100 Years of Service
1914–2014

On the occasion of the centennial anniversary of the Federal Reserve Bank of St. Louis, this book is a tribute to the thousands of employees who have worked diligently at the St. Louis Fed over the past century to serve the public. We dedicate it to them and those who will follow for the next 100 years.

October 2014
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This commemorative centennial book also serves as this year’s annual report. Read our financial statements at www.stlouisfed.org/ar. There, you can also find this entire report, plus our centennial video. The number of data series available on FRED, the amount saved through the Go Direct campaign and the officer and council lists of the St. Louis Fed are as of Aug. 31, 2014.
A Commitment to Serving the Public

By James Bullard
PRESIDENT AND CEO

The 100th anniversary of the founding of the Federal Reserve System provides an opportunity not only for reflection on the past 100 years, but for preparation and anticipation. As we look back, we cannot help but be struck by the wisdom and foresight of the designers of the Federal Reserve. Moreover, history offers many lessons for the leaders of the System. As we look forward to the next 100 years, we can use the lessons of the past to equip us to deal with the challenges of the future.

One defining feature of the System and its employees that has not changed over time is a commitment to public service. Regardless of the specific activity, the policies championed and the services provided by the Federal Reserve Bank of St. Louis have been and always will be motivated by a customer focus that serves the public.
REGIONAL LEADERSHIP AND REPRESENTATION

At the outset, the design of the Fed—the third attempt at a U.S. central bank—required careful thinking. The first two attempts failed because of political backlash, especially in the case of the Second Bank of the United States, which became fodder for Andrew Jackson’s presidential ambitions. He wanted to shut it down based on the notion that the financial centers on the Eastern Seaboard were benefiting at the expense of the Midwest and the South. After Jackson allowed the charter of the Second Bank of the United States to expire, the U.S. had no central bank for more than 70 years. With no lender of last resort, the free banking era that followed was marked by liquidity crises and a number of widespread financial panics, culminating in the Panic of 1907.

In the wake of that panic, contemporaries pressed for American financial markets to become more stable and more organized. They also wanted to ensure that any new central bank had more accountability across the nation. Their solution was a central bank with three components—a Washington component (what is now the Board of Governors), a Wall Street component (the Federal Reserve Bank of New York) and a Main Street component (the 11 other Reserve banks around the country). This decentralized, regional structure has been an important aspect of the Fed’s design over the past 100 years. The Fed may not have survived the 2007-09 financial crisis without its Main Street component, given the amount of backlash against New York and Washington at the time.

Reserve bank district lines were drawn in 1913 and would probably be drawn differently today, given that relative shares of population and economic activity have moved south and west. For instance, four banks are along the Eastern Seaboard, as is the Board of Governors. However, the Fed is able to collect economic intelligence from all across the country, not just in the cities where the 12 Reserve banks have their main offices. Many of the Reserve banks have branches in their districts. There are currently 24 in all, from those in Los Angeles, Seattle and Miami to the St. Louis Fed’s branches in Little Rock, Ark., Louisville, Ky., and Memphis, Tenn.

The branches play a key outreach role for the Fed. The St. Louis Fed’s branches, for example, are heavily involved in our community development and economic education efforts, as well as in making sure the voices of our constituents throughout the Eighth District are heard. (See the essay “St. Louis Fed Branch Offices” on page 139 for more details.)
DIVERSE VIEWS AT THE FOMC TABLE

The regional representation is central to the effectiveness of the Federal Open Market Committee (FOMC), our main monetary policymaking body. The 19 FOMC participants (the seven members of the Board of Governors and the 12 Reserve bank presidents) bring different views to monetary policy discussions. Obtaining input from a diverse group results in better decisions and, hence, better macroeconomic outcomes. While the 19 FOMC participants are at the table when decisions are made, they rely on input from various people both within and outside the Federal Reserve System. Research economists, boards of directors at regional Reserve banks, and business, labor and civic leaders throughout the U.S. provide input that informs monetary policy decision-making.

As we know from recent experience, no single person can have all the answers. Over the past several years, central bankers in the U.S. and around the world have been faced with dramatic challenges. For instance, encountering the zero lower bound on short-term nominal interest rates presented new problems in terms of tools and the processes as to how monetary policy affects economic activity. Central bankers have struggled to find the appropriate policy response given their countries’ situations. The past few years have demonstrated that there is no simple formula for how to conduct monetary policy and macroprudential regulation in the modern world. Traditional approaches must continue to evolve.

Given all the inherent uncertainty and given that traditional theories are under scrutiny, monetary policy decision-making is confronted with major challenges. Nonetheless, the Fed’s decision-making system is well-structured to deal with these challenges. Because of the diversity of views among FOMC participants, one can be assured that all aspects of a partic-
ular decision are well-examined. In the end, the committee typically rallies around decisions and the chair. However, members do dissent on occasion, sometimes for tactical reasons concerning the circumstances around a particular decision, and sometimes for more fundamental reasons that the committee’s policy is headed in the wrong direction. While consensus-driven, the FOMC is by its very structure designed to ensure diverse views are brought to the table.

**BALANCE OF POWER: WASHINGTON, WALL STREET, MAIN STREET**

The regional structure affects the balance of power within the Federal Reserve System. The seven members of the Board of Governors in Washington are each appointed directly by the U.S. president and confirmed by the Senate. The New York Fed provides the connection with financial markets, which is a necessary element in order to have a good central bank. The other 11 Reserve banks around the nation allow input from Main Street for important policy decisions. This is a good way to ensure the right mix of input to System decision-makers.

The Reserve banks were set up according to the Federal Reserve Act of 1913 as individual corporations, and each bank has a board of directors. However, strict rules dictate who can be on these boards of directors, and some of the appointments are officially done by the Board of Governors. Furthermore, while the presidents and the first vice presidents of the Reserve banks are selected by their respective boards of directors, they must be approved by the Board of Governors. Thus, everyone serving in a top executive role in the Federal Reserve System has been approved by the Board of Governors.

These checks and balances help to keep the Federal Reserve System a step away from politics, while still maintaining the right amount of accountability to elected representatives in Washington.

**THE FED’S NEXT 100 YEARS**

Central banks traditionally have been seen as secretive institutions that move behind the scenes to design policies that affect the macroeconomy. That was certainly the tradition of the Fed throughout much of its first 100 years, although transparency had been increasing gradually. The notion of a secretive central bank changed forever in the wake of the 2007-09 financial crisis. Because of the Fed’s central role in stabilizing the financial system during the crisis and the various monetary policy responses, the public has sought more transparency in recent years than in previous decades. The public at large and financial markets want to know what decisions are being made and how they are made, as well as the rationale. Through such transparency, the public can also see that the
solutions to problems that remain in the wake of the financial crisis (such as “too big to fail”). The Fed has to be ready to respond to the potential crises of the future. We strive to learn from our mistakes to continue to have good results going forward.

Perhaps one of the biggest challenges to the Fed relates to the pace of technological advance. The diffusion of information technology into financial markets might change the nature of banking completely in the decades ahead. We could see person-to-person and electronic payments that do not go through any banking system. The old notions of writing checks or clearing pieces of paper are going out the door as we speak, with unknown consequences. This calls for a deeper understanding of what money is, how monetary systems work and the Fed’s role in this changing environment.

VISION FOR THE ST. LOUIS FED

The St. Louis Fed has historically been known for espousing monetarist monetary policy, or the idea that inflation can be controlled by controlling the supply of money. While the modern St. Louis Fed remains a leading player in monetary policy, based on a strong research staff, we perform many other functions that are in service to the Federal Reserve System and the public in general.
For instance, as the fiscal agent for the U.S. Treasury, the Fed provides operational support to the Treasury. The St. Louis Fed coordinates this activity for the entire Federal Reserve System. While these services are provided to the U.S. Treasury, the general public is the ultimate beneficiary. As one concrete example, the St. Louis Fed has managed the Treasury’s Go Direct campaign, which encouraged people to receive their benefit payments electronically instead of via paper checks. This campaign saved over $1.15 billion in taxpayer dollars by the time it concluded.

