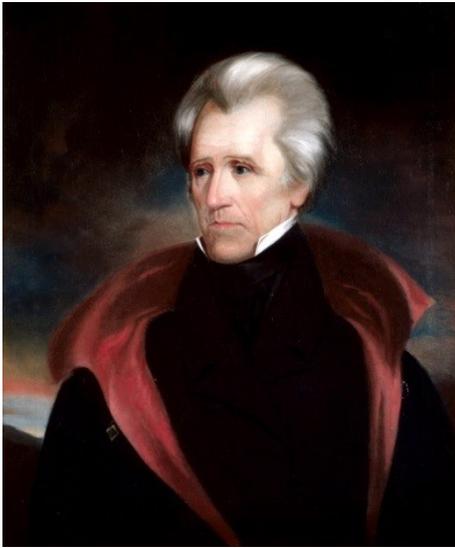
Alexander Hamilton

Alexander Hamilton was an aide to Robert Morris and General Washington's Chief of Staff. Hamilton held many of the same ideas about government and finance as Morris. Alexander Hamilton was the first Secretary of the Treasury under President Washington, and helped pass the acts responsible for the US Mint, the First Bank of the United States, and the first tax passed by the US Congress. Hamilton also founded the first political party, the Federalist Party, and co-authored the *Federalist Papers* with John Jay and James Madison.



Alexander Hamilton statue outside of the Treasury Building in Washington, DC. Hamilton is also featured on the ten-dollar bill (image courtesy of the Library of Congress).

Andrew Jackson



Portrait of Andrew Jackson
(image courtesy of the White House
Historical Association).

Andrew Jackson was the seventh President of the United States. He was a devout opponent of the Second Bank of the United States, and banks in general, due to his experiences in poverty as a child. He hated **debt** and the power it had over the common person, which influenced his decision to veto the re-chartering of the Second Bank. Andrew Jackson was also the only president in the history of the United States to eradicate the federal debt, by selling the land obtained in the Louisiana Purchase. The land sales also caused rampant land **speculation**, with many of the purchases made on **credit**. Along with the closing of the Second Bank and Jackson's use of the "**Spoils System**," this sparked the Panic of 1837 and plunged the United States into an economic depression for the next seven years.

J. P. Morgan



JP Morgan, 1902 (image courtesy of
the Library of Congress).

John Pierpont Morgan was a banker and businessman who came to dominate many of the United States' largest industries. He was responsible for creating General Electric and US Steel, with US Steel being the first billion-dollar company in the world. He aided the US government and economy in two of the largest panics of the late nineteenth and early twentieth centuries. In 1895, the US Treasury was running out of gold because of the Panic of 1893, when J. P. Morgan worked with a colleague to supply the Treasury with 62 million dollars in gold. In 1907 he again worked with several other banks to help end the Banking Panic of 1907. The public did not think well of his involvement in these crises and called for a federal solution to the central bank issue rose after the Panic of 1907. Continuing Morgan's legacy of financial power, JPMorgan Chase & Co. is the largest bank in the US and the second largest in the world.

Robert L. Owen



Robert L. Owen, 1907 (4322, Frederick S. Barde Collection, OHS).

Robert Latham Owen was born in Lynchburg, Virginia, in 1856. His father was president of a railroad company, and his mother was Cherokee, originally from Indian Territory. Robert attended school in Virginia and Baltimore, eventually receiving a master's degree from Washington and Lee University in 1877. In 1879, his father died unexpectedly, and Robert and his mother returned to Indian Territory. While there, he became the secretary of the Cherokee Board of Education and studied law.

After passing the bar, officials appointed Robert the head of the Union Agency of the Five Tribes. During this time, Owen practiced law and edited the *Vinita Indian Chieftain*. He argued many of his cases on behalf of the Five Civilized Tribes. He argued one of those cases, the "Eastern Cherokee" case, before the US Supreme Court and the decision awarded millions of dollars to members of the Cherokee tribe.

In 1890, Owen established the First National Bank of Muskogee and served as its president until 1900. It was during this time that he witnessed the problems associated with the Panic of 1893, which reinforced his belief in national banking reform. Owen began working with other politicians in Indian Territory on banking reform measures designed to prevent panics in 1896. Owen also worked to create a state for Indian Territory separate from

Oklahoma and attend the Sequoyah Convention of 1905 and the Oklahoma Constitutional Convention.

