THE HISTORY OF THE FEDERAL RESERVE & BANKING REGULATION

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Introduction: In order to understand the development of banking regulation and regulatory agencies in the US, I studied primary sources from the Great Depression (1929-1935) to understand policy changes, government response, consumer behavior, and regulatory restructuring that occured as a result of the recession. Highlights are included below:

1929

RESERVE BOARD FINDS BUSINESS ON SOLID BASIS

Assures Hoover of Soundness and Looks for Easier Rates for Money

In November 1929, subsequent to Black Tuesday, the Reserve board was assured that the market would correct itself in due time. Governor Young was hesitant to raise the Rediscount to curb speculation due to fears of inhibiting lending to businesses.

1933

President Takes Steps Under Sweeping Law of War Time.

PRISON FOR GOLD HOARDER

The Proclamation Provides for Withdrawals From Banks Against New Deposits.

After Hoover's years of inaction, FDR declared a Federal bank holiday to prevent bank runs from leading to financial collapse. He also placed an embargo on the withdrawal of gold and silver starting the US's departure from the gold standard.

1934

ROOSEVELT AIMS TO SEIZE FEDERAL RESERVE GOLD

Message to Congress Today Will Ask Power to Revalue Dollar; 60-Cent Basis Rumored

President Roosevelt informed Congress of his intent to use the Thomas Amendment (1933), which allowed devaluation of the dollar up to 50 percent of the present gold value of the dollar. This would create a 2.5 billion dollar profit for the government to fund recession relief initiatives.

1935

BANK PROGRAM PUT IN AN OMNIBUS BILL

Three-Part Measure Will Levy FDIC Premiums on Basis of Banks' Total Deposits.

FDR backed a bill that would assess against total deposits an annual premium for FDIC bank members. It would force banks to join the FDIC system, and meet their requirements, within a year. This was a monumental step towards Federal regulation of interstate banking and consumer protection.

Comparison to Modern Economic Crises

- Present Congressional gridlock is usually focused on the amount of spending on social safety nets, not the Constitutionality of such systems.

- Fed governors are rarely removed at frequent intervals due to political disagreements with the administration. They are viewed by many as apolitical government officials.

- The Federal Reserve is recognized by most private banks as a legitimate institution which gives it more power to manipulate the money supply than during the Great Depression.

- The departure of the gold standard allows for more flexibility with quantitative easing.

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