Ceremony Commemorating the Centennial of the Federal Reserve Act

Washington, D.C.

December 16, 2013

Good afternoon. I'm Jeff Lacker, President of the Federal Reserve Bank of Richmond and I serve as chair of the Federal Reserve System Sponsoring Committee. I'm honored to serve as your Masters of Ceremonies for this afternoon's historic event. On behalf of the various Federal Reserve Systems Centennial Coordination Committees -- and there are several, I'd like to welcome you to the commemoration of the 100th anniversary of the Federal Reserve Act and the founding of Federal Reserve System. The signing of this act by President Woodrow Wilson was the culmination of decades of discussion and debate on myriad proposals for banking and currency reform. Upon enactment, our nation began the process of organizing and opening the Board and the reserve banks across the country. On November 16, 1914, the Federal Reserve System began full-fledged operations. I want to specifically welcome our board chairmen, both current and past, our current and former board members and reserve bank presidents and distinguished members of our Centennial Advisory Council. I welcome as well, the board and reserve bank employees watching this ceremony throughout the Federal Reserve System today. With approximately 80 of us assembled in the boardroom, this is the largest single gathering of current and former Federal Reserve senior officials in our history. We will begin our centennial commemoration by providing each of our chairmen an opportunity to share with us their thoughts and reflections on our history, and perhaps also some noteworthy moments from their terms as chairman of the Board of Governors of the Federal Reserve System. First, it's my privilege to introduce Paul Volcker. He served as chairman of the Board of Governors from August '79 to August 1987. Prior to that, he served as the president of the Federal Reserve Bank of New York from August 1975 to August 1979. His leadership was noted for an aggressive and courageous fight to bring inflation under control. Please join me in welcoming former Chairman Paul Volcker.

[Applause]

Paul Volcker: Thank you very much Jeff and friends of the Federal Reserve. This is, indeed, an historic celebration. It's a wonderful opportunity for people like me to consult with our old friends -- old, literally, in many cases, but all friends. And to be asked to lead off this program is a special honor -- special privilege. Now I have been -- I'm reminded, been around the Federal Reserve for some 75 years. It happened that I wrote my senior thesis on college on how the Federal Reserve should restore its independence that it lost during World War II and then too many years thereafter, and having completed this thesis I -- I guess they didn't read the thesis, I got a job at the Federal Reserve Bank of New York. So, it all goes back 75 years and I thought I could claim primacy of anybody here today, until I heard that Dewey Daane was here [laughter]. Dewey Daane, my old friend in and colleague. His presence in his 96 years symbolizes the respect and loyalties that the fed has commanded among its staff and its officials, generally. So I can only claim the distinction of being an earlier living chairman to my two colleagues here and maybe we've been -- fellows, it's okay for your life expectancy to be a chairman of the Federal Reserve [laughter]. But to note a lot's happened since I became chairman. A lot's happened to the country, the economy, the financial markets, the Federal Reserve itself over the 35 years that the three of us have been chairmen. And of course, one reflection of what happens is, simply, to look at interest rates over that time. It started out for me with interest rates at 20%. We were preoccupied with inflation. Chairman Bernanke is ready to leave office with interest rates at 0%, and on the occasion he worries about deflation. Alan Greenspan had an easy target in between those two [laughter]. He got it just right with a grand moderation on his watch and he's still -- if you calculate these figures, people don't quite realize -- I think it was the greatest sustained rise in stock prices in all American history -- maybe, anybody's history, and at the same time we had a record bull market in bonds. Boy, Wall Street and the economy both flourished. And of course, the interesting fact was that no one, including no economists equipped with the most powerful computers and endless regressions could or did predict the extremes of market behavior, which we've seen frequently. You know, more troublesome than the recurring banking crisis in economic locations is the fact that they have regularly caught us by surprise. Predicted or not, those economic and financial disturbances demanded a response and the point that, we I think, we celebrate, in part, today is that response -- demanded a response that only an institution equipped with authority and judgment could timely act upon. You know in any country that role falls importantly to its central bank. In the United States, of course, that means the Federal Reserve, and as all of you know, this is the 100th anniversary, but the Federal Reserve was -- or the Congress was something of a laggard in creating a central bank in 1913 and then 1914, when it became operative. But broadly speaking, I do think after long delays, that Woodrow Wilson, Carter Glass, Nelson Aldrich, on and on, and the other founders did get it broadly right, and then later there was, kind of, a mid-course correction when Marriner Eccles was chairman who conducted and arranged with the Congress necessary reform. Now, of course, we have the Dodd-Frank Act and that is new responsibilities for the 21st Century. We passed that act amid much concern and unhappiness during the depths of the crisis and the recession, and what was interesting was the Federal Reserve emerged with more power and more influence than it had before. Now I think no one can claim that every year in every circumstance in every crisis the Fed got its policies exactly right. But what is beyond debate is that this institution has served the country well. In doing so, it has been able to draw upon professional competence -- and that is one basic essential of its work, but much more than that is required. Strong action, sometimes testing the limits of its legal authority we rested on a sense of integrity -- integrity that it achieved and maintained over the years, in the sense that it was able to act free of partisan and political passions. Now I mentioned Dewey Daane at the start, not just because he's older than I am. In fact, he's almost as old as the Federal Reserve itself [laughter], nor because he happens to be a good friend, but Dewey's been away from Washington for decades. He's had another life, but his presence here reflects a simple fact that for him his proudest, his most satisfying years have been right here in this building. He could play a part in an organization that has come to command and maintain respect over the years. Respect to the point that the phrase, "Don't fight the Fed" has become close to an axiom in the financial marketplace. The simple fact is the confidence in the ability of our century-old central bank to cut through intellectual and political debate, to act in the public interest, to reign -- remain a point of trust, is essential. It's essential not only to the strengths of our banking systems and our financial markets, but I believe, to the effective governance of this country in all its diversity and responsibilities and I appreciate the invitation to be with you on this great occasion. Thank you.