Owen ran for an Oklahoma senate seat after statehood in 1907. He received the most votes out of all the candidates and became one of Oklahoma's first senators as well as one of the nation's first senators of American Indian descent. Senator Owen went on to help create the Senate Banking Committee and served as its first chairperson. Owen also led on issues like child labor reform, women's suffrage, prohibition, and the direct election of senators.

In 1913, Owen helped cosponsor a bill that became the Federal Reserve Act. Owen sponsored the bill in the Senate, while Congressman Glass from Virginia sponsored the bill in the House. Owen led the debate in the Senate, and the bill was passed on December 18, 1913, by a vote of 54-34.

Owen had many other political victories, including the passage of the Child Labor Law of 1916, but retired in 1925. He remained in Washington, DC, as a lawyer and lobbyist, voicing his opinions on how to stimulate the economy throughout the Great Depression. Robert L. Owen died of surgical complications on July 19, 1947, at the age of 91.

Oklahoma City Branch

When the Federal Reserve Act of 1913 passed through Congress, it created twelve Federal Reserve districts. In each of these districts there was one Federal Reserve Bank and as many branch banks as needed. The Federal Reserve Bank of Kansas City is the seat of the tenth Federal Reserve district, which includes all of Oklahoma. Many communities in the tenth Federal District called for a branch office. The Federal Reserve decided to open branch offices in Omaha, Denver, and Oklahoma City.

The Oklahoma City branch office opened on August 2, 1920. It was located inside the Continental Building on Second Street and Broadway. In 1921, the bank moved to its permanent location on Third Street (today Dean A. McGee Avenue) and Harvey, paying \$65,000 for the property. The first portion of the Oklahoma City branch office was finished in 1923. There was an addition added to the building in 1958. *The Daily Oklahoman* called the building “a financial rock of Gibraltar.”

The Federal Reserve Branch Bank of Oklahoma City has many goals and objectives. The Oklahoma City Branch provides economic education, regulates and oversees the operations of banks in the southern part of the Tenth District, and serves as a place for members of the local community to share insight about local economic issues.

[US Mint Interactive Map](#)



This is a photo of the property at Third and Harvey before the bank was built (image courtesy of the Federal Reserve Bank of Kansas City).



This is a photo of the original Oklahoma City Branch office, built in 1923 (image courtesy of the Federal Reserve Bank of Kansas City).



This is a photo of the Oklahoma City Branch office shortly after its addition was completed in 1958 (image courtesy of the Federal Reserve Bank of Kansas City).

Economic Concepts

Banking



Bank tellers from the Liberty Bank and Trust Company, 1957 (20929.2010.02, Rodger Harris Collection, OHS).

A **bank** is a company that makes financial transactions. The government grants charters to banks. A **charter** is a document that authorizes a company to exist. Banks are not legal without a charter. Banks take deposits from customers and use that money to fund **investments** such as home and business loans and stocks. They promise to maintain the value of the customer's deposit, and they offer a percentage of the **profit** they make from their investments. This is how savings accounts have an **interest** rate.

A banking panic is a special crisis that can cause a bank to fail. A bank fails if it does not have enough money to pay all of its deposits and debts. This can happen for many reasons, similar to a stock market crash. Since the Great Depression of the 1930s, the Federal Deposit Insurance Corporation, or FDIC, has insured deposits in banks. This means that even if the bank fails, the depositor's money is safe. Before the Federal Reserve System existed, bank failures were common. One of the goals of the Federal Reserve is to provide stability for banks and the people of the United States. It helps to do this by inspecting banks to make sure they are not close to failing, although sometimes banks can fail no matter how hard everyone works to try to help it.

[Watch this video to learn how money is made!](#)

Currency

Currency is an object or group of objects used in the exchange of goods and services. In the United States of America, there is currency in the form of paper bills and metal coins. These bills and coins represent value that is given to another for something in return, like paying \$1.25 for a bottle of soda. Currency was exchanged for an object that had value.

