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

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I’m Not Making This Up, But Don’t Quote Me

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

Hint: It wasn’t the Arch.
St. Louis Was a Big Deal!
It Was the Fourth Largest City

Estimated Population, 1914

- **Reserve Bank Cities**
- **Other Cities**
It Was Fifth in Manufacturing Output
It Was a Transportation Hub
# St. Louis Was Big!

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

- Reserve Bank Cities
- Other Cities
## Number of Banks and Interbank Deposits

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

Number of First and Second Choice Votes Received

- **Reserve Bank Cities**
- **Other Cities**
Even Some Illinois Bankers!

Exchange Bank Milton Ile


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 Chicago, Illinois.

C.E. Bohlen
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

Shaded areas indicate US recessions - 2014 research.stlouisfed.org
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.
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.
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.
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.
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...


- St. Louis Fed Centennial website ([http://fraser.stlouisfed.org/centennial/](http://fraser.stlouisfed.org/centennial/))