[Applause]

It is also a privilege to introduce Alan Greenspan. He succeeded Chairman Volcker serving as chairman from August 1987 to January 2006. As our second longest serving chairman, after William McChesney Martin, Jr., he had the distinction of being appointed by four different U.S. Presidents. During his tenure as chairman, we completed the conquest of inflation and experienced the longest peace time expansion in the history of the U.S. economy. Please join me in welcoming Chairman Alan Greenspan.

[Applause]

Thank you very much, Jeff. Now, looking at all the gray hair here it's very impressive that you all showed up, especially Dewey. You know it is hard to realize but Dewey Daane was appointed by John F. Kennedy as a member of the Federal Reserve Board, and that tells you something about the continuity and longevity of this institution, and I think we're all proud of our experiences with it and I, particularly, want to thank Dewey, who is an old tennis partner and -- you want to play? I'm willing [laughter]. Like Paul and Ben, I have been given five minutes to reflect on my career at the Fed. Dave Skidmore calculated that as 16.2 seconds for each year of my tenure. Thank you David, I appreciate that. I chose, therefore, to focus on one incident that, while today is scarcely remembered, was particularly riveting -- it was a particularly riveting challenge that I and the Federal Open Market Committee faced within two months of my being sworn in to office, the unprecedented 23% decline in the Dow Jones Industrial average that occurred on Black Monday, October 19, 1987. The largest one day drop ever. Today, that market collapse is a distant memory of no ongoing interest, because it had no visible lasting effect on the economy overall, but we did not know that at the time. In fact, the days that followed the crash were truly frightening -- certainly for me, and I suspect for much of the Federal Reserve Board, presidents, and staff. History suggested that the market crash could be a harbinger of much worse to come. The immediate policy response was a no brainer. Supply the money market with a massive dose of liquidity, but what would we do as a follow-up, should the initial response prove ineffective -- or insufficient, to address the collapse of capital values of such a magnitude. In the end, much to my surprise, the effect of the crisis was minimal. Real gross domestic product, in fact, grew at a robust 4 1/2% annual rate during the next six months. But what was clear in retrospect was scarcely evident in the hours and days that followed the crash. Many of you who were around in those days, cannot forget the fear the crisis provoked. Not unexpectedly, the market opening on October 20th, the day after the crash, was unstable. Late in the morning the New York Stock Exchange had communicated to us that unless bids were forthcoming, the exchange would have to shut down within an hour. I know all too well that shutting down is easy to do, but once done, trying to reopen would be a real challenge. A closing of the United States -- a closing in the United States could have, probably, broken the back of financial confidence. Fortunately, just prior to the scheduled shutdown, bids did reemerge and the exchange was able to remain open. In the days that followed, despite our best efforts, there were a half a dozen near disasters, mostly involving the payment system. On Wednesdays morning, October the 21st, Goldman-Sachs was scheduled to make a $700 million payment to Continental Illinois Bank in Chicago, but initially withheld payment pending receipt of expected funds from other sources. Goldman thought better of it and the payment was eventually made. Had they withheld so large a payment, it would have reasonably set off a disastrous cascade of defaults. In another cliffhanger days after the crash, the Chicago options market nearly collapsed when its biggest trading firm was short of cash. The Chicago Fed helped engineer a solution to that one. Gradually though, prices in various markets stabilized and by the start of November, the members of the crisis management team headed by Manley Johnson, that had been tastefully organized, returned to their regular work. The near crisis of 1987 was, in my judgment, the Federal Reserve operating at its best. At its height, New York Federal Reserve president, Gerry Corrigan communicated our strong belief that banks should keep lending, not because the Federal Government was asking them to, but because it would be in their long-term self-interest. I'm sure that some of the phone calls that must have been made were very tough indeed. Doubtless for all of you who know Gerry, he probably bit off a few earlobes in the process. There were, of course, many key players among the governors, presidents, and staff whose counsel was indispensable. Including that of my good friend and mentor, Donald Kohn, who then as the secretary of the Federal Open Market Committee, who as you all know, went onto an extraordinary career that is ongoing as we speak. In closing, I wish to express my appreciation to the organizers of this very extraordinary event, and I have been around the Federal Reserve before and after I was chairman, and I've never seen anything like this grouping of people of expertise in virtually every subject matter you can conceive of. I've enjoyed it immensely. I can only hope to be invited back with our -- for our institution's 200th anniversary [laughter]. Thank you.

[Applause]

It is also very much a privilege to introduce our current chairman, Ben Bernanke. He succeeded Alan Greenspan, becoming chairman on February 1, 2006 and will conclude his service on January 31, 2014. As you all know, Chairman Bernanke, himself a leading scholar of the Great Depression, led the Federal Reserve during the most challenging and severe financial crisis our nation has faced since that time. Please join me in welcoming Chairman Ben Bernanke.