American Currency has had many shapes, sizes, and even different values. The United States used to have a "hard currency." This meant that the paper bills used in exchanges had a specific value in precious metals, such as gold or silver. Today, the United States uses a "soft," or "fiat" currency. This means that the government of the United States alone backs the value of the US dollar. People's belief in the United States government affects the value of its currency. All of the most-used currencies in the world today are fiat currencies.

Glossary

bank: A place of business that lends, exchanges, takes care of, or issues money.

charter: An official document granting, guaranteeing, or showing the limits of the rights and duties of the group to which it is given.

circulation: The passage of money from person to person or place to place.

coin: A piece of metal put out by a government authority as money.

credit: An amount that a bank or company will let a person use with the promise of future repayment.

currency: Money in circulation.

debt: Something owed to another.

Federal Reserve: The current central banking system of the United States of America.

Federal Reserve Act of 1913: Written by Senator Robert L. Owen of Oklahoma and Congressman Carter Glass, the bill created the federal reserve system of twelve districts.

interest: A charge for borrowed money that is generally a percentage of the amount borrowed.

invest: To lay out money to return a profit.

loan: Money lent at interest.

profit: The gain after all the expenses are subtracted from the amount received.

regulation: A rule or order telling how something is to be done.

run: When a large number of customers withdraw their deposits from a bank at the same time because they are worried that the financial institution might go under or close and they will lose their money.

speculation: The taking of a big risk in business in hopes of making a big profit.

spoils system: A practice where a political party, after winning an election, gives government jobs to its voters as a reward for working toward victory, and as an incentive to keep working for the party.

Activities

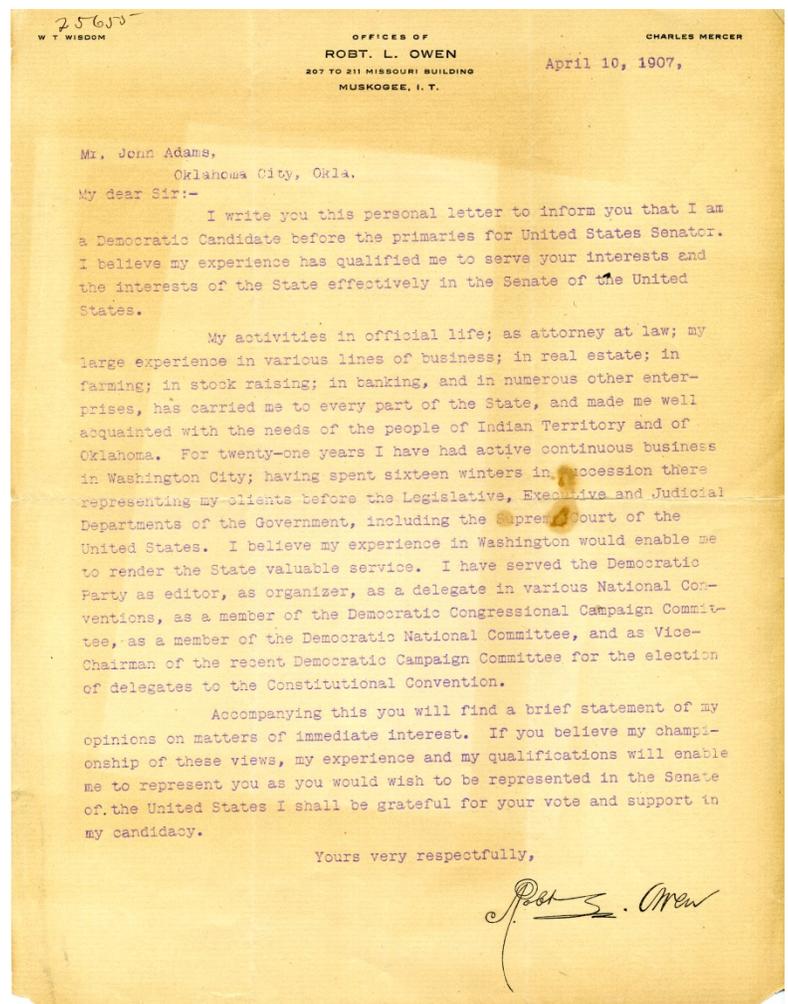
Announce Your Candidacy for the Senate!

