Fiftieth Anniversary of the Federal Reserve System—Organization and First Actions of the Board*

Many important Washington figures gathered in the office of the Secretary of the Treasury on Monday morning, August 10, 1914, to witness the swearing-in of the new Federal Reserve Board. It must have been a solemn occasion. War had broken out in Europe the previous week, bringing with it great uncertainty and perplexing financial problems.

The men who were to confront these problems had come to Washington from different backgrounds and regions. The Federal Reserve Act had specified that no two of the five men appointed by the President could come from the same Federal Reserve District and that two should be experienced in banking or finance. The new body was to exercise general supervision over the Federal Reserve Banks.

President Wilson had spent several months making the selections, and the Senate did not confirm all the appointments until the end of July. Charles S. Hamlin, a Boston lawyer who was then serving as an Assistant Secretary of the Treasury, was designated Governor of the Board (equivalent to the present Chairman). The Vice Governor (Vice Chairman) was to be Frederick A. Delano, a railroad executive from Chicago. Paul M. Warburg, a member of a New York banking firm, and W. P. G. Harding, president of a national bank in Birmingham, Alabama, were selected as the members with banking or financial experience. The fifth appointee was A. C. Miller, a former professor of economics at the University of California, who was serving as Assistant to the Secretary of the Interior.

Under the new law the Secretary of the Treasury and the Comptroller of the Currency were ex-officio members. Thus, Secretary William Gibbs McAdoo and John Skelton Williams completed the "Supreme Court of Finance", as the Board was informally called. (The Federal Reserve Act was amended in 1935, removing the provision for ex-officio membership, making all seven positions appointive, and changing the official title to the Board of Governors of the Federal Reserve System.)

When the members of the new Board assembled for their first meeting the Thursday after being sworn in, they had to make a choice between immediately completing the organization of the Reserve Banks or developing emergency programs to counteract the financial

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* The eighth in a series of historical vignettes appearing during the System's anniversary year. For more detailed information, the reader may wish to refer to *The Federal Reserve System*, by Henry Parker Willis, and *The Formative Period of the Federal Reserve System*, by W. P. G. Harding, from which the material in this article is largely drawn.

disturbances caused by the war. The latter course was adopted, resulting in the establishment of a gold pool and a cotton loan fund.

One of the earliest and most trying financial consequences of the war was a highly abnormal condition in the foreign exchange market. The balance-of-payments position was deteriorating seriously in August 1914, with both the trade and capital accounts contributing to a large deficit. Exports declined sharply because of the disorganization of ocean shipping and the virtual collapse of European credit markets, the usual source for United States export financing. At the same time Europeans were dumping holdings of American securities in the New York market, and a large amount of American obligations held by foreigners was scheduled to mature in the near future. Discussing this situation, the first *Annual Report* of the Federal Reserve Board observed: "The securities markets were badly demoralized, prices fell with alarming rapidity, and the country was exposed to a serious and disastrous drain of gold."

In response to this problem the Federal Reserve Board took the initiative in calling a conference of private bankers to discuss emergency action. The larger banks throughout the country agreed to subscribe $100 million to a gold pool, which could be used to settle American debts to Europe and thus help restore confidence in the dollar.

In addition, a very serious problem confronted the cotton-producing states. Since 60 per cent of American cotton production was normally exported, interruption of Atlantic shipping and the closing of the United States and British cotton exchanges resulted in a major financial crisis in the South. Cotton exporters needed credit to finance their higher-than-normal inventories, but Southern banks were already overextended. To provide relief, the major banks in the North, cooperating with the Federal Reserve Board, agreed to establish a $100 million cotton loan fund, from which credit could be made available to the cotton exporters.

Operations actually required under the gold exchange fund were small, and under the cotton loan fund virtually zero. However, the two plans had a highly beneficial psychological impact. Thus, even before the Reserve Banks opened, the new System had demonstrated its usefulness to the country.