[Applause]

Thank you. Well, Paul and Alan have me at a disadvantage. We were each asked to reflect on our term in office, but they have a little more perspective than I do at this point, as I have a few more weeks to go and a number of tasks that we undertook, such as achieving a full recovery in the U.S. economy, are still ongoing. But I will offer a few thoughts about the last eight years. The Federal Reserve's extraordinary response to the financial crisis and the Great Recession was, in some ways, nothing new. We did what central banks have done for many years and what they were created to do: We served as a source of liquidity and stability in financial markets, and in the broader economy, and we worked to foster economic recovery and price stability. However, in another sense, what we did was very new. It was unprecedented in both scale and scope, and it made use of a number of tools that were new, or at least not part of the conventional central bank toolkit. We found that these new tools were necessary if we were to fulfill the classic functions of a central bank in the context of a 21st Century economic and financial environment. When the financial system teetered near collapse in 2008 and 2009, we responded as the 19th Century essayist Walter Bagehot had advised, by serving as liquidity provider of last resort to financial firms and markets. But we did so in an institutional environment that was very different, and in many ways much more complex, than the one that Bagehot knew. For example, the recent crisis involved runs on financial institutions, as occurred in classic panics. But in 2008, rather than a run of retail bank depositors, the run occurred in various forms of short-term, uninsured wholesale funding, such as commercial paper and repurchase agreements. Moreover, although commercial banks suffered large losses and some came under significant pressure, the crisis hit particularly hard those nonbank institutions most dependent on wholesale funding, such as investment banks and securitization vehicles. Thus, the Fed lent not only to commercial banks, but also extended its liquidity facilities to critical nonbank institutions and key financial institutions and markets, like the commercial paper market. To minimize the risk of strains abroad feeding back to U.S. dollar funding markets, the Fed also coordinated with foreign central banks to create a network of currency swap lines. Beyond the provision of liquidity, the Fed worked with other agencies, both here and abroad, to help restore public confidence in the financial system. Notably, we led the development of stress-testing of large banking organizations' capital adequacy. The first stress tests, in 2009, and the public disclosure of their results made it possible for large U.S. banks to once again attract private capital. Since 2009, the stress tests and disclosures, together with other regulatory and supervisory actions, have contributed to a doubling in capital held by the largest U.S. financial institutions and the resumption of more-normal flows of credit. The Fed has also worked to draw upon the lessons of the crisis and to take the steps necessary to avoid a similar event in the future. As those assembled here well know, the deliberations that led to the founding of the Federal Reserve were precipitated by a financial panic, the Panic of 1907. The preservation of financial stability was consequently a principal goal of the creators of the new central bank. In response to the Panic of 2008, the Federal Reserve has returned to its roots by restoring financial stability as a central objective alongside the traditional goals of monetary policy. We have refocused our supervisors of financial institutions to take a more macro-prudential approach that fosters systemic stability as well as the stability of individual institutions. We also more extensively monitor the financial system as a whole and, and in cooperation with other agencies, have put in place stronger oversight of systemically important financial firms, including higher capital and liquidity requirements, tougher supervision, and processes for orderly resolution. We've also had to be innovative in finding ways to use monetary policy to help the economy recover from the deep recession that followed the crisis. Providing adequate monetary accommodation has not been a straightforward task because our principal monetary policy tool, the target for the federal funds rate, has been stuck near zero since the end of 2008. Consequently, we've had to find other ways to bring monetary policy to bear, notably including techniques designed to influence longer-term interest rates. For instance, the Fed, like several other central banks, has purchased longer-term securities to put downward pressure on longer-term interest rates, help ease financial conditions, and to promote a stronger recovery. A significant aspect of finding innovative ways to execute our duties as a central bank in a new, more complex environment has been the ongoing revolution in communication and transparency. Part of that effort has involved formally defining our goals under the mandate for maximum employment and price stability given to us by the Congress. Two years ago, we established 2% as our inflation goal, and we regularly communicate policymakers' views of the level of unemployment expected to correspond to maximum sustainable employment over time. Additionally, our monetary policy has come to rely more heavily on forward guidance. With our short-term policy rate about as low as it can go, we have sought to ease financial conditions further and provide additional impetus by communicating both quantitatively about the likely future path of our policy rate and qualitatively about the likely evolution of our balance sheet. Other central banks around the world have met the challenge of current conditions with similar innovations. And I would be remiss if I did not point out, especially with Paul and Alan here, that the Fed's recent communications innovations owe a great deal to developments like the monetary targeting framework devised under Chairman Volcker and the post-FOMC statement and qualitative forward guidance introduced under Chairman Greenspan. In summary, the financial crisis that the Fed confronted five years ago was in many ways analogous to the panics that central banks have faced for centuries. But, at the same time, the crisis and the deep recession that followed occurred in an economic and financial environment that was certainly different, and in many ways more complex, than in the past. The Federal Reserve found ways to carry out its traditional central bank functions in that environment, and we are working with other policymakers, domestically and internationally, to put in place a strengthened regulatory framework that will help preserve stability in the face of the complexity, interconnectedness, and innovation of a modern financial system. One of my personal objectives since I became Chairman has been to increase the transparency of the Fed, to more clearly explain how our policies are intended to work, and the thinking behind our decisions. As I already noted, improved communication can help our policies work better, whether through the disclosure of bank stress-test results, by helping the public and market better understand how monetary policy is likely to evolve. Ultimately, however, the most important reason for transparency and clear communication is to help ensure the accountability of our independent institution to the American people and their elected representatives. Clarity, transparency, and accountability help build public confidence in the Federal Reserve, which is essential if it is to be successful in fostering stability and prosperity. Thanks for inviting me to this wonderful event. Thank you.