When Oklahoma became a state in 1907, one of the first orders of business was electing the representatives the people of Oklahoma were sending to Congress. In that first election, there were seven candidates for senator, and Robert Owen received the most votes of all of them. Before he was elected, though, he had to announce his intent to run for the seat. In those days, it meant writing letters asking for support from people in the coming election, a lot like how a person can write a cover letter to apply for a job.

Here is a copy of a letter Robert L. Owen wrote to a constituent, asking him for his support in the coming election. Read it carefully and note how the future senator creates a strong argument for supporting him. Now, write a letter announcing your own candidacy for the Senate.

Remember:

1. Create a strong argument for support.
2. Be polite and brief! You are trying to win voters, not lecture them to sleep!
3. Remember to structure your argument well. You want the reader to conclude that you are the best person for the job. What evidence do you have to convince them of this?
4. Think about the qualities you see in a good leader and use examples from your own life of experiences that show those qualities within you!



(OHS Collections)

Debate!

The Federal Reserve System is the product of years of work by the members of Congress. A lot of that work included debating the merits of differing ideas about money and power. You can use the information in this website and any of your own research to have a debate with classmates about the Federal Reserve, or you can choose your own topic to debate. For example, which ice cream flavor is the best? Or, should the voting age be lowered to 16? Or even, is homework an effective educational tool?

Here are some important rules for debating:

1. A debate is a controlled discussion where two opposing views are expressed in order to convince an audience to take one of the views as their own. One side should go first, and present their argument in five to ten minutes. The second person or group can then respond while presenting their own argument in five to ten minutes. The first group should then be given no more than five minutes to rebut the second group's position.
2. The topic of the debate should always be the focus of your statements. You should not direct statements to your opponent(s), but you can address the statements they have made. Always be polite. You are having a discussion, not a shouting match. You should also save your comments for your allotted time and do not speak during your opponent's time.
3. Take time to write out your statements and practice speaking them. Presentation can have a strong effect on how well your audience understands or receives your argument.
4. Make sure you pay attention to what your opponent is saying. He or she may make a mistake you want to address during your time to present.

Here are some questions to help you decide what position you want to take if you decide to debate the creation of the Federal Reserve System:

1. Is there enough evidence that a central bank is necessary or a good thing?
2. Does the structure of the Federal Reserve System make sense? Or are there other ways to organize a central bank that make more sense? Why, or why not?
3. Does the government have too much or too little control over the actions of the Federal Reserve?
4. Should the United States government be involved in the market economy at all? Why, or why not?



et

HELP THOMAS JEFFERSON BUY SHEEP!

He wants to buy some new sheep but can't find all of his money. He could only find his pocket change. Count the change that President Jefferson was able to find!

This is what he found in his bedroom:



25¢ 10¢ 10¢ 10¢ 5¢ 1¢

Total

This is what he found in his living room:



This is what he found in his kitchen sink:



How much change did the President find altogether?

President Jefferson is thinking about buying four lambs. Each lamb costs 30¢. How much would four lambs cost?

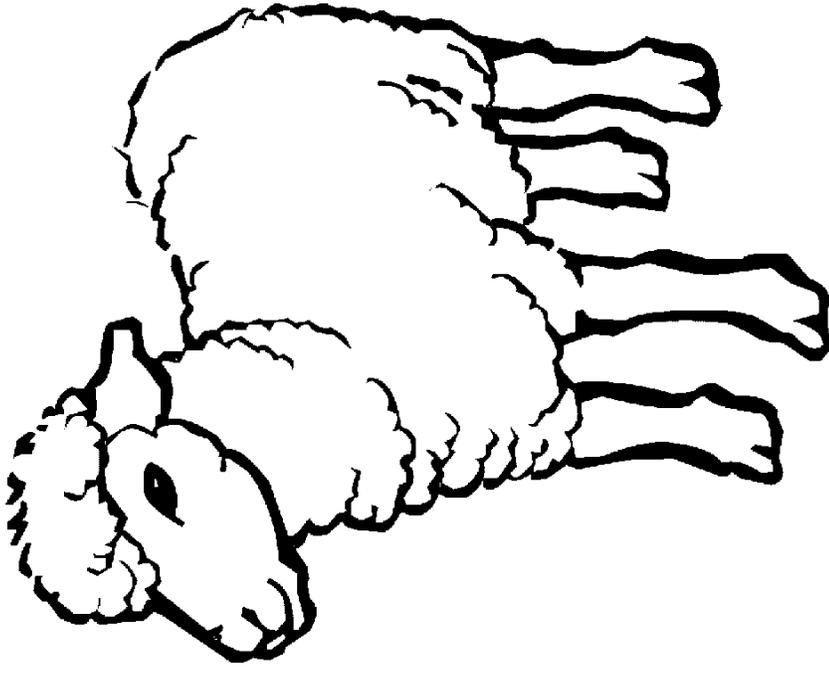
President Jefferson also wants two adult sheep. Adult sheep cost 75¢. How much would two adult sheep cost?

