

DIALOGUE
WITH THE FED

Beyond Today's Financial Headlines

The St. Louis Fed at 100: Reflections on the “Maverick” Reserve Bank

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May 6, 2014

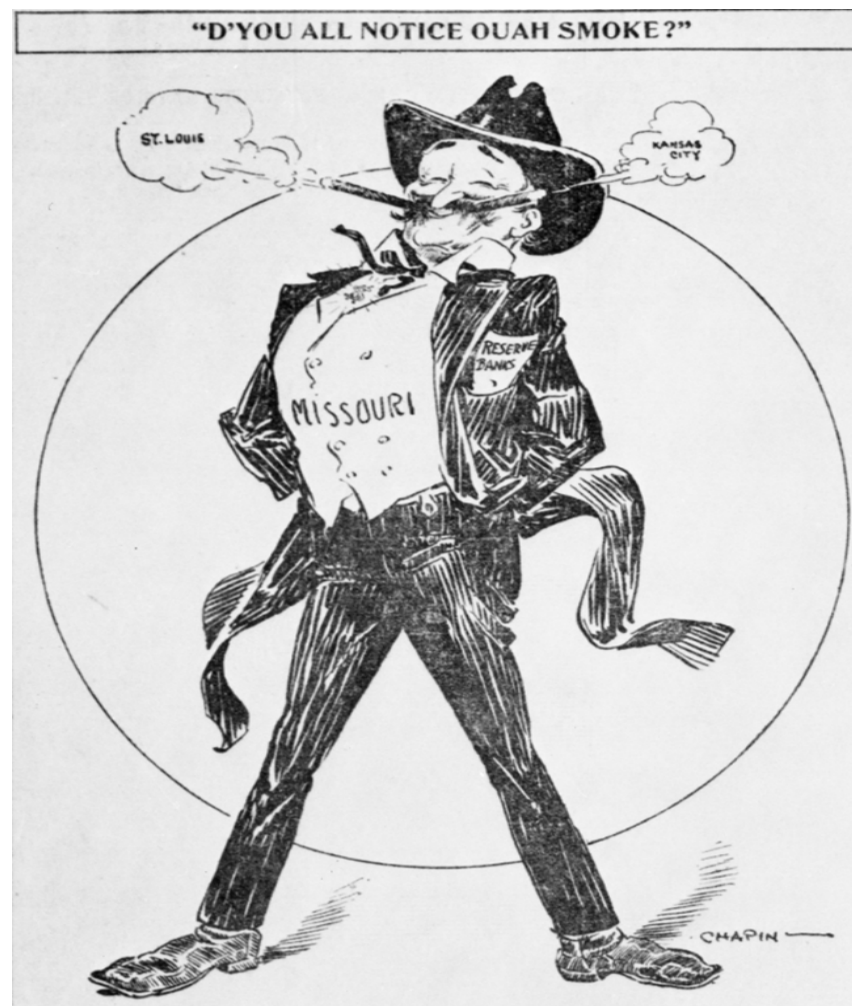


CENTRAL TO AMERICA'S ECONOMY™

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The views expressed in this presentation do not necessarily reflect official positions of the Federal Reserve Bank of St. Louis or the Federal Reserve System.



Presentation Outline

- ❑ Why the Fed was established
- ❑ How St. Louis came to be chosen as the location for a Federal Reserve Bank
- ❑ The “Great Inflation” and the “maverick” Reserve Bank
- ❑ The legacy: The benefits of a regional structure

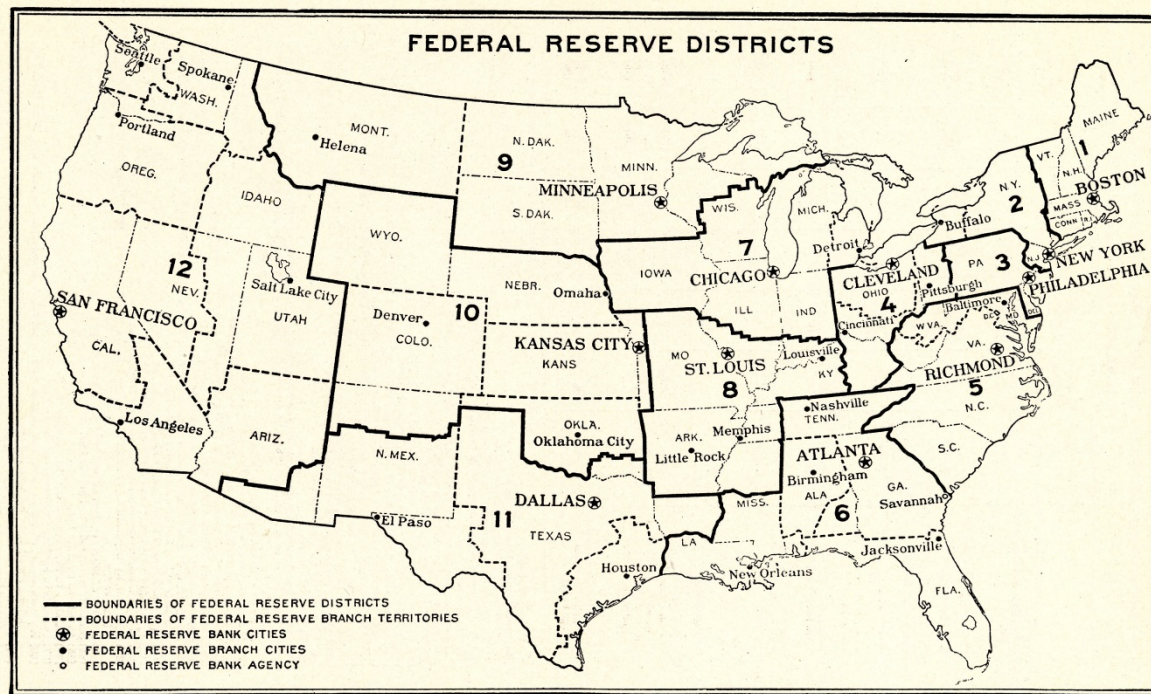
The Problem: Panics, Crashes and Crises

- ❑ An “inelastic” currency
- ❑ Banking panics
- ❑ No lender of last resort
- ❑ An inefficient payments system