[Applause]

This occasion, marking the centennial of the signing of the Federal Reserve Act calls for a statement, formally recording our collective thoughts. Certificates recording this statement will be signed by current and former chairman, our current board members and reserve bank presidents. We will sign one certificate for each board -- one certificate each for the board, and reserve banks, plus one extra for safekeeping. This is the Federal Reserve, after all. The certificates will be framed in the manner shown by the copy on display next to me. Each framing will include facsimiles of the first page and the final signature page of the Federal Reserve Act, a medallion featuring the Eccles building, where we are gathered here today, as well as the certificate and the signing page. The certificate reads as follows. In commemoration of the 100th Anniversary of the Federal Reserve Act, introduced into Congress by Senator Robert Owen and Representative Carter Glass and signed into law by President Woodrow Wilson on December 23, 1913. The Federal Reserve Act established the Federal Reserve as our nation's central bank. Gathering on this 16th day of December 2013, at the Board of Governors of the Federal Reserve System in the city of Washington in the District of Columbus -- District of Columbia, United States of America, we, the undersigned, commemorate the founding of the Federal Reserve by the U.S. Congress. We acknowledge the service of the Federal Reserve System employees over the institutions 100 year history, and we express our gratitude for their efforts to support the founders' intent to provide our nation with a safer, more flexible, and more stable monetary and financial system. In support of our centennial mission, we encourage Federal Reserve staff to build on our legacy by reflecting on the lessons of our past, to deepen understanding of the central bank's role in promoting economic growth and stability in a global economy, and in doing so to inspire trust and confidence for the benefit of future generations of Americans. The signing will begin on my right with our current chairman, continue with our former chairmen, our vice-chairwoman, board members in order of tenure, and then reserve bank presidents beginning with Boston and concluding with San Francisco. When the signing commences, I will turn the podium over to former Vice Chairman Don Kohn, who, while we are doing our signing, will share some reflections on our history. In addition, we will be showing two videos. The first will explore the story behind the oil painting located just outside the entrance to the boardroom now. This famous painting depicts the signing of the Federal Reserve Act on December 23, 1913. The second will be the world premiere of a commemorative video entitled The Fed at 100, created this past year. It features Federal Reserve employees, alongside some outside commentators, speaking in their own words about the critical role the Federal Reserve has played over the past 100 years and will continue to play in coming years. It's a great pleasure to introduce Don Kohn, who needs no introduction to most of you. Don served as vice chairman of the Board of Governors from June 23, 2006 to June 23, 2010, but that was just the capstone of a long career of devoted service to the Federal Reserve. Beginning as a financial economist at the Federal Reserve Bank of Kansas City in 1970, followed by a move to the board in 1975, where he became director of monetary affairs in 1987, and then governor in 2002. Please join me in welcoming Don Kohn.

[Applause]

