

THE FEDERAL RESERVE SYSTEM

In the United States, the Federal Reserve System performs the central banking function. Although the Federal Reserve is technically owned by the banks themselves, the Board of Governors is appointed by the President with the consent of the Senate. The President also selects the powerful chairman of the Federal Reserve.

Banks and our government work together to form the banking system and to make sure the money supply is adequate, appropriate and trustworthy. Overseeing sound banking practices is one of the important functions of the Federal Reserve.

Banks are critical to the economy. Although there are many ways that money moves around the economy, banks play a central role in establishing the financial environment. Transferring money to provide growth and stabilizing the money supply are important functions in which banks play a key part. Bank lending makes money available to consumers and businesses to make purchases they might not otherwise be able to make, or at least not for a very long time. In addition, banks help determine creditworthiness so that good money is not lost on bad loans.

Safeguarding the holdings of people may be the oldest bank function. Long before banks existed, people looked for ways to secure their valuables. In some societies, such as Babylonia about 2000 BC, people began to store money in temples, perhaps because they thought others would be less likely to steal from the houses of gods. Ancient records indicate that about 4,000 years ago the temples were in the business of lending and exchanging money and were acting as banks.