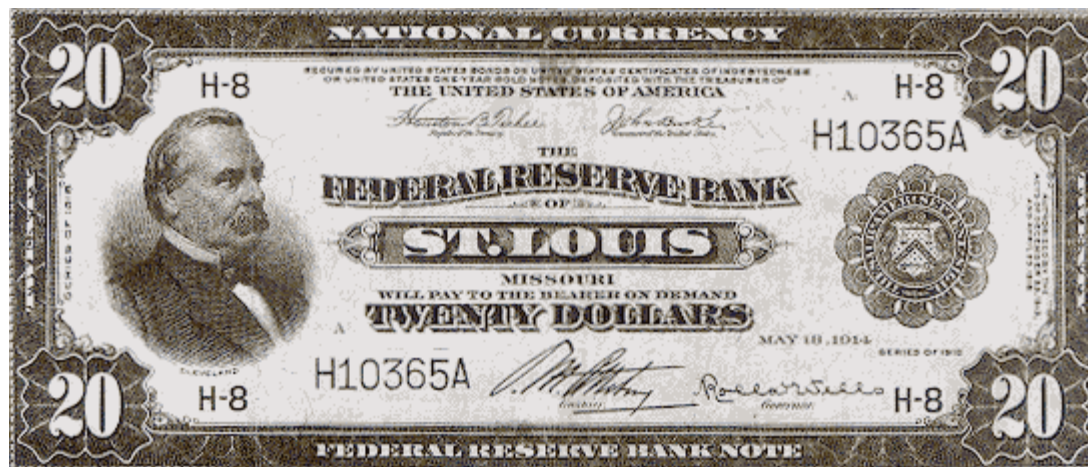
The Solution: Not A “Central Bank”

- Political compromises produced a system of *regional, private* Reserve banks with *public* oversight.



A New Currency and a Lender of Last Resort

- ❑ A new currency – the Federal Reserve note
- ❑ A lender of last resort – the discount window
- ❑ An integrated payments system



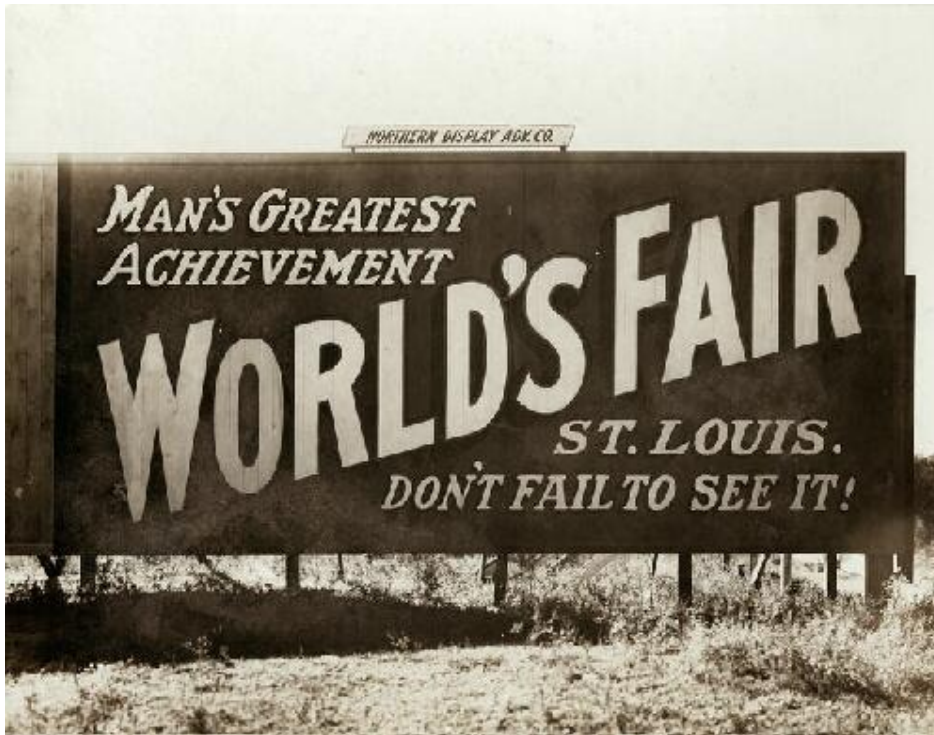
Why St. Louis Got a Reserve Bank



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Hint: It wasn't the Arch.

St. Louis Was a Big Deal!