The St. Louis Fed also plays a leading role in communicating important supervisory and regulatory information. Our online data products continue to evolve and expand; the Federal Reserve Economic Data (FRED) database, in particular, is known worldwide. In addition, the St. Louis Fed is a leader in the provision of economic education resources for students and consumers. In this commemorative book, the Bank’s leadership team dives into these and other examples of innovation done by the Bank.

Going forward, the St. Louis Fed must continue to find ways to provide valuable public services to the Federal Reserve System and to the nation within the Fed’s mission. Our ability to continue to identify opportunities in a changing financial landscape is critical to being a useful contributor within the Federal Reserve System in the years ahead. We must have the skills not only to identify opportunities, but to provide the leadership to transform opportunities into valuable services for the public.

We now have the first 100 years behind us as an institution. I am confident that for the next 100 years, the St. Louis Fed and the Federal Reserve System will continue to provide great service to the nation in the realm of central banking.

James Bullard
President and CEO
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2014 marks a full century since the Federal Reserve Bank of St. Louis began serving the Eighth District. With so many changes having taken place in society since 1914, the St. Louis Fed and the Federal Reserve as a whole have evolved to better serve our nation. Since joining the Bank’s board of directors in 2009, I have been fortunate to witness the Bank’s vital contributions in recent years.

When I step back and reflect, it is indeed humbling to recognize the magnitude of the work performed by the Federal Reserve, which must balance the interests of Main Street, Wall Street and Washington. The Fed was specifically designed by Congress to carry out its responsibilities without interference from partisan politics. The regional Reserve banks are the voice of Main Street in monetary policy deliberations and other central bank affairs, taking into account business, economic and banking conditions of each district. Reserve bank boards of directors play an integral role in this balance and have done so since the Fed’s founding.
Directors represent a diverse range of interests and industries. The inaugural St. Louis Fed board not only represented the banking community, but included LeRoy Percy, a former U.S. senator from Mississippi; W.B. Plunkett, president of a grocery company based in Little Rock, Ark.; and Murray Carleton, president of Ferguson-Carleton Hardware Co. in St. Louis.

Today’s board includes leaders from health care and pharmacy benefits management, banking, energy, retail, life science and specialty chemicals, and law; they hail from Little Rock, Memphis, Tenn., Texarkana, Texas, and Vandalia, Ill., as well as St. Louis.

Over the years, the St. Louis Fed has been a leader in striving for strong diversity among its staff, and the board reflects that commitment. In 1977, Virginia Bailey became the first woman to serve on the board. Today, I am one of three women serving on the St. Louis Fed’s board; three more women serve on our branch boards.

It is an honor for me to chair an organization with such strong roots in leadership and innovation. Research has long been at the heart of the St. Louis Fed. Some may recall the 1960s and 1970s, when the St. Louis Fed was known as a maverick for its views on the role of monetary policy in controlling inflation—views that have since become the accepted thinking. Today, the Bank ranks No. 5 among the world’s central banks in terms of economic research, and Bank President James Bullard is recognized globally for his scholarship and policy views. That commitment to being in the forefront and driving change persists throughout the Bank. During my five years on the board, I have seen the Bank’s innovative spirit lead to better approaches and programs for serving the public good. Notable recent examples include:

- In 2008, the St. Louis Fed launched its Rapid Response program, which assists bank examiners across the Federal Reserve System and state banking regulatory agencies by keeping them current on emerging policy and financial market issues. Shortly thereafter, the Bank began its Ask the Fed program, which helps educate bankers and state banking commissioners on the latest financial and regulatory developments.
- In 2011, the St. Louis Fed opened its Office of Minority and Women Inclusion to complement the Bank’s efforts to support diversity and inclusion. As noted in the essay “Fostering Diversity in the Workplace, in Contracts and in Educational Outreach” on page 157, at the end of last year, 44 percent of the Bank’s workforce was female and 26 percent belonged to a minority group.
• In 2013, the Go Direct campaign, which the St. Louis Fed administered on behalf of the U.S. Treasury, concluded. Started in 2004, the effort encouraged recipients of federal benefit payments to switch to electronic direct deposit from checks for such payments. More than $1.15 billion in taxpayer savings has been realized, with $1 billion more in savings expected over the next 10 years.

• In 2013, the Bank established the Center for Household Financial Stability. The center focuses on research and awareness about the importance of the household balance sheet in building financially stable families.

• So far in 2014, the St. Louis Fed added 54,000 data series to its acclaimed Federal Reserve Economic Data (FRED) free public database. Today, FRED has more than 236,000 data series.

I am confident that this commitment to innovating for the public good will carry forward into our next 100 years, with the St. Louis Fed continuing to shine as a leader in the Federal Reserve System. 

Chairs of the St. Louis Fed Board of Directors

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<tr>
<th>Chairman</th>
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<tr>
<td>William McChesney Martin Sr.</td>
<td>1914-1929</td>
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<td>Rolla Wells</td>
<td>1929-1930</td>
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<td>John S. Wood</td>
<td>1930-1936</td>
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<td>William T. Nardin</td>
<td>1937-1945</td>
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<td>Russell L. Dearmont</td>
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<td>M. Moss Alexander</td>
<td>1954-1956</td>
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<td>Pierre B. McBride</td>
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<td>Ethan A.H. Shepley</td>
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<td>Raymond Rebsamen</td>
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<td>Frederic M. Peirce</td>
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<td>Edward J. Schnuck</td>
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<td>Armand C. Stalnaker</td>
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<td>W.L. Hadley Griffin</td>
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<td>Robert L. Virgil Jr.</td>
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<td>H. Edwin Trusheim</td>
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<td>Robert H. Quenon</td>
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<td>Susan S. Elliott</td>
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<td>Charles W. Mueller</td>
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<td>Walter L. Metcalfe Jr.</td>
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<td>Irl F. Engelhardt</td>
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<td>Steven H. Lipstein</td>
<td>2009-2011</td>
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<td>Ward M. Klein</td>
<td>2012-2013</td>
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<td>Sharon D. Fiehler</td>
<td>2014-present</td>
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Sharon D. Fiehler
Chair, board of directors
Through a series of essays, this section explores the St. Louis Fed’s history, beginning with the founding of the Federal Reserve, our nation’s third attempt at a central bank. The unique structure of the Fed—centralized and decentralized, public and private—is explained in the second essay. The St. Louis Fed’s days as a maverick illustrate how the regional structure of our central bank ensures that all voices are heard at the policymaking table. Other essays in this section delve into the reasons for choosing St. Louis as the site of a Federal Reserve bank and for selecting Little Rock, Ark., Louisville, Ky., and Memphis, Tenn., as locations for branches, and also into the building of our St. Louis offices.
Bank runs were not uncommon in the late 1800s and early 1900s when customers found out that banks were running out of currency. The Federal Reserve was created, in part, to deal with such shortages.
The Fed Is Born

THE IDEA OF A CENTRAL BANK WAS ANATHEMA TO MANY

By David Wheelock
ECONOMIC HISTORIAN, VICE PRESIDENT, DEPUTY DIRECTOR OF RESEARCH

In 1913, both houses of the U.S. Congress passed a bill that was sent to the desk of President Woodrow Wilson. He signed that bill into law Dec. 23 and set in motion the process of creating the Federal Reserve System.

The president and the Congress did this in the face of some opposition, but they were propelled by a clear purpose and a strong commitment to confront disorder in the banking system.

The Federal Reserve has since served this nation’s economic interests for a century.

This year, the Federal Reserve Bank of St. Louis enters its second century in operation. The St. Louis Fed is one of 12 Federal Reserve banks established under the Federal Reserve Act of 1913. The act called for the establishment of at least eight, but not more than 12, Federal Reserve districts, each with its own Federal Reserve bank. The act also called for the establishment of a Federal Reserve Board, comprising government officials and located in Washington, D.C., to provide public oversight of
American and reflects our nation’s long tradition of balancing local, regional and national interests.

When Congress was deliberating the Federal Reserve Act, the idea of a central bank was anathema for most members of government, the business community and the general public. The central banks of European countries were private and secretive, and they served highly concentrated banking systems from national capitals. The Fed’s proponents stressed that the Fed would not be a “central bank,” but rather a confederation of regional Reserve banks that served their local community banks and citizens.

Like all legislation, the Federal Reserve Act was a political balancing act, in this case between the interests of commercial banks and the general public, of large banks and small banks, and of Wall Street and Main Street.

