At 6:00 P.M. on December 23, 1913, President Woodrow Wilson entered his office. He was smiling as he looked around the circle of friends and associates who had assembled there. Spotting Carter Glass, the slightly built but exceedingly influential congressman from Virginia, at the far end of the room, the President beckoned him to join Senator Robert Owen of Oklahoma at his side. After shaking Glass’s hand warmly, the President sat down at his desk and, using four gold pens, signed into law the Federal Reserve Act. As Arthur S. Link, Wilson’s principal biographer, has written, “Thus ended the long struggle for the greatest single piece of constructive legislation of the Wilson era and one of the most important domestic Acts in the nation’s history.”

With this law, Congress established a central banking system, which would enable the world’s most powerful industrial nation to manage its money and credit far more effectively than ever before. As essential as our central banking system appears to be in today’s complex economy, the political and legislative struggle to create the Federal Reserve System was long and often extremely bitter, and the final product was the result of a carefully crafted yet somewhat tenuous political compromise.
Indeed, until nearly the beginning of the 20th century the United States had been a nation dominated by its frontier and its enormous expanse of rich and fertile land. Born in the dawn of the modern age, the United States in its first decades was a land of small farms and nearby towns with few cities of any consequence, and the young nation seemed far more interested in becoming a successful experiment in democracy rather than an economic power. As a result, the institutions necessary to a commercial society—large cities, a common medium of exchange, and a mechanism to regulate that medium—were greeted with indifference if not outright hostility.

Yet, America’s very success as an experiment in democracy, and its tremendous agricultural production, provided the base for an urban and, ultimately, an industrial society. “The United States was born in the country and has moved to the city,” Professor Richard Hofstadter wrote. Yet, some of the young nation’s most eloquent leaders were strong champions of the agrarian way of life who disdained urban life, and the continuing conflict between rural values and urban reality has been one of the most important themes of American history.