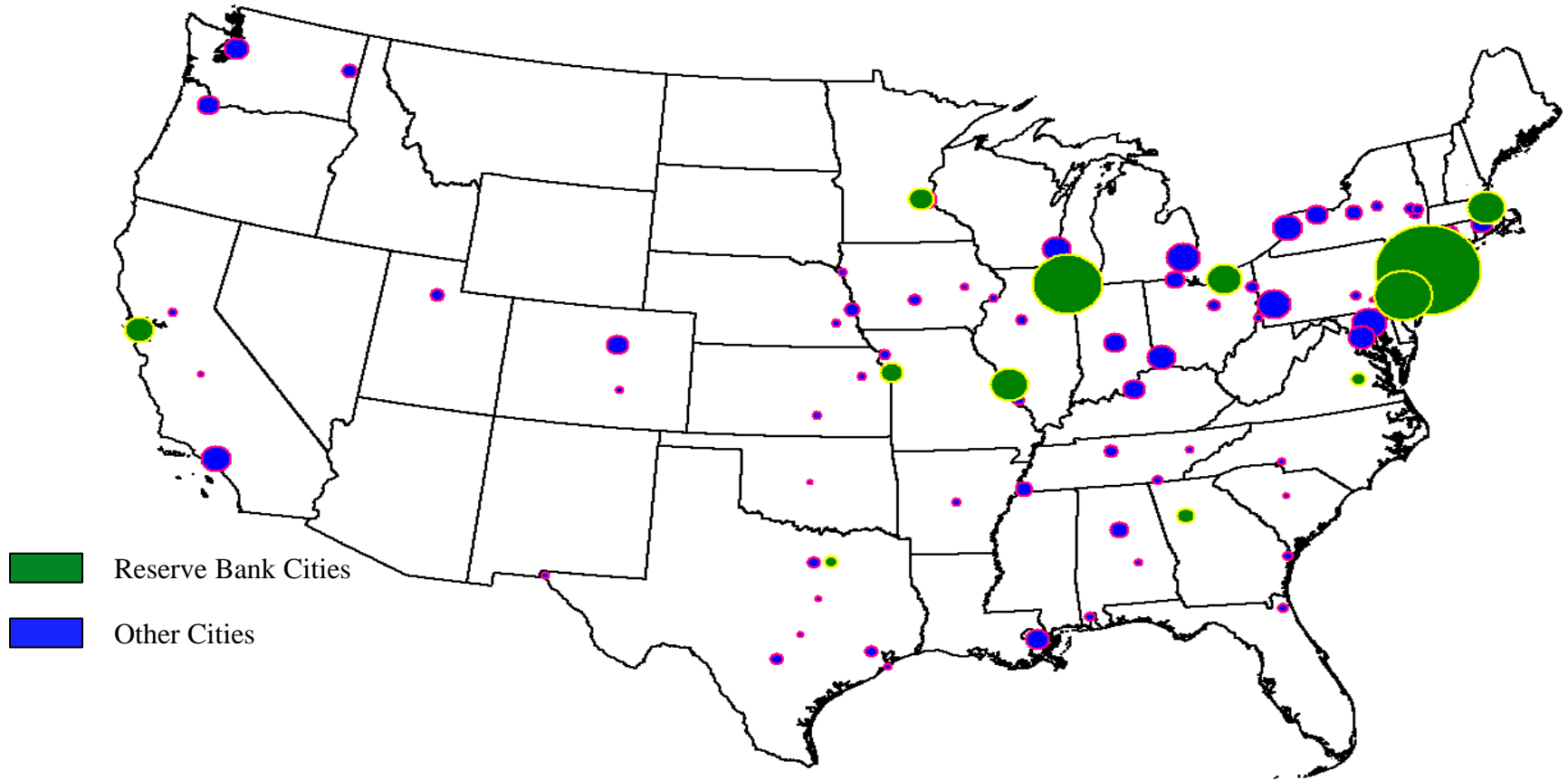
Missouri History Museum



Missouri History Museum

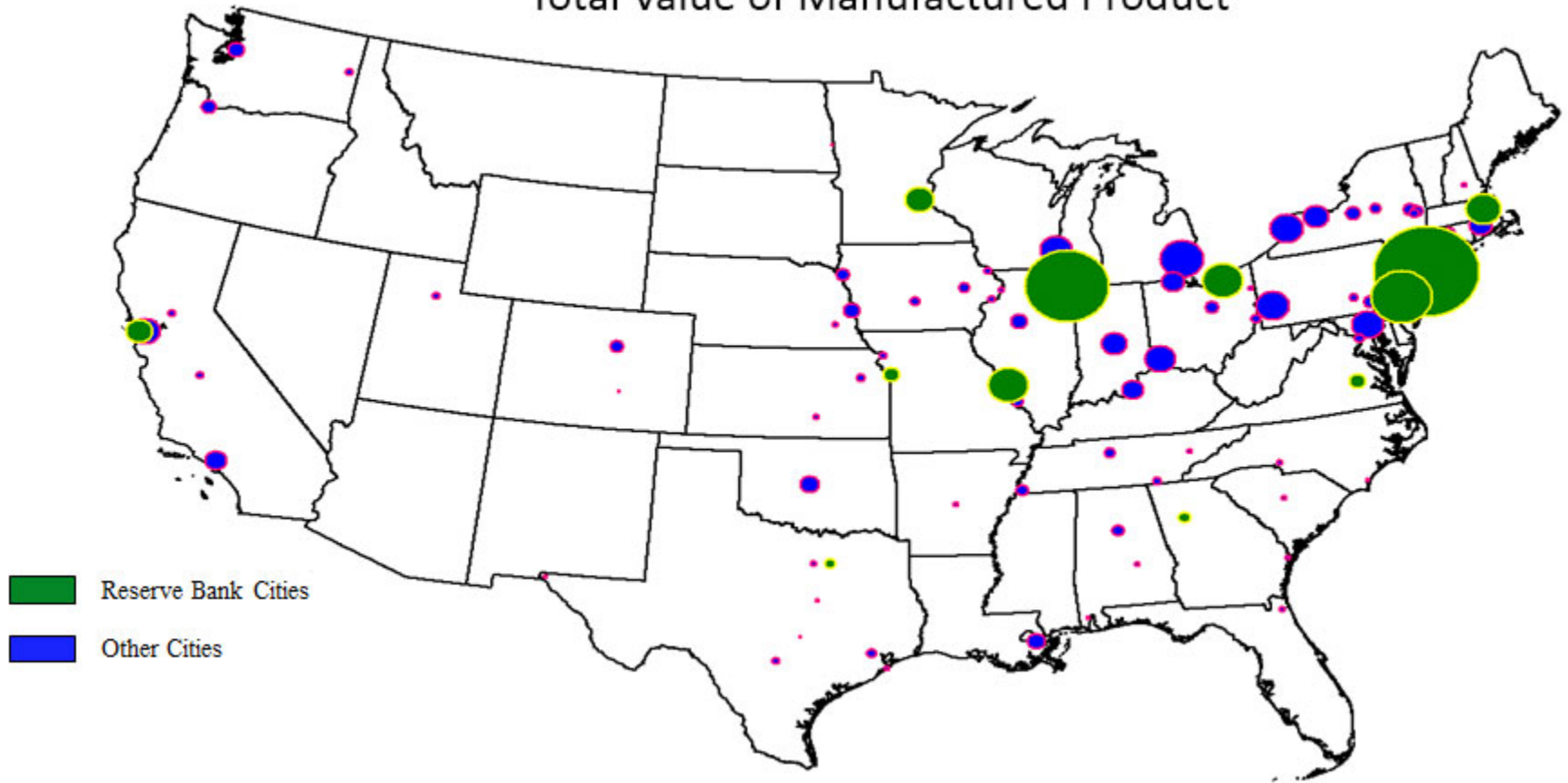
It Was the Fourth Largest City

Estimated Population, 1914



It Was Fifth in Manufacturing Output

Total Value of Manufactured Product



It Was a Transportation Hub



Missouri History Museum

St. Louis Was Big!