First and foremost, the Federal Reserve was created to overcome some observed defects of the U.S. banking and monetary system that caused relatively frequent crises, known as banking panics. Panics were widely blamed on

In the early days of the St. Louis Fed, armored trucks, such as this Ford Model T, were used to shuttle cash between the Fed and commercial banks.
the “inelastic,” or inflexible, supply of U.S. currency, which at the time consisted primarily of notes issued by national banks, and gold and silver coins minted by the U.S. government. Reformers also decried the concentration of the nation’s bank reserves in a small number of banks in New York City and a few other cities, and the investment of those reserves in loans to stock market speculators.

The Federal Reserve Act created a new currency—the Federal Reserve note—and a means by which banks could quickly obtain additional currency from the Fed to satisfy any change in the demand for cash. The act also sought to end the geographic concentration of the nation’s bank reserves and their diversion to the stock market.

The Federal Reserve Act called for the System’s member banks, which included all banks with a federal charter, to hold their required reserves as balances with Federal Reserve banks. Previously, national banks could hold a portion of their
required reserves in the form of correspondent balances with other national banks located in New York City, Chicago and St. Louis, which were designated as central reserve cities under Civil War-era banking acts.

New York City banks held, by far, the largest volume of correspondent balances, and many of those balances were invested in short-term loans to stock market investors. Critics argued that this arrangement made the banking system vulnerable to Wall Street panics and drained the country’s financial resources away from productive uses nationwide. Congress established a regional system of Fed banks and districts to reduce the concentration of bank reserves in
New York City and other money centers and to encourage the productive use of the nation’s banking resources throughout the country.

Whereas banking reformers expressly did not want to create a central bank dominated by large banks, let alone by Wall Street, there was also little support for a central bank that was merely an arm of the Treasury Department or under the direct control of politicians. Reformers understood that the power to print money was too great a temptation for governments to use to finance expenditures, which would invariably lead to inflation.

The result was a compromise. Under the Federal Reserve Act, the Federal Reserve banks are organized as private corporations. The stock of each bank is owned by its member banks. The members elect six of the bank’s nine directors, who in turn select the bank’s chief executive and chief operating officers. The Federal Reserve Board, however, is a government entity whose governors are appointed by the president of the United States and confirmed by the U.S. Senate. Under the Federal Reserve Act, the Board is charged with establishing regulations under which the Reserve banks operate, appointing three directors of each Reserve bank, approving the appointments of Reserve
bank chief officers and providing general supervision of the Federal Reserve banks. The Federal Reserve Act was, thus, a carefully crafted law that sought to balance public and private interests, as well as to ensure a System that is responsive to all geographic regions of the country.

Over the years, there has been some rebalancing. In the wake of the Great Depression, Congress enacted the Banking Act of 1935, which reduced the autonomy of the individual Reserve banks and gave more authority to the Federal Reserve Board (which was then renamed the Board of Governors of the Federal Reserve System). The extent to which the Fed’s structure contributed to the failures of the Great Depression remains debated, but the rebalancing of authority within the Fed reflected a general desire for a larger federal government response to the Depression. Nonetheless, Congress retained a substantial role for the Federal Reserve banks, both in determining monetary policy and in carrying out the supervisory and operating functions of the System. To a great extent, the regional structure set up by Congress has stood the test of time and continues to serve the nation well.

This book commemorates the 100-year history of the Federal Reserve Bank of St. Louis and the Federal Reserve System. We illustrate in these pages how the unique structure of the Federal Reserve System has served the nation well in the past and continues to be a strength of the System. We focus on contributions of the St. Louis Fed to show how the Federal Reserve and the nation benefit from the System’s structure: Like the other 11 Reserve banks, the St. Louis Fed is responsive to local and national banking and economic conditions, fosters innovation, brings diverse views to bear in policymaking, and enables two-way communication between policymakers and the public.

In the 1970s, the St. Louis Fed became known as the maverick Reserve bank for its monetarist views about monetary policy. Our essay “Lessons from a Maverick” on page 27 describes the debates within the System about the causes of inflation and the appropriate role of monetary
policy in the economy. The St. Louis Fed lost the battle in the 1970s, but eventually won the war when the Fed, under Chairman Paul Volcker, brought inflation under control and accepted responsibility for maintaining price stability. The episode illustrates how the Fed’s unusual structure promotes a competition of ideas that ensures that different perspectives are heard at the policymaking table.

The other essays in this book are both historical and current. We describe the selection of St. Louis as the home of one of the 12 Federal Reserve banks and the selection of Little Rock, Ark., Louisville, Ky., and Memphis, Tenn., as locations of our branch offices. We also develop our theme by describing the work of our Bank’s functional areas and the important roles of our St. Louis and branch office boards of directors and advisory boards.
The Federal Reserve Bank of St. Louis bucked the System in the 1960s and '70s, arguing that Fed policies and excessive growth of the money supply were to blame for higher inflation. When the Bank, led then by President Darryl Francis (pictured), couldn’t convince the rest of the Federal Open Market Committee, it took its case to the public, leading to the St. Louis Fed’s being labeled a maverick. *Business Week* reported on the “family dispute” in 1967. The St. Louis Fed’s reasoning eventually became widely embraced.
Today, the Federal Reserve is best known for monetary policy. However, monetary policy was not on the radar when the Fed was established. The idea of managing interest rates, credit conditions or the money supply to smooth the business cycle or control inflation was an idea that came later and developed slowly.

On the heels of the Panic of 1907, financial stability was the main goal. The Fed’s founders believed that a geographically decentralized organization, composed of regional Reserve banks and branches, would be more responsive to differences in banking conditions across the nation and, thereby, contribute better to financial stability. Accordingly, the Federal Reserve Act of 1913 established a system of Federal Reserve districts, each with its own Reserve bank, rather than a central bank located solely in the nation’s capital or largest financial center.

Although the Federal Reserve System was not set up with monetary policy in mind, the Fed’s decentralized structure has...
distinct benefits for the conduct of monetary policy. Such a structure: 1) contributes to the Fed’s political independence; 2) promotes a greater diversity of views in policy deliberations; and 3) ensures that the concerns and conditions of different parts of the country are recognized in making policy. This structure allows greater freedom to develop and promote alternative ideas—and get them heard at the policy table—than does a more “top-down” central bank.

The history of the Federal Reserve Bank of St. Louis illustrates how the Fed’s structure provides a channel through which different points of view can be expressed in policy deliberations. In the 1960s and 1970s, the St. Louis Fed became known as the maverick Reserve bank for its strong and public advocacy of a policy different from what the System was pursuing at the time. Although the St. Louis Fed lost many battles on this issue, its policy views eventually were widely adopted within the System.

Before getting into details of this episode in Fed history, it’s important to understand what came before. Why did the System’s founders establish a central bank with a geographically decentralized structure? What were the origins of Federal Reserve monetary policy? Why was the Banking Act of 1935 so significant?

**A CENTRAL BANK THAT ISN’T: WHY THE FED HAS ITS STRUCTURE**

The Fed was established mainly to correct defects in the U.S. banking and monetary system that reformers viewed as contributing to financial instability. Those defects included: 1) a national currency whose supply was relatively fixed and did not adjust to changes in demand; 2) the concentration of the nation’s bank reserves in a few major financial centers, especially New York City; and 3) the investment of those reserves in short-term loans to stock market speculators.

To address the first defect, the Fed’s founders created a new currency—Federal Reserve notes—and a system to ensure that the supply of currency would adjust to changes in demand.
The second and third defects were addressed by establishing a system composed of distinct regional districts, each with its own Reserve bank, and requiring commercial banks that joined the Federal Reserve System to hold reserve balances with their local Federal Reserve bank. Although many banks also kept some deposits in New York City and other major cities, the geographic concentration of the nation’s bank reserves and the banking system’s exposure to the stock market were reduced.

The Federal Reserve Act required all national banks (i.e., commercial banks with a charter issued by the federal government) to join the System. Membership was made optional for state banks that met certain criteria and agreed to Fed supervision and regulation. A member bank could obtain Federal Reserve notes or additional reserve deposits by borrowing from its Federal Reserve bank. The Fed’s lending facility became known as the “discount window,” and the interest rate it charged on loans, the “discount rate.”