The President has decided to buy three lambs and one adult sheep. How much do three lambs and one adult sheep cost?

Did you know...?

President Jefferson had his own herd of sheep and often bought sheep from Europe so he could study the different types. He especially liked a type of sheep called a “Barbary Broadtail,” or a Tunis. He liked the flavor of their meat and the quality of their wool. When President Jefferson attended James Madison’s Inauguration in 1809, he wore a coat made from the wool of American sheep, saying: “Homespun is become the spirit of the times. I think it an useful one, and therefore that it is a duty to encourage it by example.”

Courtesy of Monticello and the Thomas Jefferson Foundation



Design Your Own Coin

Coins have been used as money for thousands of years. Many coins share similar designs. Most coins have a portrait on the front and some kind of symbol on the back. A symbol is a picture that is used instead of words and can mean different things. For example, the back of quarters has a piece of the Great Seal of the United States on it. It shows an eagle holding an olive branch and arrows. The olive branch has been a symbol of peace for thousands of years, while the arrow is a symbol of war. This means that the Great Seal of the United States symbolizes peace, but is prepared for war.

Take a moment to examine these coins from America's past. Then, use the template to design your own coin!

When you've finished designing your coin, show it to your friends, parents, or teacher, and explain to them why the symbols and sayings you've used are important to you!



The back of the US quarter dollar has not changed much in a long time. This quarter is from 1898, and features the phrase printed on all standard US coins: *E Pluribus Unum*. This is Latin for "Out of Many, One" (image courtesy of the US Mint).



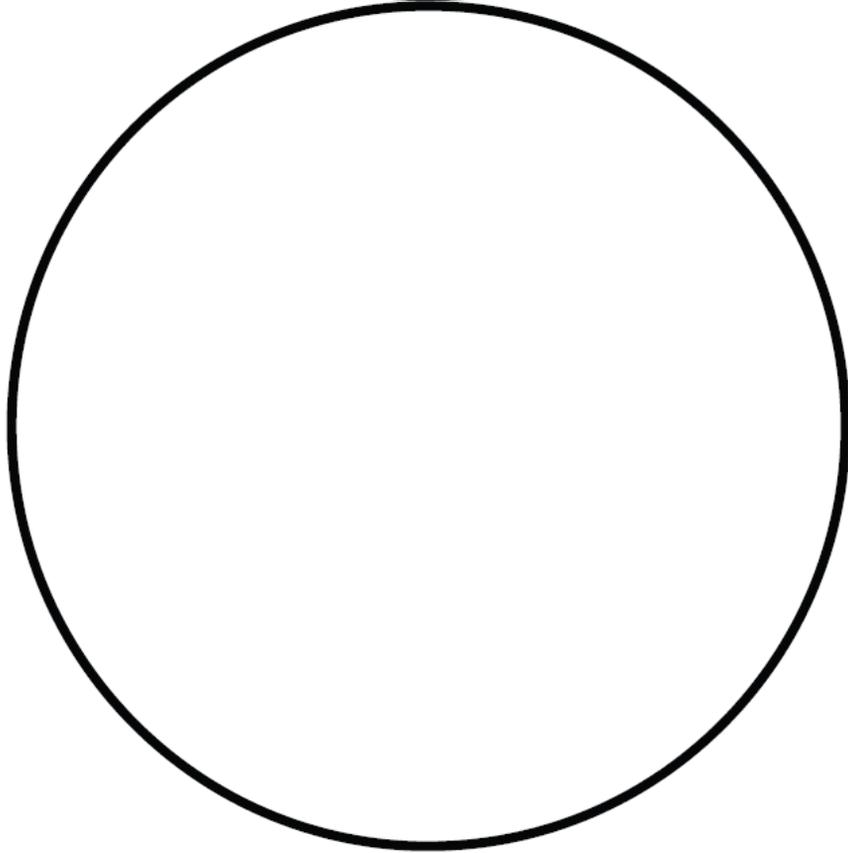
In case you think that commemorative coins are new, this coin from 1923 was made to celebrate two American presidents: John Quincy Adams and James Monroe. John Quincy Adams was the first president who was not a Founding Father (image courtesy of the US mint).