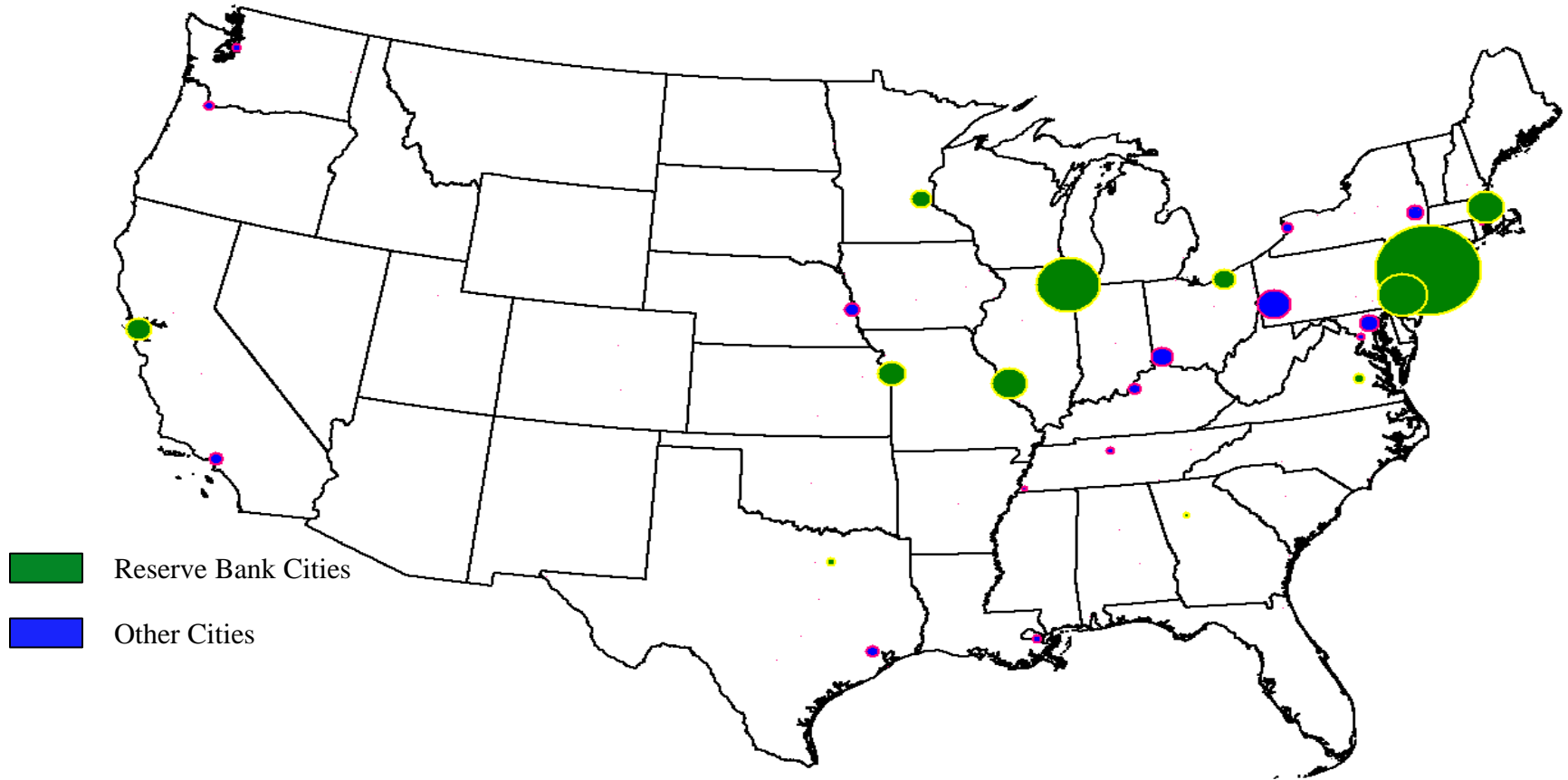
City	Population	Manufacturing Output (Thousands of Dollars)	Mfg. Rank
New York, NY	5,333,539	\$2,292,832	1
Chicago, IL	2,397,600	\$1,483,498	2
Philadelphia, PA	1,657,810	\$784,500	3
St. Louis, MO	734,667	\$360,480	5
Boston, MA	733,802	\$284,802	7
Cleveland, OH	639,431	\$352,418	6
Baltimore, MD	579,590	\$215,172	11
Pittsburgh, PA	564,878	\$246,694	9
Detroit, MI	537,650	\$400,348	4
Buffalo, NY	454,112	\$247,516	8
Milwaukee, WI	419,589	\$223,555	10
Cincinnati, OH	402,175	\$210,860	12
Newark, NJ	389,106	\$210,601	13
Minneapolis, MN	343,466	\$187,854	14
Jersey City, NJ	293,921	\$164,528	15
Louisville, KY	235,114	\$105,223	25
Memphis, TN	143,231	\$39,133	80
Little Rock, AR	53,811	\$7,755	>100

Our Leading Industries

- ❑ Meat packing (sixth in the nation)
- ❑ Boots/shoes (fourth)
- ❑ Beer (fourth)
- ❑ St. Louis was also big in other industries: clothing, printing/publishing, coffee roasting, patent medicines, stoves and furnaces.