Research Director Homer Jones (top photo, in middle) and President Darryl Francis (below) were at the helm of the St. Louis Fed when it gained the reputation in the 1960s and 1970s as being a monetary policy maverick.
The Federal Reserve Act called for the establishment of at least eight and as many as 12 Federal Reserve districts, each with its own Reserve bank. (See the accompanying essay “A Foregone Conclusion” on page 53.) The Fed’s founders believed that a geographically decentralized structure would make the Fed more responsive to banking and economic conditions in the nation’s different regions and, thereby, more effective at protecting the banking system and public from banking crises. Each Reserve bank was given its own board of directors, the right to set its own discount rate (subject to Federal Reserve Board approval) and considerable latitude to administer its own discount window and carry out its other operations.

**MONETARY POLICY: THE EARLY YEARS**

The Fed’s founders did not conceive of monetary policy in the modern sense of taking actions to influence interest rates, credit conditions or the growth of the money supply to achieve broad macroeconomic policy goals, such as price stability and maximum employment. The founders expected the Reserve banks to set their discount rates at levels that would enable member banks to satisfy their customers’ demands for currency and short-term agricultural and business loans. First and foremost, however, Reserve banks were expected to protect their own reserve positions. Reserve banks were required to hold gold reserves worth at least 40 percent of their outstanding note issues and 35 percent of their deposit liabilities. A Reserve bank could increase its reserve ratio by raising its discount rate. Doing so would discourage member banks from borrowing at the Reserve bank’s discount window, thereby reducing the Reserve bank’s note and deposit liabilities relative to its gold reserves. Of course, if a Reserve bank set its discount rate too high, then it would neither fulfill its mission of accommodating the currency and credit needs of its district, nor generate income to cover the bank’s expenses.²

Almost as an afterthought, the Federal Reserve Act authorized Reserve banks to purchase government securities
in the open market. In modern times, such open market operations in government securities have been the principal means by which the Fed conducts monetary policy. However, it was not until the 1920s that the Reserve banks began to coordinate their open market operations with one another or to use them to achieve macroeconomic policy objectives, such as price stability and stable economic growth—that is, to conduct monetary policy.³

The Fed’s first attempts at macroeconomic stabilization were apparently successful. In their classic study, *A Monetary History of the United States, 1867–1960*, economists Milton Friedman and Anna J. Schwartz contended that under the leadership of New York Fed Gov. Benjamin Strong, the Fed pursued policies that moderated the business cycle and maintained price stability.⁴ Friedman and Schwartz argued that the Fed’s decentralized structure necessitated a forceful leader like Strong to formulate a coherent monetary policy. Strong’s death in 1928 robbed the System of a forceful leader; the loss, Friedman and Schwartz contended,
caused policy to disintegrate under the weight of petty jealousies, parochialism and infighting among the individual Reserve banks and between the Reserve banks and the Board. The consequence was disastrous, as the System failed to respond to banking panics or to prevent a sharp economic contraction during the Great Depression of the 1930s.

From this perspective, a lesson of the Great Depression would seem to be that decision-making authority should be concentrated within a single, small group whose members share common goals and understanding of policy. Marriner Eccles, whom President Franklin Roosevelt appointed to be governor of the Board in 1933, thought so. Eccles argued that the Board should have the sole responsibility for monetary policy and advocated legislation to reduce or eliminate the role of the Reserve banks in monetary policymaking. Congress did not go as far as Eccles desired, but the Banking Act of 1935 shifted the balance of power in monetary policymaking away from the Reserve banks to the Board.5

Not all histories view the Fed’s decentralized structure or the death of Benjamin Strong as being as significant as did Friedman and Schwartz. Economist and Fed historian Allan Meltzer, for example, argued that Strong’s policy framework...
was flawed because it relied on potentially misleading indicators of monetary conditions, such as nominal interest rates (as opposed to interest rates adjusted for expected inflation). Strong’s successor at the New York Fed, George Harrison, usually advocated a more vigorous response to the Depression than did the other Reserve bank governors, including William McChesney Martin Sr. of the St. Louis Fed. However, Meltzer contended that the principal reason for the Fed’s policy mistakes in the 1930s stemmed from a lack of understanding about policy, rather than the Fed’s structure.6

THE BANKING ACT OF 1935

The Banking Act of 1935 created the modern form of the Federal Open Market Committee (FOMC), which is the Fed’s principal monetary policymaking committee. The voting members of the FOMC are the seven members of the Fed’s Board of Governors and five Reserve bank presidents. The chair of the Board also chairs the FOMC, and the president of the Federal Reserve Bank of New York serves as the FOMC’s vice chair. Of the other 11 Reserve bank presidents, four serve at a time as voting members of the FOMC on a rotating basis, with each president voting every second or third year. All 12 presidents (or their representatives) attend and participate in the deliberations of every FOMC meeting; each president has the opportunity to present his or her views to the committee regardless of whether he or she currently is a voting member of the committee.

At various times, Congress has considered eliminating the role of Federal Reserve bank presidents in setting monetary policy or limiting the presidents to an advisory role. However, such proposals have never won much support, perhaps because there are clear benefits from the service of Reserve bank presidents as voting FOMC members, rather than as just advisers.

One benefit is that the participation of Reserve bank presidents in monetary policymaking contributes to the Fed’s political independence. That is because the appointment process of Reserve bank presidents is more insulated from politics than is the appointment of Federal Reserve governors. Whereas members of the Board are appointed by the president of the United States and confirmed by the Senate, Reserve bank presidents are appointed by their respective Reserve bank boards of directors with the approval of the Board of Governors in Washington, D.C.7 Many studies have found that political independence
Prior to research by the St. Louis Fed showing otherwise, the FOMC (shown here in the mid-1960s) largely discarded the idea that monetary policy was either a cause of or a cure for inflation.

...enhances central bank performance and that countries with independent central banks tend to have better-performing economies than do countries with less-independent central banks.  

Some observers contend that a second benefit of having Reserve bank presidents in a policymaking role is that the opportunity to vote enables the Fed to attract more-talented individuals to serve as Reserve bank presidents than if presidents served merely as advisers to the Board. When asked in congressional hearings for his opinion about a proposed change in the Federal Reserve Act that would make all Reserve bank presidents nonvoting members of the FOMC, Cleveland Fed President and former St. Louis Fed Research Director Jerry Jordan testified: “Making the presidents [of Federal Reserve banks] nonvoting members ... would alter the Federal Reserve substantially and in a very harmful way. It would not be a job I would want—it would destroy the system.”
independent policy analysis and research. Reserve bank economists report only to their respective bank presidents and not to members of the Board of Governors or its staff. This arrangement helps ensure a hearing for diverse views and limits “groupthink” in policy analysis and at FOMC meetings.

**THE GREAT INFLATION**

The history of the St. Louis Fed, particularly in the 1960s and 1970s, illustrates well how Federal Reserve bank presidents and their research staffs can contribute to monetary policy deliberations. Almost from the System’s beginning, the Reserve banks invested in gathering and reporting information about banking and economic conditions in their districts for use in monetary policymaking, as well as in banking supervision and other operations of the bank. To this day, Federal Reserve bank directors, advisory council members and other local contacts continue to provide important information about district conditions for use in policymaking. (See the essay “Structure and Governance” on page 125 for more on the role of Reserve bank directors.)

In addition to bringing information about economic conditions in their districts to the policy table, Reserve bank presidents are supported by economic research teams with
acted to peg the market yields on short-term government securities and enforce a ceiling on Treasury bond yields.

The policy continued until March 1951, when, in the face of rising inflation, the Fed struck an agreement with the Treasury Department that freed the Fed to pursue an independent monetary policy.  

Following this agreement, inflation declined and remained low and stable through the 1950s and early 1960s. Then, it began to rise in waves, with peaks in 1970, 1974 and 1980, as shown in Figure 1. Each peak came early in a recession and followed deliberate actions by the Fed to tighten policy. In each successive cycle, however, the inflation nadir and subsequent peak were higher than those associated with the previous cycle. In 1980, the consumer price index (CPI) inflation rate briefly exceeded 14 percent—its highest annual rate since 1947, when wartime price controls had just been lifted.

