LESSON THREE:

IS THE FED PUBLIC OR PRIVATE?

LESSON OVERVIEW:

"The Fed has a unique public/private structure that operates independently within the government, but independent of it," explains the narrator in *The Fed Today* video. The question of the Fed as a public or private organization will be explored further in this lesson. Sometimes, as it is in the video, the Federal Reserve is referred to as a "decentralized central bank" because of its unique structure that is both public and private. In this lesson students complete a Venn Diagram that helps them examine the unique public and private elements that make the Fed independent within the U.S. government. The content for this activity is based on a student handout (Structural Elements of the Fed) that outlines ten features of the Federal Reserve and the significance of each. The Venn Diagram provides students with a way to illustrate their findings about the elements of the Fed that are private, public, or both.

STUDENT OBJECTIVES:

Students will:

- Identify the public and private elements of the Federal Reserve System.
- Explain the concept of a "decentralized central bank."
- Analyze and categorize features of the Fed as either public, private, or both.

TIME NEEDED:

One 50-minute class period

MATERIALS:

- Classroom Visual: *Structural Elements of the Fed*
- Student Handout #1: *Significance of the Structural Elements of the Fed*
- Student Handout #2: *Is the Fed Public or Private?*—Venn Diagram
- Answer Key: *Is the Fed Public or Private?*—Venn Diagram
- Access to the FED101 website: http://www.federalreserveeducation.org/fed101/structure/ to learn more about thestructure of the Federal Reserve. Additional on-line activities available. (Optional)

TEACHER PREPARATION:

1. Review class handouts.
2. Prepare group sets of handouts.
3. Review structure section on the FED101 website: http://www.federalreserveeducation.org/fed101/structure/ to learn more about the structure of the Federal Reserve. Additional on-line activities available. (Optional)

ACTIVITY:

Determining if the Fed is Public or Private

PROCEDURES:

1. Write on the board: "Is it public or is it private?" Explain that today's lesson on the Fed should help to answer whether the Federal Reserve is a government agency or a private corporation. Ask students to recall from *The Fed Today* video or other lessons what they remember about the unique structure of the Federal Reserve.
2. Project Classroom Visual: *Structural Elements of the Fed*. Review and discuss each element with students, checking for understanding. Ask for student participation on the significance of each structural element.
3. Distribute Student Handout #1: *Significance of the Structural Elements of the Fed*. Discuss the significance of each element, focusing on such issues as decision-making, funding, ownership, and checks and balances.
4. Distribute Student Handout #2: *Is the Fed Public or Private?*—Venn Diagram. Ask students to place the number of the structural element in the correct space on the Venn Diagram.
5. Project the answers to the Venn Diagram exercise and ask students to assess their answers. Ask them once again if they think the Federal Reserve is a government agency or a private corporation and why.
6. **Teacher Summary:** Remind students that the Federal Reserve is made up of both public and private elements and that it is a "decentralized central bank" that incorporates regional input for decisions on monetary policy. Ask for student participation to summarize the following main points:
   - The Board of Governors of the Federal Reserve represents the public component of the Fed.
   - The 12 Federal Reserve Banks and their boards of directors represent the private element of the Fed.
   - The Federal Open Market Committee (FOMC) is the System's most important monetary policymaking body and relies on national and regional input to make monetary policy decisions.
   - The Federal Reserve is self-financed primarily from interest it earns on its portfolio of U.S. Treasury Securities, insulating it from much of the political pressure that exists in the Legislative and Executive Branches of the U.S. government.

EXTENDING THE LESSON:

Have students visit the FED101 website at http://www.federalreserveeducation.org/fed101/structure/. Students can learn more about the structure of the Federal Reserve and the Federal Open Market Committee and take an on-line quiz.

DISCUSSION POINT:

Myth:

The Fed is privately owned by bankers and favors the banking industry.

REALITY:

The Federal Reserve is not a private corporation. It is part private and part public, with its Board of Governors an agency of the United States government. The regional Federal Reserve Banks are private corporations acting as agents of the government that are owned by their member banks.