St. Louis Was a Central Reserve City

Correspondent Deposits

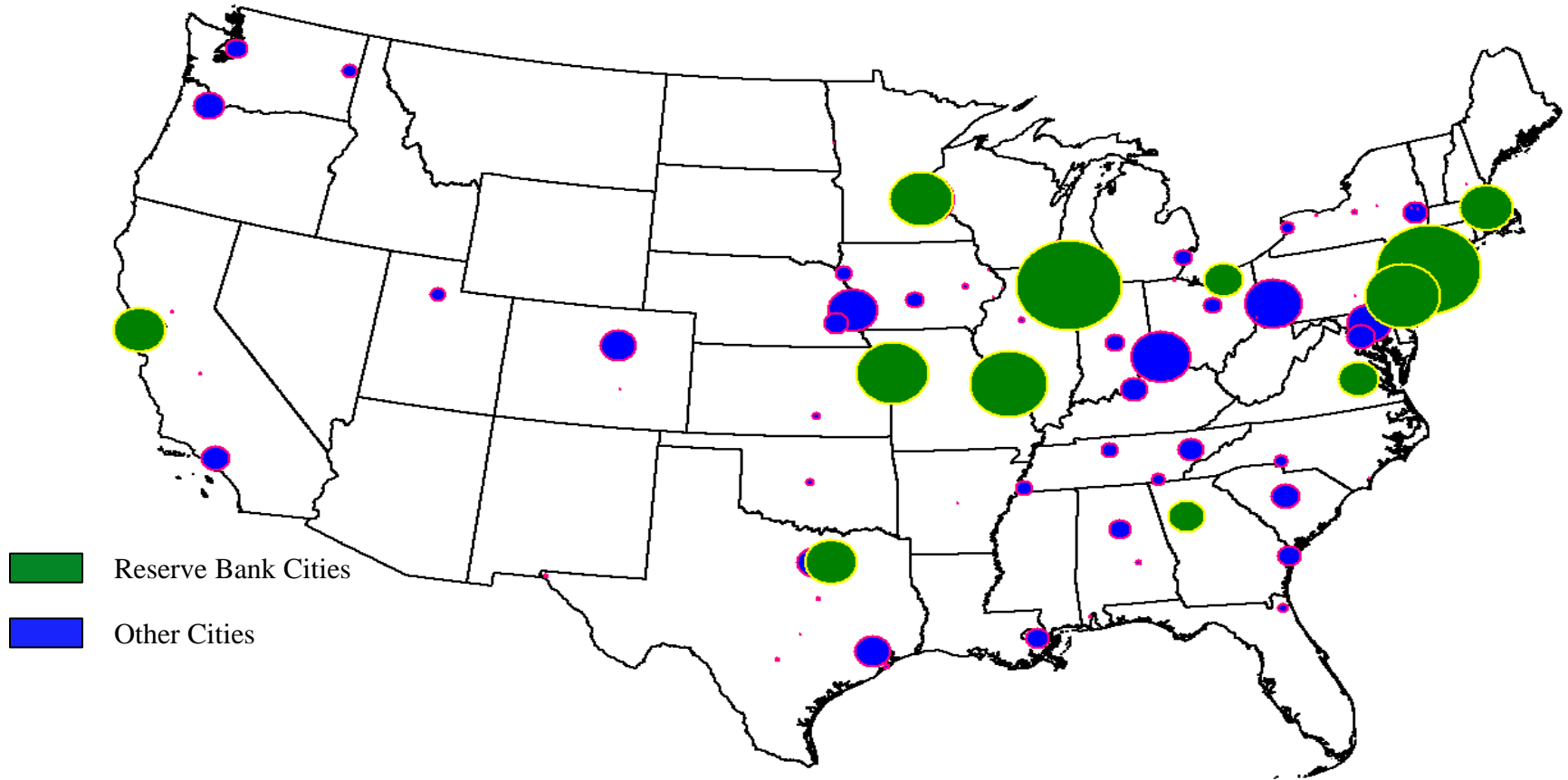


Number of Banks and Interbank Deposits

City	Number of Banks and Trust Companies	Correspondent Deposits
New York, NY	142	\$742,386,939
Chicago, IL	88	\$278,824,567
Philadelphia, PA	100	\$173,584,687
Boston, MA	60	\$97,136,156
St. Louis, MO	44	\$90,430,968
Pittsburgh, PA	83	\$79,314,345
Kansas City, MO	30	\$54,835,438
San Francisco, CA	45	\$45,859,188
Cleveland, OH	35	\$36,746,820
Cincinnati, OH	39	\$32,593,282
Minneapolis, MN	33	\$31,316,864
Baltimore, MD	55	\$27,421,904
St. Paul, MN	20	\$16,002,069
Louisville, KY	18	\$11,750,499
Richmond, VA	26	\$10,970,068
Portland, OR	22	\$8,427,674
Seattle, WA	32	\$7,518,865
New Orleans, LA	19	\$7,229,470
Washington DC	36	\$5,516,705
Memphis, TN	22	\$2,377,836

Bankers Wanted a Bank in St. Louis

Number of First and Second Choice Votes Received



Even Some Illinois Bankers!

Exchange Bank Milton Inc

Milton

Ills., February 4 1914.

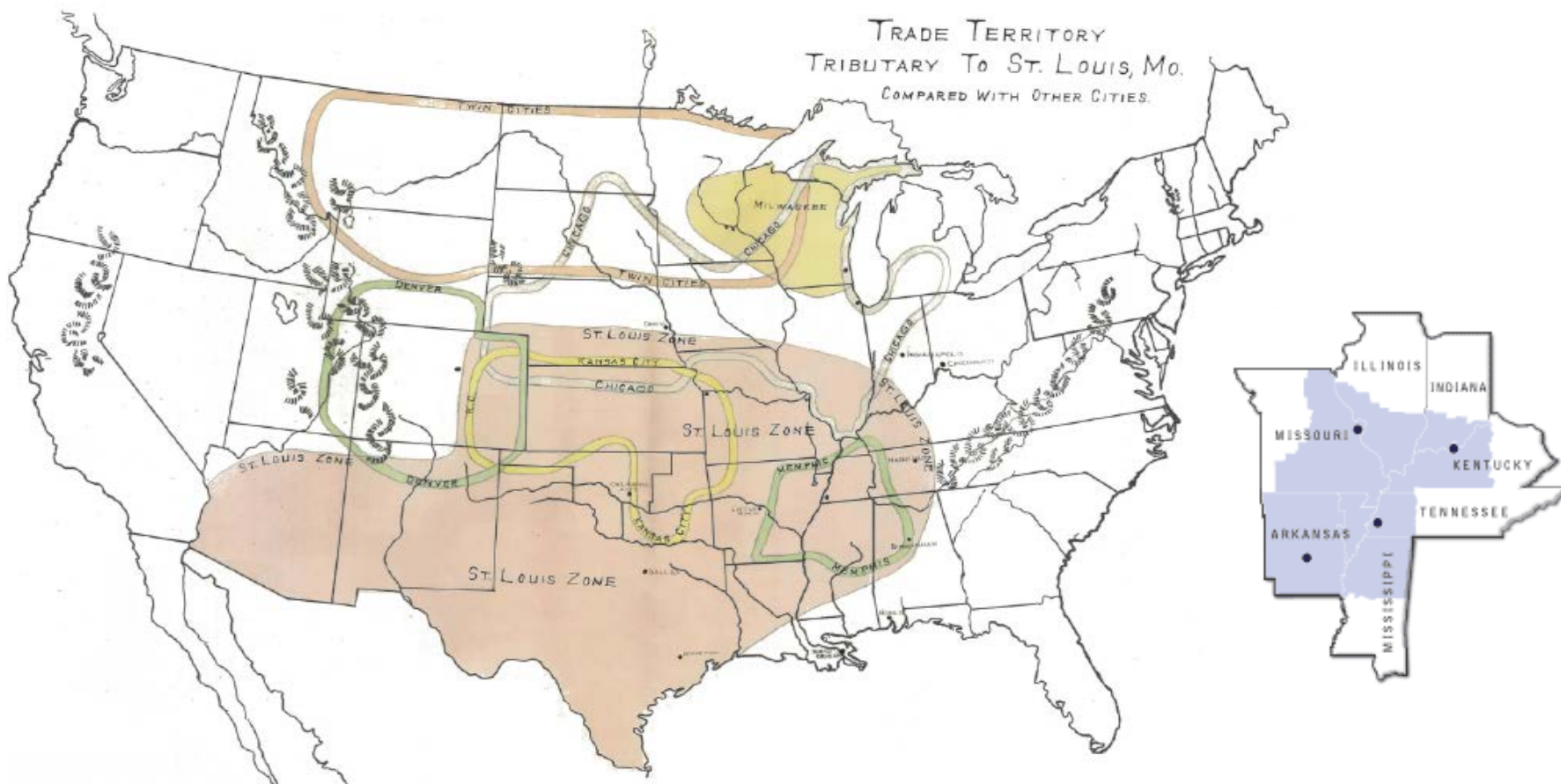
We believe it to be to the interest of this community that it should be included in the Federal Reserve District, the Federal Reserve Bank of which should be located in ^{St Louis Mo.} ~~Chicago~~, Illinois.