The rising and highly variable rate of inflation in the 1970s and soon thereafter and the economic instability that accompanied it were widely blamed, both within the Fed and by outside observers, on shocks to energy prices associated with the Arab oil embargo in 1973 and the Iranian Revolution in 1979, the granting of wage increases in excess of productivity growth, monopolistic price setting by firms and federal government budget deficits. For example, Fed Gov. Sherman Maisel claimed that the rising rate of inflation of the late 1960s and early 1970s was caused by "government deficits; … speculative investment in plant, equipment and labor by business corporations; … use of economic power to raise wages and profits; … but most significant were the government deficits."  

Fed Chairman Arthur Burns held a similar view. According to Burns, "A dominant source of the problem appears to have been the lack of discipline in government finances." Burns also blamed inflation on "excessive" wage increases: "Government efforts to achieve price stability continue to be thwarted by the continuance of wage increases substantially in excess of productivity gains. … The inflation that
we are still experiencing is no longer due to excess demand. It rests rather on the upward push of costs—mainly, sharply rising wage rates.” He argued, moreover, that “monetary and fiscal tools are inadequate for dealing with sources of price inflation such as are plaguing us now—that is, pressures on costs arising from excessive wage increases.”

THE MAVERICK RESERVE BANK

The views of Maisel and Burns about the causes of inflation were widely held at the time, both within the Fed and among academic and business economists. However, they were not held by Darryl Francis, the president of the St. Louis Fed from 1966 to 1976. Citing the research of his staff economists, as well as of Milton Friedman, Karl Brunner and other academic economists, Francis blamed inflation on the Fed’s monetary policies: “When we talk about the ‘problem of inflation,’ I think it is safe to say that the fundamental cause is excessive money growth.” Further, Francis argued that “the cure [for inflation] is to slow down the rate of money expansion.”

Burns and most other members of the FOMC largely discarded the idea that monetary policy was either a cause...
When St. Louis Fed President Darryl Francis (left) and Research Director Homer Jones (right) couldn’t convince the Fed’s leadership in Washington that monetary policy was causing the waves of inflation that started in the late 1960s, the two men took their case to the public. The Board of Governors was not pleased. One governor said: “It is a weakness for a regional bank to concentrate on national matters. ... We have a fine staff in Washington.”
of or a cure for rampant inflation. At an FOMC meeting June 8, 1971, Burns argued: “Monetary policy could do very little to arrest an inflation that rested so heavily on wage-cost pressures. ... A much higher rate of unemployment produced by monetary policy would not moderate such pressures appreciably.” Burns then said that he intended to continue to press the Nixon administration hard for an effective incomes policy (FOMC, Memorandum of Discussion, June 8, 1971, p. 51). Burns advocated government control of wages and prices, rather than monetary policy, to contain inflation. According to Burns, “The persistence of rapid advances of wages and prices in the United States and other countries, even during periods of recession, has led me to conclude that governmental power to restrain directly the advance of prices and money incomes constitutes a necessary addition to our arsenal of economic weapons.”

As previously stated, the St. Louis Fed’s Francis held a different view. At an FOMC meeting in December 1967, Francis noted some downsides of wage and price controls: “[They] raised problems of resource allocation; they interfered with freedom; and they were difficult to administer” (FOMC, Memorandum of Discussion, Dec. 12, 1967, pp. 54-55). At a subsequent meeting, he again argued against wage and price controls: “The adoption of administrative controls in attempting to hold down inflation, or to shorten the period of adjustment, would impose a great cost on the private enterprise economy. Serious inefficiencies would develop in the operations of the market system” (FOMC, Memorandum of Discussion, Dec. 15, 1970, p. 74). In Francis’ view, “a freeze or other control programs could not be expected to effectively restrain inflation unless accompanied by sound monetary actions” (FOMC, Memorandum of Discussion, Oct. 19, 1971, p. 36).

For Francis, “sound monetary actions” meant maintaining a moderate, stable growth of the money stock. This put Francis at odds with Burns and several other FOMC members. According to Jordan, the former St. Louis Fed research director who went on to become the president of the Cleveland Fed, “No one was paying attention to any kind of quantitative measures, and the ideas that [St. Louis Fed Research Director] Homer Jones and Darryl Francis supported at this Bank of looking at aggregates, looking at bank reserves, looking into money supply, was just out of tune with what everybody else was saying.”

Burns explicitly argued against a focus on the money supply, saying at an FOMC meeting in 1971 that “the
heavy emphasis that many people were placing on the behavior of M1 [a measure of the money stock] involved an excessively simplified view of monetary policy” (FOMC, Memorandum of Discussion, Feb. 9, 1971, p. 87). Further, Burns argued that the Fed could not reliably control the growth of the money stock even if it desired to do so: “All we can control over such brief periods [as short as three months] is the growth of member bank reserves; but a given growth of reserves may be accompanied by any of a wide range of growth rates of ... the money supply.”

Francis again held a different view, which he made known in public forums as well as in FOMC meetings and correspondence with Burns and other FOMC members. For example, in a letter to Burns (Figure 2), Francis challenged claims made at a recent FOMC meeting that the growth of monetary aggregates was impossible to predict or to control: “Damn it all, Arthur, we here [at the Federal Reserve Bank of St. Louis] could and did predict just such an outcome! Furthermore, there is a control mechanism which will assure much better results than we have achieved in the past by our reliance on short term interest rates [to conduct policy].” To bolster his case, Francis included with his letter an article by Albert Burger, a St. Louis Fed staff economist, and a memo by Robert Rasche, a visiting scholar at the St. Louis Fed and a future director of research at the Bank (appointed in 1999).

Francis’ immediate predecessors as presidents of the St. Louis Fed—Delos Johns and Harry Shuford—had also argued for the use of monetary aggregates in the conduct and description of monetary policy. Of the three, however, Francis was the most vocal critic of System policy; he also served as president when inflation was rising and highly variable. During Francis’ tenure, the St. Louis Fed became known as a maverick for its outspoken criticism of Fed policies and for its advocacy of an alternative approach.

The St. Louis Fed’s very public criticism of the Fed’s policies was often not welcomed by the Board and other Reserve banks. A few governors expressed the view that Reserve banks should stick to reporting on local economic conditions and not criticize System policy. One governor said, for example: “It is a weakness for a regional bank to concentrate on national matters. ... We have a fine staff in Washington.”

At times, pressure on the Reserve banks to support System policy was intense. According to Lawrence Roos, who succeeded Francis as president of the St. Louis Fed in 1976,
other Reserve banks would sometimes express support for St. Louis in private, but were unwilling to disagree with Burns and other members of the Board at FOMC meetings or in public. “I think some of them were concerned about their own Reserve bank budgets,” Roos said. “They wanted to be on the right side of the chairman and the Board. … [T]here was politics in the Open Market [Committee].”

Francis and his immediate predecessors were undoubtedly influenced by Homer Jones, the St. Louis Fed’s director of research from 1958 to 1971. Jones had been a teacher and later a student of Milton Friedman, the University of Chicago economist who championed “monetarism” in both scholarly journal articles and popular writings and speeches. Friedman coined the phrase, “Inflation is always and everywhere a monetary phenomenon.” Further, he and other monetarists argued that fluctuations in money supply growth had historically been an important source of macroeconomic instability. Consequently, Friedman and other monetarists advocated monetary policies geared toward maintaining a modest, stable rate of growth of monetary aggregates.

Under Jones, the St. Louis Fed developed an international reputation for economic research and monetarist

FIGURE 2

St. Louis Fed President Darryl Francis did not shy away from challenging Fed Chairman Arthur Burns and others on the FOMC at the time. Francis had faith in his researchers, whose data showed that the growth of the money supply led to a growth in inflation and, historically, to macroeconomic instability.
Top: Leonall Andersen, standing next to Homer Jones in 1971, co-authored a famous and influential paper titled “Monetary and Fiscal Actions: A Test of Their Relative Importance in Economic Stabilization.” St. Louis Fed President Darryl Francis used this paper and subsequent research to promote a monetary policy based on controlling the growth of monetary aggregates.