Classroom Visual

STRUCTURAL ELEMENTS OF THE FED

Number	*Elements*	*Significance*
1.	**The Federal Reserve Act was created by Congress.** Congress has the ultimate power to change or even repeal the Federal Reserve Act.	
2.	**The Fed is governed by a seven-member Board of Governors,** each appointed by the President and confirmed by the Senate.	
3.	**Each Federal Reserve Bank has a board of directors** represented by bankers, business owners, and other professionals.	
4.	**Federal Reserve Banks provide financial services to depository institutions** (banks), such as coin, currency, check,and electronic funds processing.The Fed is sometimes referred to as the bankers'bank because it provides these services.	
5.	**The Federal Reserve is self-financed** primarily from interest earned on its portfolio of government securities. Other income is generated from providing banking services (such as cash, check,and electronic funds processing) to commercial banks.	
6.	**The Federal Reserve serves as the fiscal agent for the U.S. government.**	
7.	The Federal Open Market Committee (FOMC) is the Fed's principal body for setting monetary policy. **The FOMC consists of the seven governors from the Board of Governors and the 12 Reserve Bank presidents.**	
8.	**Employees from the 12 Federal Reserve Banks are not government employees.** Federal Reserve Banks are not subject to the same hiring restrictions as government agencies.	
9.	**Federal Reserve Bank presidents are nominated by the Bank's board of directors and approved by the Board of Governors.** Reserve Bank presidents serve five-year terms, with their salaries subject to approval by the Board of Governors.	
10.	**Banks that become members of the Federal Reserve must purchase stock in their regional Federal Reserve Bank.** Member banks receive a fixed six-percent annual dividend on this stock.	