Thank you very much, Jeff, and it's a great honor and privilege to be a part of this ceremony and to provide a little entertainment while the signing -- while the signing is going on. As we gather today to commemorate the 100th anniversary of the Federal Reserve Act, and the founding of the Federal Reserve System, let's recall the history of central banking in the United States and key events and issues leading to the establishment of the Federal Reserve and some of the changes -- legislative changes that occurred since that time. Well before the Federal Reserve was created in 1913, the Swedish Riksbank was founded in 1668, and the Bank of England in 1694. I guess only Dewey was around for those foundings [laughter]. These early national banks evolved over many years into institutions that we would recognize today as central banks working in the public interest. In the United States, the first attempt at establishing such a nation bank came in 1791, when President Washington signed legislation chartering the Bank of the United States, headquartered in Philadelphia, and under the direction of our first Secretary of the Treasury Alexander Hamilton. Hamilton believed that a national bank was essential to stabilize and improve our young nation's credit standing, to improve handling of the financial business of the Federal Government under the newly enacted Constitution. After Hamilton left office in 1795, the new Secretary of the Treasury Oliver Wolcott, Jr., informed Congress of the poor state of the government's finances. I guess that's not new, is it? To provide funding needed for the government, Wolcott advised selling the government's shares of stocks in the bank, which would end the bank's limited role as the central bank for the United States. Subsequently, in 1811, America's first national bank does not receive Congressional support needed to continue operating, and its charter expired. Five years later in 1816, the U.S. Congress again established a national bank, creating the Second Bank of the United States, also located in Philadelphia with over 25 branches. The primary function of the bank was to extend credit to both government and private interests for the purpose of increasing public works and economic development, as well as to establish a sound and stable national currency. The Second Bank of the United States, like its predecessor, did not hold reserves of the banking system or act as lender of last resort. Subsequently, there was a financial crisis in 1819, and during the presidential election of 1832, efforts to renew the bank's charter put the institution at the center of the national debate. The Second Bank of the United States failed to secure adequate support in Congress to renew its federal charter over the veto of President Jackson. It was liquidated in 1891. After two congressionally chartered national banks failed to survive their initial charters, the United States lacked a stable currency system and financial panics occurred frequently, typically, every decade, beginning in the late 1830s, and mid-1940s, and again in the 1850s. In the midst of the Civil War, the National Currency Act of 1863, revised as the National Bank Act of 1864, was signed into law by President Lincoln. Legislation provided a mechanism for circulating sound currency with uniform value, required banks to hold cash reserves against both deposits and notes and establish the office of comptroller currency to grant charters to banks without formal congressional action, thereby creating the dual banking system of national and state chartered banks. Now following the Civil War, financial boom associated with rapid expansion of railroads, stocks, factories, was followed by a financial panic and economic depression in the 1870s. Another recession occurred from 1882 to '85 followed by multiple panics in the 1890s. In 1901, the stock market crashed briefly following speculative attempts to corner the market on Northern Pacific Railroad stock. In 1907, New York Stock Exchange stock values declined dramatically in March, following an unsuccessful attempt to corner the market on United Copper Company stock. As a result, many depositors withdrew funds from banks associated with the unsuccessful corner, spreading to withdrawals from other banks, leading to public panic and large-scale liquidation of call loans -- short-term loans used to finance stock market purchases. Thousands of banks and businesses closed. J.P. Morgan and other bankers, ultimately, stepped in to supply wavering banks with funds to alleviate the panic. Given the weaknesses exposed in America's financial system from the Panic of 1907, Congress passed the Greenwich-Aldrich Bill in May 1908 to create national -- a National Monetary Commission and to authorize and fund its use. The commission is led by Rhode Island Senator Nelson Aldrich with an objective of studying the banking -- the nation's banking system to identify ways to bolster financial stability. In November 1910, Senator Aldrich invited several prominent bankers to attend a conference on Jekyll-Island, Jordan -- Georgia. While meeting under the ruse of a duck-shooting excursion, the financial experts are, in reality, hunting for a way to restructure America's banking system and to eliminate the possibility of future panics. Party includes Senator Aldrich, Assistant Secretary of the Treasury Doctor A. Piatt Andrew, J.P. Morgan and Company partner Henry Davidson, National City Bank President Frank A. Vanderlip, Kuhn, Loeb Company partner Paul Warburg, and Banker's Trust executive Benjamin Strong, Jr. On January 9, 1912, the National Monetary Commission sent its report to Congress along with a proposed bill for a national reserve association, which becomes known as the Aldrich Bill. Report and proposed bill draw heavily from discussions started on Jekyll Island, but Congress took no action on the bill. Following President Woodrow Wilson's election in November 1912, legislative efforts began in earnest to fulfill his campaign promise to reform banking law. To press forward with this legislative initiative, President Wilson addressed a joint session of Congress on the need for banking and currency reform on June 23, 1913. Meanwhile, Virginia Representative Carter Glass and Oklahoma Senator Robert Owen worked closely with Wilson to introduce the proposed Federal Reserve Act as House and Senate bills on June 26, 1913. Following passage of -- of the House and Senate versions of the bill in September and November, respectively, compromised legislation known as the Glass-Owen Bill emerged, following multiple votes, amendments, and a resulting conference report. Conference report is approved by the House on December 22nd, the Senate on December 23rd, and on the 23rd, President Wilson signed the Federal Reserve Act into law to provide the nation with a safe, sound, stable banking and financial system. Given its timing, the act is quickly referred to as a Christmas present for the president by the press. Now with that background, let's review a brief video clip that depicts the signing of the Federal Reserve Act and features one of the pens used by President Wilson to sign the act, and that pen is on display at the board for our ceremony today.

[Music]

[Background Music] As part of the centennial commemoration, you'll see a work of art inspired by the creation of the Federal Reserve System. This piece is normally on display in the board's research library. The painting, entitled The Signing of the Federal Reserve Act by President Woodrow Wilson, December 23, 1913 depicts President Wilson signing the Federal Reserve Act at the White House. The original painting was created by Wilbur G. Kurtz in 1923 for the Federal Reserve Bank of Atlanta. While many attended the signing of the act, Mr. Kurtz chose to feature only Secretary of War, Lindley Garrison, Secretary of the Navy, Josephus Daniels, Secretary of the Interior, Franklin Lane, Postmaster General, A.S. Burleson, Chairman of the Senate's Banking and Currency Committee, Senator Robert Owen, Speaker of the House, Champ Clark, Secretary of the Treasury, William McAdoo, President Woodrow Wilson, Chairman of the House Committee on Banking and Currency, Representative Carter Glass, Congressman Oscar W. Underwood, and Secretary of Labor, William Wilson. Two of these men, Carter Glass and Robert Owen, were the chief architects of the Federal Reserve Act. Owen, a senator from Oklahoma, and Glass, a congressman from Virginia, promoted legislation that would provide for a regional banking system with a government controlled central board. After months of intense negotiations, compromise legislation was finalized in the form of the Glass-Owen Bill. This bill authorized establishment of the Federal Reserve System to provide the nation with a safer, more flexible, and more stable monetary and financial system. On December 23, 2913, the bill was signed into law by President Wilson as the Federal Reserve Act. Surrounded by Glass and Owen, members of Wilson's family, cabinet officers, and democratic leaders of Congress, the President signed the act. He used this pen, along with three others, to sign the act. President Wilson gave this pen to Carter Glass. In commemorating the 100th Anniversary of the signing of the Federal