Bottom: At a meeting of Mississippi bankers in 1947—19 years before he served as St. Louis’ Fed president—Darryl Francis referred to conditions on farms in Lee County.
policy views. Former staff economists at the St. Louis Fed remember Jones as a hard-driving economist who insisted on precise arguments and strong empirical support for any claim. According to Jordan: “Homer drove everyone absolutely crazy. I think part of his method was to really make us angry. He was a total agnostic as far as both theory and empirical evidence. He would needle everyone to, ‘Prove it to me. Where’s your theory? Say it better. Where’s your evidence?’ “

Francis was similar, according to Jordan: “Darryl was the Harry Truman of the Federal Reserve System. He lived what was meant by the ‘Show Me’ state philosophy. He really believed, ‘Well, OK, let’s shine some light on it, and let’s see,’ and he would stand his ground. He didn’t need a sign on his desk that says, ‘The buck stops here.’ Everybody knew that with Darryl, and he wasn’t willing to be intimidated though the pressures were at times very considerable—especially after Arthur Burns became chairman of the Board of Governors—to stop what we were doing at this Bank.”

Like Francis, Jones felt strongly that monetary policy had gone awry. According to R. Alton Gilbert, another St. Louis Fed staff economist at the time, Jones’ “view was that the only way we could change it [i.e., policy] … [was by] influencing public opinion outside the System and bringing pressure upon the Federal Reserve, and Homer Jones decided that we would do this through publications.” Accordingly, Jones marshaled his staff to conduct research for publication in the Bank’s Review and other professional journals. Jones also introduced a series of publications that reported and analyzed monetary growth rate trends and other macroeconomic data. As noted by Gilbert, the roots of the Bank’s online data and information services, such as Federal Reserve Economic Data (FRED), “go back to the leadership of Homer Jones.” (See the essay “The History of FRED” on page 149.)

Economic research played an important role in supporting Francis and other St. Louis Fed presidents in their monetary policy positions. The most famous and influential paper was written by Jordan and fellow St. Louis Fed researcher Leonall Andersen, titled “Monetary and Fiscal Actions: A Test of Their Relative Importance in Economic Stabilization.” In that 1968 St. Louis Fed Review article, the authors reported empirical evidence that the growth of the money stock had a larger, more predictable and faster impact on the growth of nominal gross national product (GNP) than did fiscal policy actions. Francis used the
Andersen and Jordan results and subsequent research to promote a monetary policy based on controlling the growth of monetary aggregates. At FOMC meetings, he frequently referred to his staff’s forecasts of output and inflation under alternative money stock growth assumptions.24

Homer Jones retired in 1971, and Darryl Francis retired in 1976. Although they were not able to persuade the FOMC to change course during their tenures, the Fed’s organizational form ensured that their views were heard, both publicly and in policy deliberations. Pressure was brought to bear on the Fed to reduce inflation, and eventually the Fed did accept responsibility for inflation. Under Chairman Paul Volcker, the Fed finally adopted policies to control money stock growth and to lower inflation. The Fed never embraced monetary targeting wholeheartedly, but did come to recognize the importance of maintaining a credible commitment to price stability.

The Great Inflation era of the 1970s illustrates how the Fed’s structure and FOMC composition promote open and frank discussion of policy views and ultimately can lead to better policymaking. Further, this episode in Fed history illustrates how the System’s organization encourages innovation within the Reserve banks. The St. Louis Fed innovated by bringing cutting-edge monetary policy and macroeconomic research to policymaking. Eventually, that innovation was copied by other Reserve banks and by the Board. According to Jordan: “Our focus in St. Louis was ... on trying to be useful to the president in the decisions he had to make. ... That was rare in the Reserve banks and probably nonexistent at the Board of Governors. ... I’m sure that we were sending our president off much better prepared to engage in the important decisions that had to be voted on than just about anybody else.”

The other Reserve banks then sought to emulate the St. Louis approach. Jordan said, “I think because of the competition among peers, over the subsequent years, the other Reserve bank presidents ... wanted to build up a staff that was able to help prepare them to also sit at the table and engage in a serious way as a policymaker.”

The legacy of the maverick Reserve bank thus demonstrates that the Fed’s decentralized structure, though established 100 years ago, remains vital and continues to benefit the Federal Reserve System and the nation.
ENDNOTES

1. When the Fed was established, most short-term bank loans were made on a discount basis, the discount being the difference between the amount borrowed and the amount repaid on a loan. Hence, the act of acquiring currency or reserves from the Fed was known as "rediscouting" because the Fed paid out less currency (or reserves) to the member bank than the face value of the loans presented at the discount window. When the rediscounted loans approached maturity, the Reserve bank would return them to the member bank for collection, and upon maturity the bank's reserve account with the Fed would be charged for the full amount of the original loan. An amendment to the Federal Reserve Act in 1916 permitted Reserve banks to make direct loans, known as "advances," to member banks; these loans were secured by the same types of loans that banks could re-discount with the Fed. For more on the distinction between rediscounts and advances and for a history of the Fed's lending functions, see Hackley.

2. The Fed has never received a congressional appropriation and has always depended on its income to cover expenses and pay dividends to its member banks. In the early days, earnings were a big concern, but over time, Fed officials understood that maximizing revenue or profits was not an appropriate criterion for conducting policy. See Meltzer (p. 78) for a discussion about the Fed's concern over earnings during the System's first years.

3. The Fed's discovery of open market operations and development of a monetary policy in the 1920s is discussed in Chandler, Friedman and Schwartz, Meltzer and references therein.

4. Before 1935, the chief executive officers of the Federal Reserve banks held the title of "governor," as did the chairman of the Federal Reserve Board. (Other members of the Board were simply referred to as "members" of the Board.) The Banking Act of 1935 designated all members of the Board as governors (and changed the name of the Board to the Board of Governors) and changed the title of the chief executive officers of the Reserve banks to 'president.'

5. See Meltzer (pp. 467-86) on Eccles' views and the legislative history of the Banking Act of 1935.

6. See also Wheelock (1991, 1992) and references therein for more information about the Fed's policy goals and strategy during the 1920s and early 1930s.

7. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 amended the Federal Reserve Act to remove Class A directors of Reserve banks from the process of appointing Reserve bank presidents and first vice presidents. At present, those officers are appointed by the Class B and C directors with the approval of the Board of Governors (Section 4 of the Federal Reserve Act [12 USC 341]).

8. See Waller for more on the rationale for central bank independence and how the Fed's structure contributes to its political independence.


10. See Friedman and Schwartz (Chapter 9) and Romer.

11. See Meltzer (Chapter 7) for a discussion of policy and events leading to this agreement.

12. See Maisel (p. 12).


15. See Francis, pp. 6-7.


21. Ibid.


24. See Hafer and Wheelock (1991) for more on the monetarist-oriented research and policy advocacy at the St. Louis Fed from the 1960s through the early 1980s.

REFERENCES


Employees at the Louisville Branch showed up in force in the early 1940s during a savings bond drive to benefit the war effort. The sign on the side of the teller cage (left) reads, “The enemy is listening.”
In the Currency Sorting division in 1924, employees wearing aprons counted, sorted and bundled bills.
A Foregone Conclusion

HOW AND WHY ST. LOUIS WAS CHOSEN FOR A FEDERAL RESERVE BANK

By David Wheelock
ECONOMIC HISTORIAN, VICE PRESIDENT, DEPUTY DIRECTOR OF RESEARCH

The selection of St. Louis for a Federal Reserve bank seems to have been, in the words of historian James Neal Primm, a “foregone conclusion.”

In announcing its decisions on April 2, 1914, the Reserve Bank Organization Committee (RBOC) made clear that St. Louis, along with New York City, Chicago, Philadelphia, Boston and Cleveland, were obvious choices: “In population these are the six largest cities in the United States; their geographical situation and all other considerations fully justified their selection.”