Student Handout #1

SIGNIFICANCE OF THE STRUCTURAL ELEMENTS OF THE FED

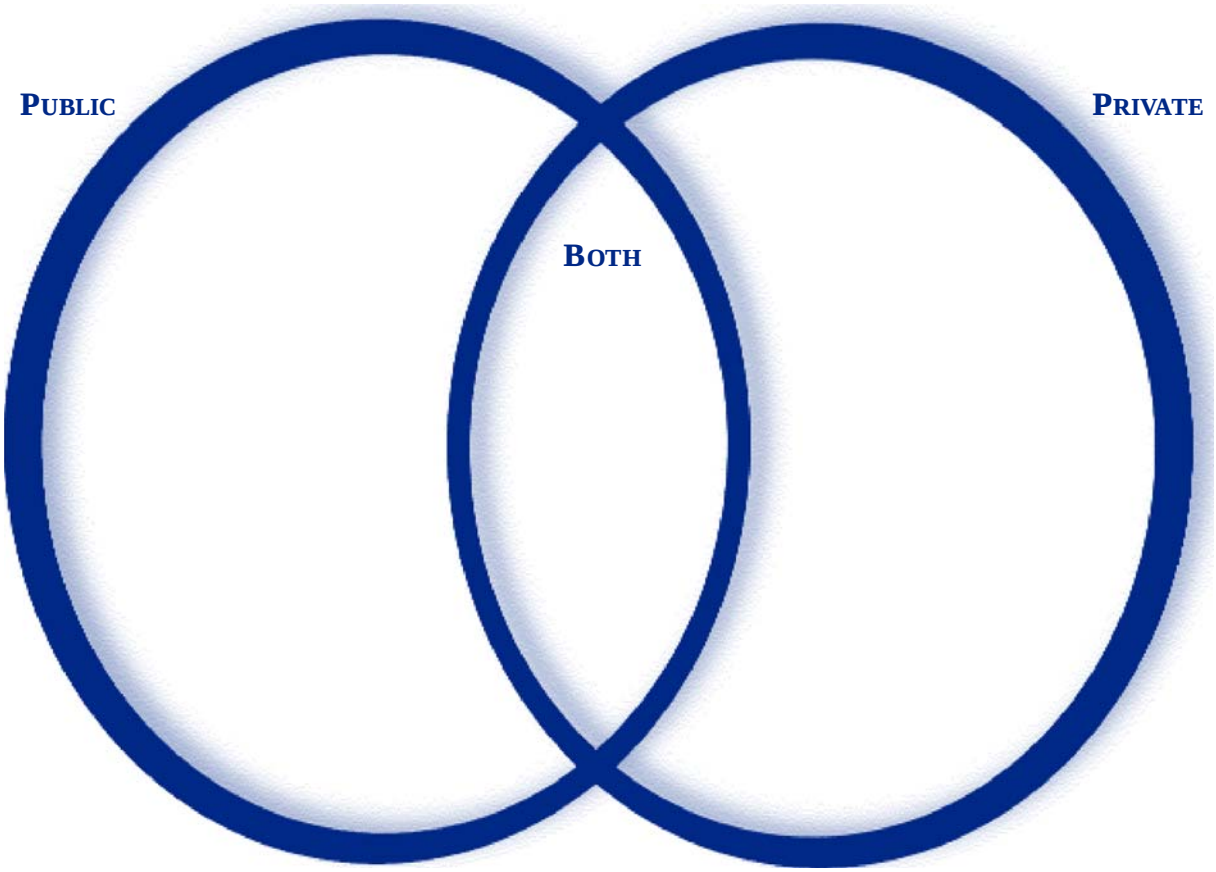
Number	*Elements*	*Significance*
1.	**The Federal Reserve Act was created by Congress.** Congress has the ultimate power to change or even repeal the Federal Reserve Act.	Although the Fed is relatively independent within government, Congress created the Federal Reserve and it has the power to modify it.
2.	**The Fed is governed by a seven-member Board of Governors,** each appointed by the President and confirmed by the Senate.	Federal Reserve Board appointments must be approved by both the President and Congress, thereby creating a system of checks and balances.
3.	**Each Federal Reserve Bank has a board of directors** represented by bankers, business owners, and other professionals.	Federal Reserve Banks' boards of directors come from a variety of banking, business, and community environments.
4.	**Federal Reserve Banks provide financial services to depository institutions** (banks), such as coin, currency, check, and electronic funds processing. The Fed is sometimes referred to as the bankers' bank because it provides these services.	As a competitive provider of payments services, the Fed understands payment system issues and the need for stability.
5.	**The Federal Reserve is self-financed** primarily from interest earned on its portfolio of government securities. Other income is generated from providing banking services (such as cash, check, and electronic funds processing) to commercial banks.	Without having to rely on an imposed budget, the Federal Reserve is insulated from the day-to-day political pressures that exist in the Legislative and Executive Branches.
6.	**The Federal Reserve serves as the fiscal agent for the U.S. government.**	The Fed is the government's bank, effectively managing the Treasury Department's checking account.
7.	The Federal Open Market Committee (FOMC) is the Fed's principal body for setting monetary policy. **The FOMC consists of the seven governors from the Board of Governors and the 12 Reserve Bank presidents.**	The FOMC incorporates important public/private and national/regional input into the decision-making process for setting monetary policy in the U.S.
8.	**Employees from the 12 Federal Reserve Banks are not government employees.** Federal Reserve Banks are not subject to the same hiring restrictions as government agencies.	Operating more like business organizations, Reserve Banks must minimize cost and generate revenue to compete for business with other U.S. financial institutions.
9.	**Federal Reserve Bank presidents are nominated by the Bank's board of directors and approved by the Board of Governors.** Reserve Bank presidents serve five-year terms, with their salaries subject to approval by the Board of Governors.	Federal Reserve Bank presidents are not political appointees, and are able to avoid day-to-day political pressures.
10.	**Banks that become members of the Federal Reserve must purchase stock in their regional Federal Reserve Bank.** Member banks receive a fixed six-percent annual dividend on this stock.	There has been a lot of speculation about who owns the Fed. Banks that become members of the Federal Reserve are the "owners" of the Fed.