Reserve Act, we are grateful to the Woodrow Wilson Library in Stanton, Virginia, for lending the pen that was used for this momentous occasion, and to be on display at today's centennial ceremony. (end video)

(speaker) The signing of the Federal Reserve Act established the Federal Reserve as our nation' first true central bank, holding a large share of the banking reserves and the power to act as lender of last resort. The act established the Federal Reserve Board in Washington, guided by seven board members. It also provided for up to 12 reserve banks and there was a 20-year sunset provision on those banks to represent the regional economic interests and to coordinate policy with the board. The Federal Reserve Bank Organization Committee was formed in January 1914, to select Reserve Bank locations. It was composed of the Secretary of the Treasury, Secretary McAdoo comptroller the currency, John Skelton Williams, Secretary of Agricultural, David Houston on April 2, 1914, after receiving proposals from 37 cities, and visiting 18 candidate cities, the committee officially named the locations of the 12 Federal Reserve Banks to serve their respective districts. The same ones we have today -- Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco. On August 10, 1914, members of the Federal Reserve Board took the oath of office in Washington, D.C. with Charles Hamlin as the governor serving as the active executive officer. The Secretary of the Treasury is the ex officio chairman of the Federal Reserve Board. The board officially opened for business the same day in offices in -- at the U.S. Treasury main building before moving in August 1937 to this building. May 18, 1914, certificates of incorporation for each Federal Reserve Bank were executed. November 16, 1914, at 10:00 a.m. each Federal Reserve Bank officially opened for business. The reserve banks opened approximately five months ahead of schedule. Given the outbreak of war in Europe, closure of the stock market in late July, financial panic that occurred in August 1914, each reserve bank was able to serve as a lender of last resort, and to conduct open market operations. Later, open market operations were consolidated with New York Fed. By year-end 1914, the board employed 45 permanent staff and eight temporary staff. By year-end 1915, the system had 499 employees, 58 of whom were at that board. Operational responsibilities grew rapidly along with staffing, such that the system has 12,540 employees by year-end 1920. Federal Reserve did not gain a sense of permanence until 1927 when the McFadden Act eliminated the sunset provisions on the reserve banks 20-year charters. During the Great Depression, the Banking Act of 1933, known as the Glass-Steagall, not only separated commercial and investment banking, but also created the Federal Open Market Committee. Initially, the FOMC comprised 12 members selected by the reserve banks, while the Board of Governors set regulations governing open market operations they could engage in. The FOMC was reconstructed two years later when President Franklin Roosevelt signed into law the Banking Act of 1937. This act, essentially, created the FOMC structure in its modern form with voting members consisting of the seven members of the Board of Governors and five reserve bank presidents. 1977, the Congress clarified the Federal Reserve's mandate by establishing three key objectives for monetary policy -- maximum employment, stable prices, and moderate long-term interest rates, and these are now viewed as providing the dual mandate of stable prices and maximum sustainable employment. Over the past 100 years, the Federal Reserve has played a crucial role in U.S. and global economics. The institution's mission -- to maintain stable prices, pursue maximum employment, ensure the safety and soundness of the financial institutions and financial institutions protect the right of consumers, promote the stability of the financial system, and contribute to an efficient and effective payment system, affects individuals around the world on a daily basis. Today the Federal Reserve has just over 20,000 employees that come from diverse geographical, educational, ethnic backgrounds, but all share a common objective -- to serve the American people. A video entitled The Fed at 100 features Federal Reserve employees, along with outside perspectives on how the work of the Federal Reserve affects the lives of our people. Please join me now in watching this video as we conclude the signing of the centennial commemorative certificates around the board table. [Background Music] It's an institution that's dedicated to stability, accountability, efficiency, and quite honestly, integrity. I think those principles are timeless. I have been extremely impressed by the people at the Fed. They're some of the most competent people that I have ever met in any organization. There's no institutions of governments in the world that is looked at with more respect from its both professionalism and its integrity than the United Stated Federal Reserve System. And so you can be working cash operations or the research department or check, and you will all be working for the same goal, which is to serve the public, and I like that. It inspires me. Before 1913, we had an economic system that had some nice properties. We had very rapid innovation and growth, but we also had a lot of recessions and financial panics. So the economy was very volatile, and this affected people's lives. Year to year, month-to-month, people didn't know what was coming. So therefore, the Federal Reserve was established and it has become a bellwether institution for the American republic, also for the rest of the world. The Fed has evolved a lot over its 100-year history. People may not realize that early on, we really didn't have such a role in monetary policy. We were much more about financial stability. We had very little role in checks, for example. We were not as involved in supervision. Over the years, those roles have increased, and some have now ebbed. The main mission, which is set by law as trying to obtain the goals of maximum employment, price stability, and moderate long-term interest rates, those goals will, probably, stay the same, but the methods that we use to meet those goals may change. They don't learn that quickly, but they do learn. And so they make mistakes. They made mistakes in 1920-'21. They learned. Okay, and then the Great Depression came and they really made some big mistakes. Okay, it took them a while -- it took them into the '50s and then Mr. Volcker came in and he really did put the Fed on a great track from mid-1980s until the 2000s. Now we had a big crisis and there's a debate about the Federal Reserve's role in it. I suspect what's going to come out of all this is that there'll be a lot of learning again, and there'll be a lot of moving forward. Been almost a century now. I think the Federal Reserve has created a tremendous amount of trust on the part of the American people. There's a sense of security, I think, and stability, when we go to our bank or we do our personal banking. We don't really think about if the check is going to clear. We don't really think about if the doors are going to be open the next day that we go to the bank. Unless the economy's facing a crisis of some kind, what central banks do, it's hidden from view. Well, the Federal Reserve provides financial services to financial institutions. It provides regulatory and supervisory oversight to commercial banks and bank holding companies. Then we have the monetary policy function that works to adjust interest rates, all with the overall goal of making sure the economy is stable and that we maximize