In the competition for Reserve banks, St. Louis had several advantages. It was the nation’s fourth-largest city, with a population of 687,029. Only New York City (4,766,883), Chicago (2,185,283) and Philadelphia (1,549,008) were larger. St. Louis was also a regional banking and commercial center, as well as a transportation hub. Its banks provided financial services, and its businesses sold and distributed manufactured goods throughout the Midwest, South and Southwest. St. Louis was a manufacturing powerhouse, one
with a diverse base. The city was the largest shoe distributor in the nation, the second-largest milli-
nery market, the foremost producer of tobacco products and home to the nation’s largest brewery.4

Good railroad connections were an important consideration for the location of a Reserve bank
because they ensured rapid delivery of currency and checks between the Reserve bank and the
commercial banks in its district, as well as between the Reserve bank and other Reserve banks.
With 26 trunk lines linking over 64,000 miles of rail and a prime location at the confluence of the
Mississippi and Missouri rivers, St. Louis’ transportation infrastructure made the city a strong choice
for the location of a Federal Reserve bank.5

St. Louis was one of only three cities designated as a “central reserve city” in the national banking
system—the structure and rules governing commercial banks with federal charters under the
national banking acts of the 1860s. New York City and Chicago were the other two. The designation
recognized and contributed to St. Louis’ importance as a banking center by enabling national banks
throughout the country to satisfy a portion of their legal reserve requirements by holding deposits in national banks in St. Louis. Being at the top of the reserve pyramid, national banks in St. Louis and the other central reserve cities were required to hold their legal reserves solely in the form of gold.

St. Louis was home to 44 banks and trust companies in 1914, including seven national banks. Its national banks ranked fifth behind those in New York City, Chicago, Philadelphia and Boston in terms of correspondent deposits. Although less than 20 percent of the amount held by New York City banks, the correspondent balances held by St. Louis’ national banks far exceeded those held by banks in several other cities chosen for Federal Reserve banks.

Data on state-chartered banks and trust companies were not available to the RBOC for all states. So, in evaluating proposals for the location of Reserve banks, the committee focused primarily on the size and prominence of a city’s national banks. Among all U.S. cities, St. Louis ranked seventh in terms of national bank capital, deposits and loans. The
seven national banks in St. Louis had combined capital of $29 million, deposits for individuals and firms of $62 million, and loans of $102 million.⁸

**RESERVE BANK ORGANIZATION COMMITTEE HEARINGS**

Six cities may have been obvious choices for Reserve banks, but the RBOC was charged with naming at least eight cities for Reserve banks and setting the boundaries for all Federal Reserve districts. The RBOC evaluated proposals from 37 cities seeking Federal Reserve banks, including St. Louis, Louisville, Ky., and Memphis, Tenn., and held hearings in 18 cities, including St. Louis, where they interviewed local bankers, businessmen and civic leaders. The committee also relied heavily on a survey of national banks in which the banks were asked to name their preferred location for a Reserve bank that would serve their region.⁹

The RBOC held its first hearing Jan. 5-7, 1914, in New York City, less than two weeks after President Woodrow Wilson signed the Federal Reserve Act. Subsequently, the committee held hearings in Boston, Washington, D.C., and Chicago before meeting in St. Louis on Jan. 21-22, 1914.¹⁰

The RBOC consisted of Secretary of the Treasury William G. McAdoo, Secretary of Agriculture David Houston and Comptroller of the Currency John Skelton Williams. At the time, Houston was on leave from Washington University in St. Louis, where he was chancellor. In St. Louis, the RBOC heard testimony from several nationally prominent residents, including David R. Francis, a former St. Louis mayor, Missouri governor and U.S. secretary of the interior; Rolla Wells, also a former St. Louis mayor and treasurer of Wilson’s 1912 presidential campaign; Robert Brookings, a leading businessman and benefactor of Washington University; Festus Wade, president of Mercantile Trust Co. and head of the St. Louis Clearing House Association; Frank O. Watts, president of Third National Bank and chairman of the St. Louis Clearing House Association’s RBOC presentation committee; A.L. Shapleigh, president of a leading national hardware company and president of the St. Louis Businessmen’s League; and several
other leading bankers and businessmen from St. Louis and nearby states."

In their testimony before the RBOC, officials of the St. Louis clearinghouse presented letters they had solicited from bankers and businessmen across the Midwest, South and Southwest to support their bid for a large St. Louis-based Federal Reserve district. Many of the letters were effusive in their support of St. Louis' bid for a Reserve bank, such as one submitted by the officers of the Lumbermen's Exchange of St. Louis:

Whereas: St. Louis is the Gateway to the Great Southwest, having connections, through its railroads, with a region that is fertile in nature's products and in manufacturing industries which are in their infancy, which will from year to year be developed, and will out-rival all regions in fertility and productiveness:

Whereas: St. Louis be the Gateway to this wonderful region, all commerce must and will move through St. Louis and:

Whereas: St. Louis is a Gateway between the North and the South, and lying as it does in the center of the greatest country
Whereas: Within ten hours ride of St. Louis is located a population of over thirty million people, who trade through and in St. Louis, therefore:

Be it resolved: By the Board of Directors that the Lumbermen’s Exchange of St. Louis respectfully urges the Organization Committee ... to establish a Great Regional Bank in St. Louis.¹

The Implement, Vehicle and Hardware Association of St. Louis was another of the many organizations offering strong support, writing:

on earth, St. Louis excels all other cities as a point of center for the establishment of a Great Regional Bank and;

Whereas: St. Louis is situated in the midst of and is without doubt the greatest manufacturing center in the United States, having the largest Shoe, Beer, Vehicle, Implement, Tobacco and Stove manufacturing plants in the world. The Dry Goods display is greater than any City in the United States, and as a Lumber center St. Louis is without doubt the greatest in the Country and;

Whereas: St. Louis is situated in the midst of and is without doubt the greatest manufacturing center in the United States, having the largest Shoe, Beer, Vehicle, Implement, Tobacco and Stove manufacturing plants in the world. The Dry Goods display is greater than any City in the United States, and as a Lumber center St. Louis is without doubt the greatest in the Country and;

St. Louis Fed’s 25th anniversary celebration in 1939. Pictured (from left) are Fed Gov. Matthew Szymczak, Fed Chairman Marriner Eccles, St. Louis Fed President William McChesney Martin Sr. and St. Louis Fed Chairman William Nardin.
St. Louis and Chicago already are the leading financial and mercantile centers west of the Atlantic Seaboard, and the two great centers of the enormous intermountain territory—Chicago in the north and northwest and St. Louis in the south and southwest. ... We, as an Association, put ourselves on record as urging the selection of St. Louis for the location of one of the regional reserve banks.\(^{13}\)

The St. Louis Association of Credit Men was no less clear in its support:

Saint Louis, Missouri is the logical and natural location for the regional bank by its rank in population, its great facilities as a railroad center, its rank as a manufacturing center and distributor of merchandise, ... stability and financial strength, its volume of annual clearings and by reason of its importance in trade movements from contiguous territory, the states of Missouri, Oklahoma, Texas, Mississippi, Arkansas, Louisiana, Tennessee, Kentucky, Kansas, Nebraska, Southern Indiana and Southern Illinois.\(^{14}\)

St. Louis boosters wanted a large territory for a Federal Reserve district headquartered in St. Louis. The clearinghouse association may have viewed the location of a Reserve bank in St. Louis as a certainty. Perhaps for that reason, the association recommended the creation of just eight Federal Reserve districts—the minimum specified in the Federal Reserve Act—and proposed a large territory encompassing much of the Midwest, South and Southwest United States for a district based in St. Louis.

In his testimony to the RBOC, Frank O. Watts, the clearinghouse association’s lead advocate, indicated that the territory his group desired for a St. Louis-based district was similar to the territory represented in a map submitted by E.C. Simmons, chairman of Simmons Hardware Co. (shown in Figure 1 on pages 58-59). According to Simmons, the shaded region...
labeled “St. Louis Zone” represented the “legitimate bounds” of the region served predominantly by St. Louis manufacturers and wholesalers. The map also shows areas where other cities, including Chicago, Denver, Kansas City and Memphis, had significant business ties. The map clearly was intended to convince the RBOC that the commercial territories of Chicago and St. Louis were of roughly equal size and largely distinct—Chicago in the Upper Midwest and St. Louis in the Midsouth and Southwest. Simmons’ map represented the commercial territories of Denver, Kansas City and Memphis as being much smaller, with those of Kansas City and Memphis—two cities also vying for Federal Reserve banks—appearing as local submarkets within the larger St. Louis zone and, therefore, perhaps less worthy candidates for Reserve banks.