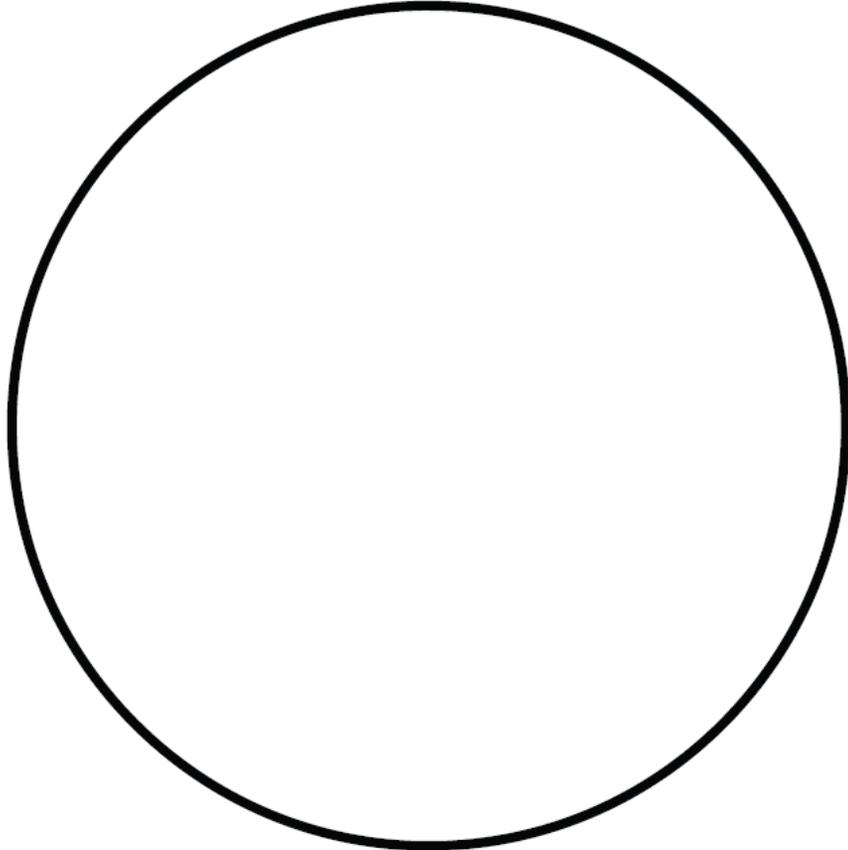
The Lincoln penny was first minted in 1909. Minting is how you make a coin with a stamping machine (image courtesy of the US Mint).

Draw Your Own Coin Template

Front



Back





h.i.p.
pocket
change™

TM, ©1999 The United States Mint



You can find more coins to color online at:

www.usmint.gov/kids



h.i.p.
pocket
change™

TM. ©1999 The United States Mint



You can find more coins to color online at:

www.usmint.gov/kids

Bibliography

Books

- Bernstein, Peter L. *A Primer on Money, Banking, and Gold*. Hoboken, N.J.: Wiley, 2008.
- Chernow, Ron. *The House of Morgan: An American Banking Dynasty and the Rise of Modern Finance*. New York: Grove, 2001.
- Friedman, Milton. *Money Mischief: Episodes in Monetary History*. New York: Harcourt Brace Jovanovich, 1992.
- Griffin, G. Edward. *The Creature from Jekyll Island: A Second Look at the Federal Reserve*. Westlake Village, CA: American Media, 2002.
- Hendrickson, Jill M. *Regulation and Instability in US Commercial Banking: A History of Crises*. Houndmills, Basingstoke, Hampshire: Palgrave Macmillan, 2011.
- Hightower, Michael J. *Banking in Oklahoma Before Statehood*. Norman: University of Oklahoma Press, 2013.
- Lewis, Lawrence. *A History of the Bank of North America*. Philadelphia: J.B. Lippincott & Co., 1882.
- Madeleine, Sister M. Grace. *Monetary and Banking Theories of Jacksonian Democracy*. Philadelphia: Dolphin Press, 1943.
- McGuire, Paul F. *Genesis of Oklahoma Oil Banking*. Muskogee, Oklahoma: Western Heritage Books, 1986.
- Meltzer, Allan H. *A History of the Federal Reserve*. Chicago: University of Chicago Press, 2003.
- Neal, Linwood O. *The History and Development of State Bank Supervision in Oklahoma*. New Brunswick, [N.J. : s.n.], 1942.
- Rappleye, Charles. *Robert Morris: Financier of the American Revolution*. New York: Simon & Schuster, 2010.
- Rothbard, Murray Newton. *A History of Money and Banking in the United States: The Colonial Era to World War II*. Auburn, Alabama: Ludwig von Mises Institute, 2002.
- Singer, Mark. *Funny Money*. New York : Knopf, 1985.
- Zweig, Phillip L. *Belly Up: The Collapse of the Penn Square Bank*. New York : Crown Publishers, 1985.

The Encyclopedia of Oklahoma History and Culture Entries

- Agnew, Brad. "Twentieth-Century Oklahoma." *The Encyclopedia of Oklahoma History and Culture*.
<http://www.okhistory.org/publications/enc/entry.php?entry=TW001> (accessed August 25, 2016).
- Agnew, Brad. "World War II." *The Encyclopedia of Oklahoma History and Culture*.
<http://www.okhistory.org/publications/enc/entry.php?entry=WO025> (accessed August 25, 2016).
- Bissett, Jim. "World War I." *The Encyclopedia of Oklahoma History and Culture*.
<http://www.okhistory.org/publications/enc/entry.php?entry=WO024> (accessed August 25, 2016).
- Brown, Kenny L. "Owen, Robert Latham." *The Encyclopedia of Oklahoma History and Culture*.
<http://www.okhistory.org/publications/enc/entry.php?entry=OW003> (accessed August 25, 2016).

Doti, Lynne Pierson. "Penn Square Bank." *The Encyclopedia of Oklahoma History and Culture*.
<http://www.okhistory.org/publications/enc/entry.php?entry=PE009> (accessed August 25, 2016).

Mullins, William H. "Great Depression." *The Encyclopedia of Oklahoma History and Culture*.
<http://www.okhistory.org/publications/enc/entry.php?entryname=GREAT%20DEPRESSION>
(accessed August 25, 2016).

Warner, Larkin. "Oklahoma Economy." *The Encyclopedia of Oklahoma History and Culture*.
<http://www.okhistory.org/publications/enc/entry.php?entry=OK041> (accessed August 25, 2016).

Weisiger, Marsha L. "Migrant Camps." *The Encyclopedia of Oklahoma History and Culture*.
<http://www.okhistory.org/publications/enc/entry.php?entry=MI012> (accessed August 25, 2016).

Online Resources

For Kids:

Federal Reserve Education

<http://www.federalreserveeducation.org>

The Oklahoma Council on Economic Education

<http://econisok.org/>

The Federal Reserve Bank of Kansas City –Education

<http://www.kc.frb.org/education/>

The US Mint for Kids

<http://www.usmint.gov/kids/>

For Adults:

The Balance of Power: The Political Fight for an Independent Central Bank, 1790 to the Present

<http://www.kc.frb.org/publicat/balanceofpower/balanceofpower.pdf>

Confidence Restored: The History of the Tenth District's Federal Reserve Bank

<http://www.kc.frb.org/publicat/confidencerestored/confidencerestored.pdf>

Integrity, Fairness and Resolve: Lessons from Bill Taylor and the Last Financial Crisis

<http://www.kc.frb.org/publicat/IntegrityFairnessandResolve/IntegrityFairnessandResolve.pdf>