O. E. Bohrer
Act. Cashier.

The St. Louis Proposal

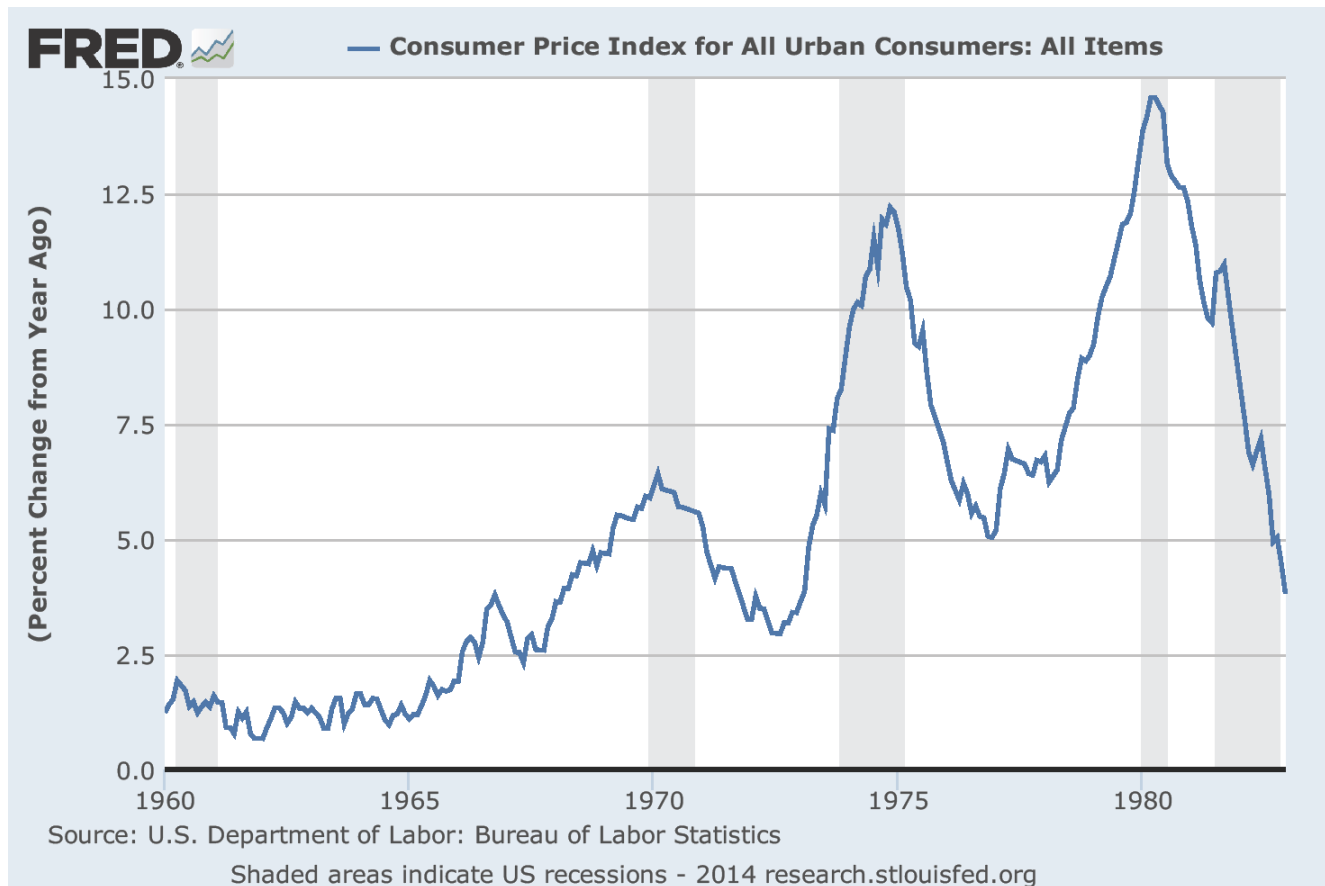
- ❑ “We beg of you not to establish more than eight [Federal Reserve] banks.”
- ❑ “The states of Missouri, Kansas, Nebraska, Texas, Arkansas, Oklahoma, Kentucky, Tennessee, Louisiana, Mississippi, Southern Illinois and Southern Indiana, with St. Louis as the reserve center.”
- ❑ “Ten or fifteen branches”

The Proposed District (Versus What We Got)



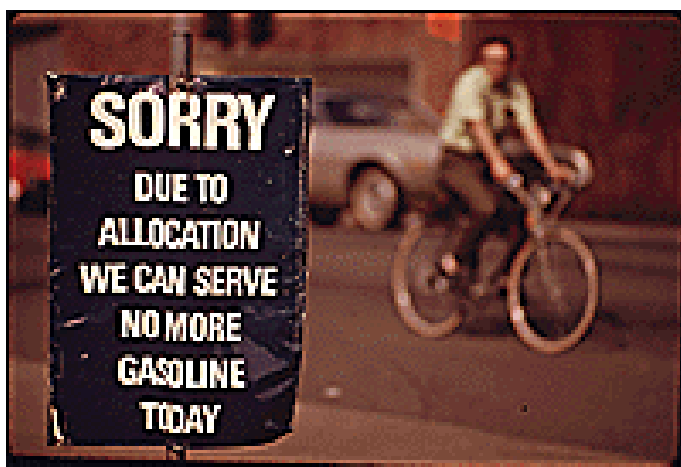
The Great Inflation and the “Maverick” Reserve Bank

The Great Inflation



Who or What Caused It?

- ❑ The Board of Governors (Burns and others) blamed budget deficits, OPEC, labor unions and monopolists.
- ❑ Monetarists (Friedman, etc.) blamed the Fed for causing the money supply to grow too rapidly.



David Falconer / EPA / U.S. National Archives



The Fed Did It!

“Stop-Go-Stop” monetary policy was a recipe for disaster:

- ❑ Slam on the brakes to fight inflation, but cause a recession.
- ❑ Step on the gas to reduce unemployment, but generate higher inflation.
- ❑ Repeat.