Student Handout #2

IS THE FED PUBLIC OR PRIVATE?—VENN DIAGRAM

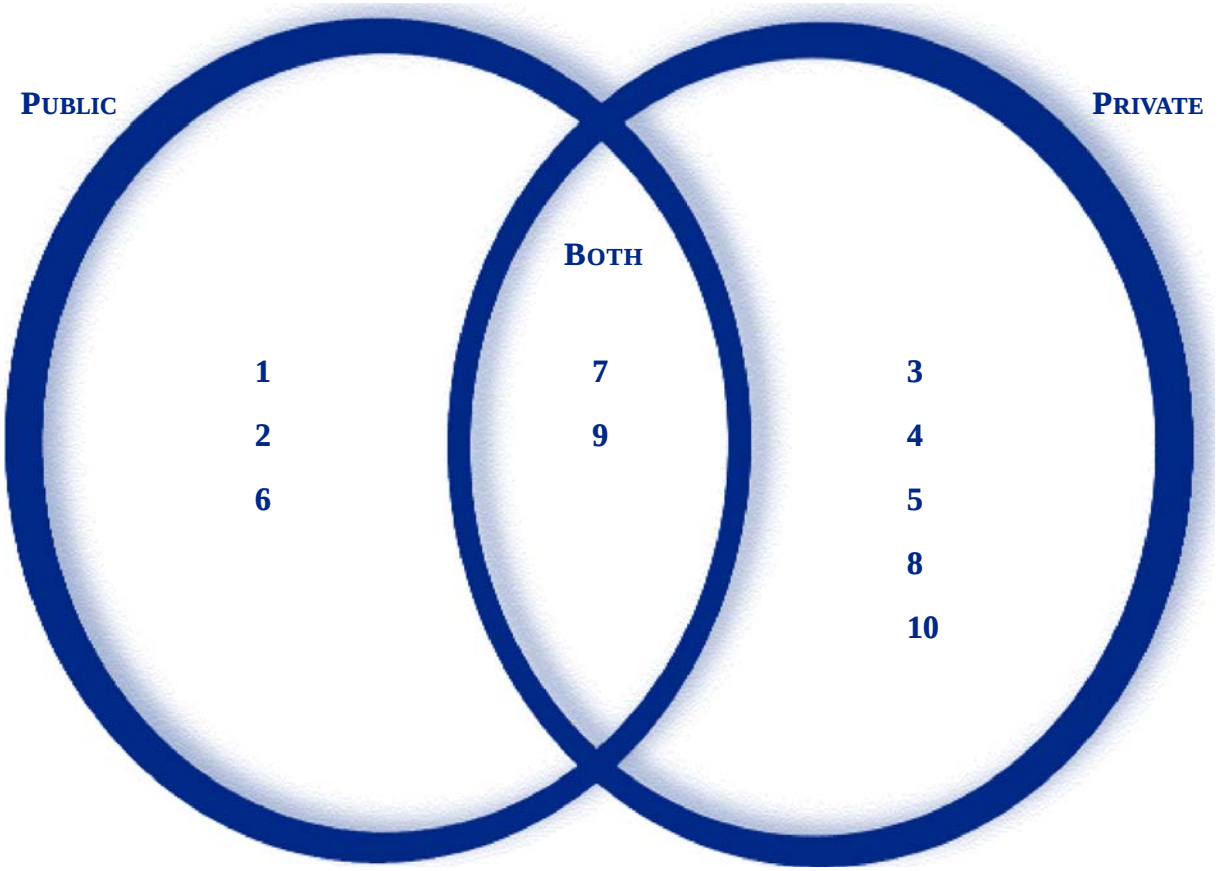
Instructions:

Review the structural elements of the Fed. Decide whether each element is public, private, or both. Place the number of the structural element in the most appropriate area of the Venn Diagram. If a structural element describes both a public and private aspect of the Federal Reserve, place the number in the area marked "Both."



Answer Key

IS THE FED PUBLIC OR PRIVATE—VENN DIAGRAM

Instructions:

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