employment in the country. Prior to FOMC meetings, we brief our president on the incoming data, what the forecast and the outlook, and if there's any special topics or anything to be concerned about. Yes, the information that we get from people in the communities, whether it's business owners, people in academia, bankers, reports from our directors and our advisors. That information is then transmitted to our senior management and the president will take that information to Washington when the Federal Open Market Committee meets and the information, ultimately, affects monetary policy. I think there's a perception that the FOMC comes together and they put on their visors and they make monetary policy in a vacuum and nothing could be further from the truth. In actuality, the Fed is a grassroots organization, clearly with a strong presence in Washington, but with ties to communities and cities all around the country. The Federal Reserve was set up in the first place with 12 reserve banks around the country, deliberately to bring together a diverse -- points of view around the country to Washington. So, when decisions are made, they're not made in isolation. They're, actually, made with input from the American people. One of the things that we're involved in is making sure that banks have enough money -- currency and coin, so that they can give to people who hold accounts there. What you're seeing is really an operations group that is receiving in currency from our financial institutions, depositing it with the Fed, and then what we'll do is we'll process that currency, make sure it's fit for commerce, make sure it's of good quality, and then when our customers, or financial institutions need that currency back, we'll make sure to pay it out. The Fed's role in the payment system directly touches the lives of, pretty much, every American every day. It is what allows money to move from one place to another. We had a dedicated transportation network of airplanes and trucks that run around the country every day collecting checks and delivering them to the banks on which they're drawn. I can remember just a few years ago that we were bundling cash letters, putting them in bags, sending somebody to the airport 40 miles away to catch the plane to the Federal Reserve by 8 o'clock, rain, sleet, you know, shine, it didn't matter, we had to be there. Today, it's all electronic. Now, well over 99% of checks collected in this country are cleared electronically, rather than in paper form. That is largely due to the Federal Reserve. The Fed's impact in community development is important. When you have economists from the Fed who have really deep knowledge of job creation and economic vitality, then it gives us the ability to really influence the way jobs are created. I am the officer over our community development department, which is a department that does applied research and outreach on community development issues -- housing, education, economic development and growth. I actually questioned folks about why they wanted me on the Fed. I'm not an economist, I'm not a banker, never was a banker, my background's in non-profits and working with communities directly, and they said perfect, because we want to understand how economic policy actually affects people on the street. In addition to that, there's lots of people that work on rules and regulations, monitoring the banks to make sure that they're following all of the things that they're supposed to be doing so that they run safely and securely. So that's our supervision function. When there's not a lot of excitement, it's usually a good thing. When I'm engaged in my day to day job, I can't forget that even though I'm looking at very specific details, or maybe just one institution, you know, if I don't uphold my responsibility and act with the highest integrity, then that, kind of, compromises on a national level having a safe and sound banking system. The Federal Reserve is an institution that has an important role in responding to crisis for the American economy. Think of it, in part, this is what it's set up to do, to help the economy deal with financial panics. My worst day was certainly 9/11. I had commuted from New Jersey and had just gotten out of the World Trade Center, was about 100 feet from the exit when I heard the first plane come in, and ran for the safest place I knew, which was the Fed, and when the collapse started happening everybody ran down into the vaults underneath the New York Fed where the gold and security certificates are stored. The crisis was, obviously, severe and I think, for me, the key moment came even on 9/11 that afternoon when the Fed released a statement that said the Federal Reserve System is open and operating. The discount window is available to meet liquidity needs. For the full week after 9/11 until things calmed down, we made sure that banks had all of the liquidity -- meaning all of the money that they needed, to take care of their customers, and we said to banks, you cannot close. We're open. We'll take care of whatever you need. And so, the fact that you have an institution that has the capacity and the legal authority to act immediately in times of crisis is a very important thing. One of the wisest things Congress ever did was in 1913 to create a Federal Reserve System, and I think one of the least wise things it could do would be to abolish it. Well, it's fine to talk about ending the Fed, but the country needs a monetary policy, and there are only a couple of alternatives to ending the Fed. One of the most prominently spoken of is to return to the gold standard. The problem is we know the problems of the gold standard and they are significant. We need to remember that the Federal Reserve exists for a reason. There were panics in the late 19th Century that, sort of, led to the creation of the Federal Reserve in the first place. Yeah, I couldn't imagine what would have happened had we went through the financial crisis without the ability to conduct monetary policy. And if you look back in history, then you realize that having independent central banks, it's a pretty good deal. I think this is an institution that should be commemorated and it's an institution that should be carefully watched. That's the nature of governance. That's the nature of the American way. I would like to see it keep evolving in the direction of being more transparent, and following the rule like behavior, very transparent mechanisms that could be explained to the public. Sometimes the things that you read or hear about the Federal Reserve just don't sound at all like the place I work. There is no conspiracy. These are just people trying to do the right thing the best way they know how. There is just an incredible sense of duty and mission, accountability and responsibility. I'm always proud to work at the Fed, but never as proud as I've been of late. Super easy to show up for work and do a good job when everybody loves you, but it's much more difficult when you're in the public eye and it's not a positive eye. And everybody showed up and did the same work, and actually, we're willing to, sort of, say yes, look at us, evaluate us, criticize us, help us get better, and so that's made me extremely proud to work at the Fed. So we've made some programmatic and operational changes over time, but we're still here after 100 years, and we're still strong. So, what will the next 100 years look like for the Federal Reserve? It's an uncertainty, but if the past is any reflection of the future, we'll be the dynamic organization that's responsive to the needs of society. And I think if we can continue to do this job for the next 100 years, the country will be pretty good.