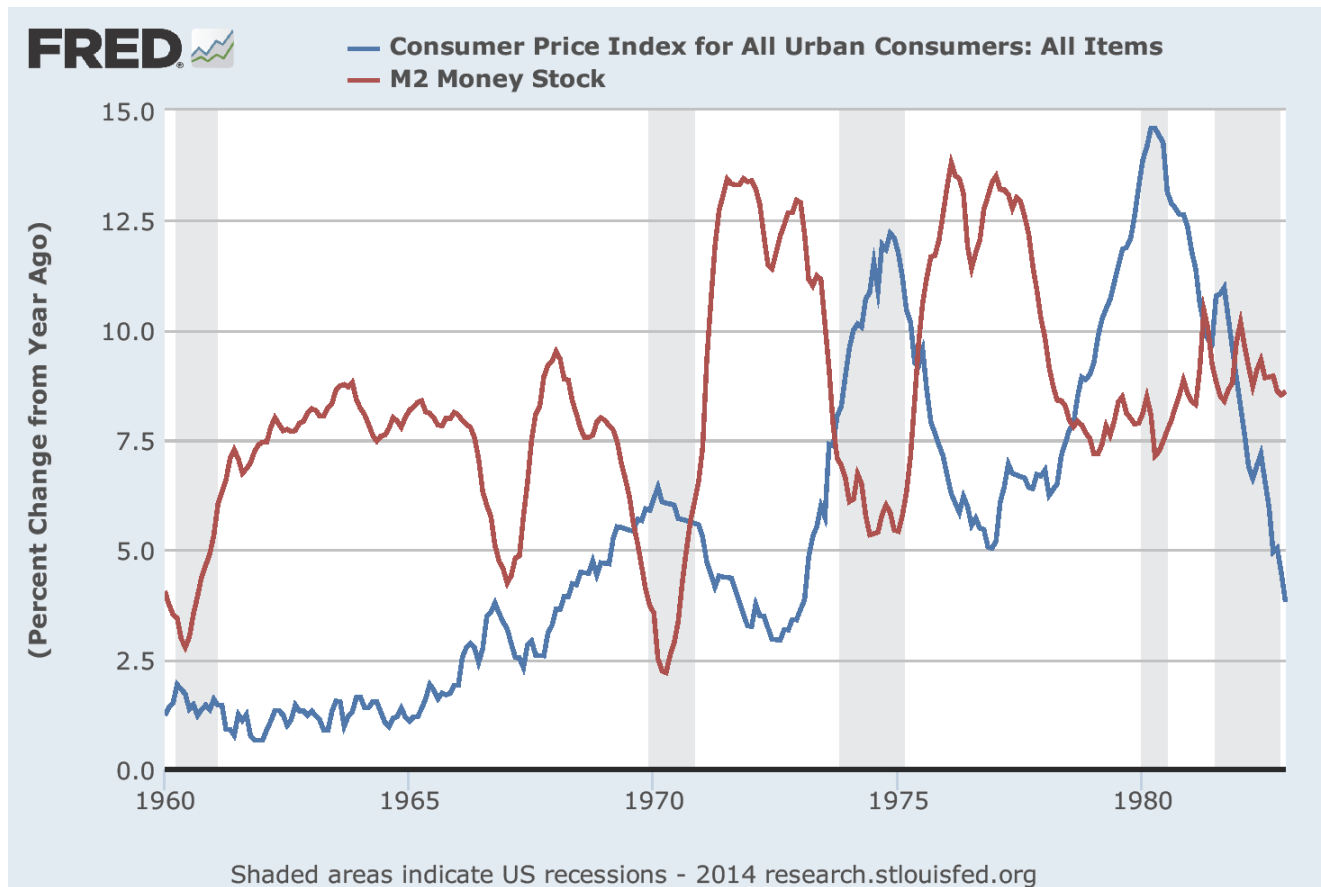
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Stop-Go Monetary Policy



St. Louis Fed Positions

- ❑ Inflation is caused by rapid growth of the money supply.
- ❑ Wage/price controls won't work.
- ❑ Stop-go policy is bad for the economy.
- ❑ Higher inflation does not reduce unemployment.



Leonall Andersen and Homer Jones in 1971

The Board Didn't Want to Hear It

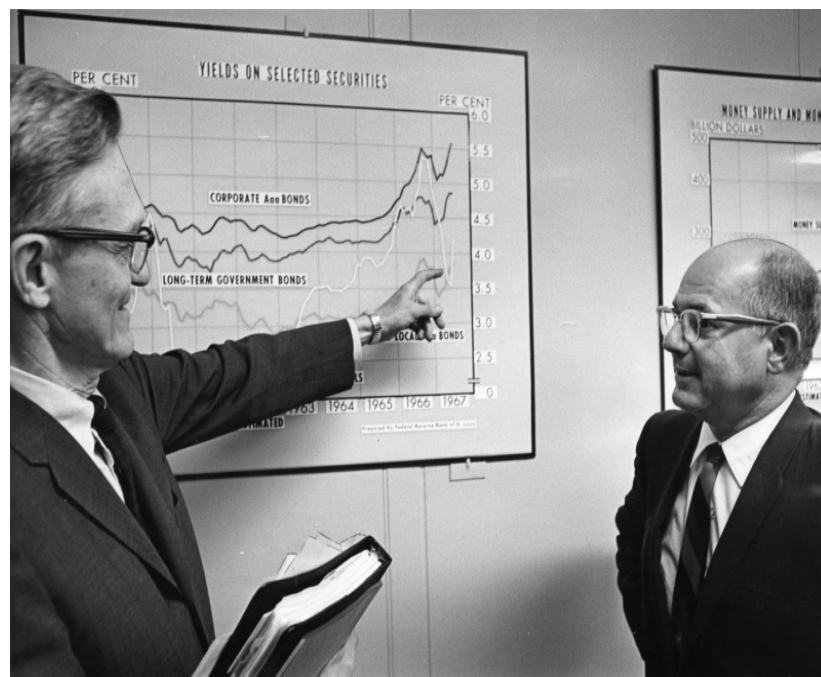
- Audio clip: Francis describing Martin and Burns



William McChesney Martin Jr., Arthur Burns and Darryl Francis

Leadership: Homer Jones and Darryl Francis

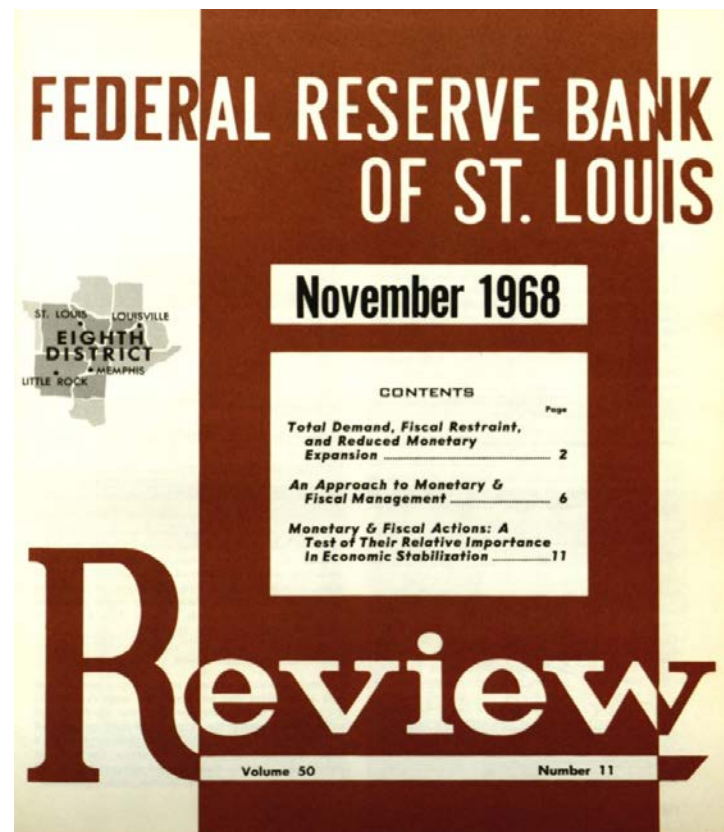
- ❑ Darryl Francis,
President (1966-76)
- ❑ Homer Jones, Director
of Research (1958-71)
- ❑ Francis was willing to
buck the system and
Jones gave him the
ammunition.