[Music]

[Applause]

As we look to the future, at this point it's my pleasure to introduce Chairman Bernanke back to deliver some remarks about the Federal Reserve System's second century.

CHAIRMAN BEN. S. BERNANKE - Thank you. I have been asked to close this ceremony marking the 100th anniversary of the signing of the Federal Reserve Act -- the law that created the Federal Reserve - -by looking ahead to the next century. Given the well-known difficulties that economists have in forecasting even the next few quarters, I will happily point out one important advantage to making a 100-year forecast, which is I won't be around to explain why it was wrong. Our ability to make forecasts is limited, at least. Nevertheless, I'll venture one prediction that I don't think is too bold, which is this. The values that have sustained and served the Federal Reserve at its best, and have permitted it to make critical contributions to the economic health of our nation during the past century, will continue to serve it and the nation well in the century ahead. Among the Fed's most important values is the belief that policymaking should be based on dispassionate, objective, and fact-based analysis. The ideal we seek is a combination of the researcher's intellectual rigor and the ability of the effective policymaker to navigate the messiness of the real world, a world that includes complex institutions and markets, imperfect and incomplete data, and often-unpredictable human behavior. Of course, policy analysis and implementation of the highest quality do not just happen. They require professionalism and a commitment to public service as exemplified by the generations of staff members who have served this institution so well. Without the expertise and the creativity embodied by the staff, it would have been impossible to develop the innovative policies required to meet, in the worlds -- words of the Federal Reserve Act, the unusual and exigent circumstances that we confronted during the recent financial crisis. If there is one thing on which I believe all of us here can agree, it's that the quality of the staff has been a great strength throughout our institution's history. Maintaining that quality and that commitment to public service will be essential if the Fed is to have a successful second century. Dispassionate analysis, expertise, and commitment to public service -- all are values that have served us well. But one value that strikes me as having been at least as important as any other has been the Federal Reserve's willingness, during its finest hours, to stand up to political pressure and make tough but necessary decisions. The fight against inflation during Paul and Alan's times in office was critical for the nation's longer-term prosperity, and it required perseverance in the face of heavy criticism. I keep in my office one of the 2-by-4s mailed to the Fed during Paul's tenure, which communicates some distinctly unfavorable views of high interest rates and their effects. More recently, of course, the Federal Reserve took controversial but necessary measures to arrest what was arguably the worst financial crisis in American history, helping to avert what likely would have been a much more severe economic downturn than the Great Recession that we did experience. We've been able to respond nimbly to economic emergencies and make difficult choices in part because of our institutional structure, including long terms for members of the Board of Governors and diverse regional representation in our policymaking Committee. And because of the willingness of policymakers, past and present, many of them here, to do whatever was needed in the longer-run interest of the economy. As an institution, the Federal Reserve must continue to be willing to make tough decisions, based on objective, empirical analysis and without regard to political pressure. But, finally, we must also recognize that the Fed's ability to make and implement such decisions ultimately depends on the public's understanding and acceptance of our actions. For this reason, we must continue to emphasize two other essential values -- transparency and accountability. We must do all that we can to explain our actions and to show how they serve the public interest. That's why we must welcome communication, broadly defined. Of course, we'll continue to talk to economists and market participants, but that's not enough. Ultimately, the legitimacy of our policies rests on the understanding and support of the broader American public, whose interests we are working to serve. The ability of this institution to support a healthy economy -- an economy with high levels of employment, low inflation, and a stable financial system, will require our continued efforts to engage in two-way communication. Explaining our actions and, importantly, listening to what our fellow citizens have to say. Let me end by thanking the organizers of this event and, in particular, all of the past and present policymakers in attendance for helping us mark this centennial milestone in such a memorable fashion. Thank you all so much.

[Applause]

As we conclude today's centennial ceremony, let us continue to reflect on the lessons of the past, to deepen understanding of our role in the economy, to devote ourselves to inspiring trust and confidence in the Federal Reserve System among the American people. Thank you to everyone, both here in person and those watching across the system, for participating in our centennial ceremony today. As we continue to commemorate the Federal Reserve's centennial, we'd like to thank our advisory council, our sponsoring committee, our steering committee, and our centennial coordinators, whose names are listed in an insert in your program today. We'd also like to thank the many others that are serving on various subcommittees and workgroups not listed, who've contributed to this and many other centennial initiatives. Thank you again for commemorating the centennial of the Federal Reserve Act and the founding of the Federal Reserve System.

[Applause]

That concludes our video portion. Please remove...