Homer Jones and Darryl Francis, 1971

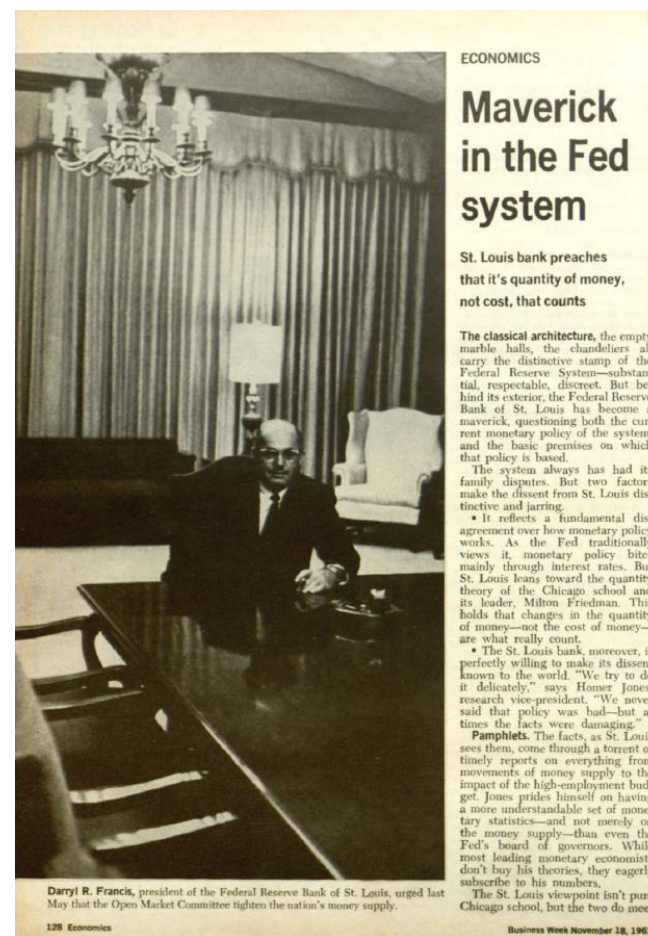
The St. Louis Fed Went Public

- ❑ Data, Data and more Data
- ❑ Analysis, e.g., Andersen-Jordan (1968)
- ❑ Academic interactions
- ❑ Speeches



The Board Didn't Like It!

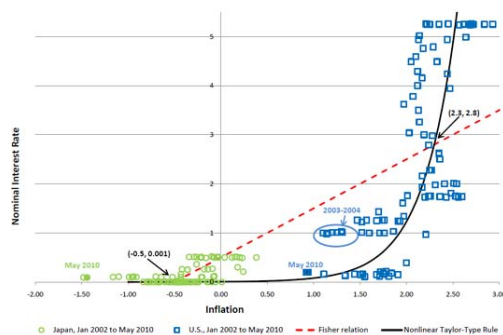
- ❑ FOMC considered proposals to “coordinate” research at the Reserve banks.
- ❑ *Review* articles subjected to Board approval.
- ❑ Board of Governors rejected nominee to succeed Francis.
- ❑ Burns told Roos that the St. Louis Fed was out of control and needed fixing.



The Legacy

- ❑ Under Paul Volcker, the Fed finally accepted responsibility for inflation and in 1979 adopted a policy to bring inflation under control.
- ❑ Other Reserve banks copied St. Louis' research focus.
- ❑ St. Louis has continued to emphasize research, information, and economic education.

Figure 1. Interest Rates and Inflation in Japan and the U.S.

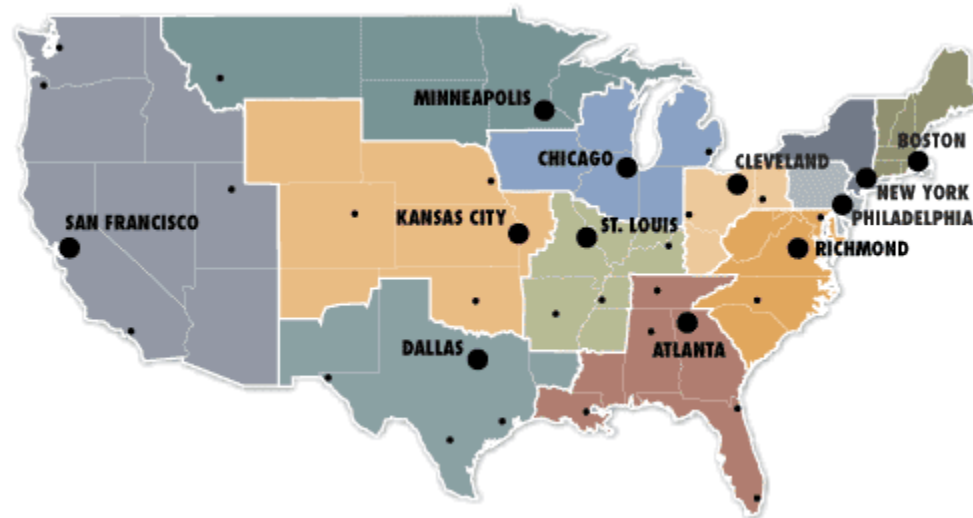


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The Lesson

- ❑ The Fed’s decentralized structure allows diverse policy views to be heard.
- ❑ The structure encourages a “competition of ideas” and innovation.



For More Information...

- ❑ *Federal Reserve Bank of St. Louis Annual Report for 2013 (<http://www.stlouisfed.org/>) (coming soon)*
- ❑ *St. Louis Fed Centennial website (<http://fraser.stlouisfed.org/centennial/>)*
- ❑ *FRASER (<http://fraser.stlouisfed.org/>)*
- ❑ *Federal Reserve System Centennial Gateway (<http://www.federalreservehistory.org/>)*