Shapleigh, president of another St. Louis hardware distributor, also pushed for a large St. Louis-based Federal Reserve district. In his testimony before the RBOC, Shapleigh argued:
RECEIVED AT Commercial Bldg., 514 Olive St., St. Louis, Mo. ALWAYS OPEN

WASHINGTON DC NOV 14 1914

WM MCC MARTIN
CHAIRMAN BOARD OF DIRECTORS FEDERAL RESERVE BANK OF
STLOUIS, STLOUIS MO

THIS IS TO NOTIFY YOU THAT THE CERTIFICATE OR CHARTER AUTHORIZING
THE FEDERAL RESERVE BANK OF STLOUIS TO COMMENCE BUSINESS IN ACCORDANCE
WITH THE PROVISIONS OF SECTION 4 OF THE FEDERAL RESERVE ACT HAS
BEEN OFFICIALLY SIGNED AND EXPRESSED TO YOU AS IT IS IMPOSSIBLE TO
HAVE THESE CERTIFICATES IN THE POSSESSION OF ALL FEDERAL RESERVE
BANKS BY THE MORNING OF NOVEMBER SIXTEENTH THIS TELEGRAM WILL BE
YOUR AUTHORITY PENDING THE RECEIPT OF THE CERTIFICATE REFERRED TO
FOR THE FEDERAL RESERVE BANK OF STLOUIS TO COMMENCE BUSINESS ON
THE MORNING OF NOVEMBER SIXTEENTH NINETEEN FOURTEEN

JOHN SKELTON WILLIAMS COMPTROLLER OF THE CURRENCY
With the transportation facilities offered from Saint Louis and with the immense stock of goods kept here ... this district has looked upon Saint Louis not only as its financial central reserve city, but its merchandise central reserve city. A by-word in the trade is “Saint Louis has the Goods.” The channels of trade follow the channels of transportation. The channels of banking follow the channels of trade. These channels for this district all lead to and from Saint Louis.15

Proponents of a large Federal Reserve district based in St. Louis stressed the advantages of the proposed territory’s economic diversity. A key objective of the authors of the Federal Reserve Act was to facilitate the movement of funds from regions of the country that had surplus funds to those where money and credit were in short supply. Reformers observed that interest rates rose, credit supply tightened and banking crises occurred most often at those times of the year when the demands for money and credit reached seasonal peaks. Some of the seasonal variation in money and credit demand reflected the seasonal nature of agriculture. Proponents of a large, St. Louis-based Federal Reserve district noted that the territory they recommended was economically diverse, with different types of agriculture and a strong manufacturing base.

For example, Jackson Johnson, president of International Shoe Co., argued the following:

You would like to balance the borrowers with the lenders as nearly as possible, and to that end we should have to take not only the manufacturing sections but the grain section along with the cotton section. In the last few years, [the region] west of the [Mississippi] River has produced from forty-five to fifty per cent of the cotton crop. If St. Louis covers Texas, Louisiana, Arkansas and Oklahoma they will then have in their territory half of all the cotton crops looking to this center [i.e., St. Louis] to be financed. Now to balance that I think that we should take along with Missouri, say, Kansas and a portion of Nebraska and southern Illinois.16

A Mississippi banker expressed a similar concern. Although located closer to Memphis, R.I. Peebles, cashier of the Bank of Boyle, Miss., wrote, “St. Louis can better serve us than Memphis
because Memphis feels the burden of making a cotton crop just like we do and is so dependent on the cotton growing industry that their funds are low at the time our funds are low.” In other words, at the times of the year when banks in Mississippi needed help satisfying their customers’ demand for loans, which were closely tied to the planting, harvesting and marketing of the cotton crop, Memphis banks faced similar demands and, thus, were of less help than St. Louis banks.

St. Louis was not the only city where local interests sought support for their cause from bankers and businessmen in nearby states. Many bankers and businessmen were contacted for support by more than one city. For example, the St. Louis clearinghouse sought letters of support from bankers and firms in western Kentucky and Tennessee who were also being courted by Louisville, Memphis and Nashville, Tenn., to support their own bids for Reserve banks. Most bankers in Kentucky and Tennessee expressed a preference for being members of a Reserve bank in their own states, but many wrote or testified that St. Louis was their second choice. For example, Thomas W. Long, the cashier of the First National Bank of Hopkinsville, Ky., testified to the RBOC: “Louisville is our first preference in the establishment of a regional [Reserve] Bank. … Next to Louisville our choice is St. Louis, beyond any possible question. …
The majority of the national bankers in eastern Kentucky have accounts in St. Louis. It would be very much to the advantage of our community if we could not get in the Louisville district to come to St. Louis.”

In its St. Louis hearings, the RBOC focused much of its attention on the boundaries between possible St. Louis- and Chicago-based districts and possible St. Louis- and Kansas City-based districts. Chicago bankers proposed a territory that encompassed nearly all of Illinois and the northern tier of counties in Missouri, as well as several states in the Upper Midwest and Great Plains. St. Louis’ supporters argued, however, that all of Missouri and the southern half of Illinois, including Springfield, would be served better by a Federal Reserve district headquartered in St. Louis. When asked by the RBOC why Springfield should be located in a St. Louis-based district, Francis, the former governor of Missouri, claimed, “The social relations between Springfield and St. Louis ... are closer than they are between Springfield and Chicago. Southern Illinois is settled very largely by Kentuckians and Virginians, and people from the South generally.”

Many bankers in southern Illinois did prefer St. Louis and expressed their sentiments in letters and testimony to the RBOC. Several southern Illinois bankers returned a form letter, which had been sent to them by the Chicago clearinghouse requesting support for Chicago’s bid, with the name “Chicago, Illinois” scratched out and replaced with “St. Louis, Missouri.” (An example is shown in Figure 2 on page 66.) Others expressed their preference for membership in a St. Louis district in testimony before the RBOC. For example, David S. Lansden, a director of the Alexander County National Bank of Cairo, Ill., testified, “We believe Cairo and ... all of Southern Illinois should be in the St. Louis district.” J.M. Winters, president of Quincy National Bank in Illinois, testified, “We desire to be attached to the St. Louis district, believing that our interests are materially with that city.” Noting that Quincy banks regularly lend to customers in Missouri and have developed business to the south and west, Winters stated: “We have cultivated the West and Southwest for our investments and we believe it is very important to us that we be in the same district. ... We feel that if we were cut off from this West and Southwest district, it would be almost a calamity to us.” St. Louis’ bid received less support from Springfield-area bankers, however, and ultimately the RBOC placed Springfield in a Chicago-headquartered district while placing Quincy and most of Southern Illinois in the Eighth Federal Reserve District, based in St. Louis.
The RBOC was also interested in how far west a St. Louis district should extend. St. Louis firms did extensive business in the Southwest, particularly in Texas and Oklahoma, but Texas bankers sought a Reserve bank headquartered in their state. Kansas City bankers also desired a Reserve bank and proposed a district that included some of the territory sought by St. Louis, including all of Oklahoma and parts of Missouri, Arkansas and Texas. A proposal for eight Federal Reserve districts submitted by Kansas City interests is shown in Figure 3 in the top left.

At the RBOC hearings in St. Louis, Treasury Secretary McAdoo noted, “Assuming that a Reserve Bank were established in Kansas City, and another was established in St. Louis, the division of the territory would be, as between Kansas City and St. Louis, very difficult.” In his testimony, Francis argued that western Texas and all of Oklahoma should be in a St. Louis district. Further, in response to a question from Secretary of Agriculture David Houston about placing western Missouri and Kansas in a separate district,
Long gone is the Transit department’s Country Check division, but in 1923, there was plenty of work at the adding machines (left) and in sorting and stamping (right). The Transit department handled checks and cash items.
possibly headquartered in Kansas City, Francis replied, “Well, I
should dislike to see Missouri divided in any way.”

McAdoo asked Frank O. Watts his view of a suggestion “that
the regional bank should be established in Kansas City with the
branch in St. Louis.” Watts replied, “I think they [i.e., Kansas City
and St. Louis] serve rather different territories, and in the
language of a certain distinguished Admiral, ‘there is glory
enough for us all.’”

Bankers in western Missouri, Oklahoma and Texas were
divided in their preferences. A.H. Waite, president of Joplin
National Bank in Missouri, testified that he personally favored
having his city in a St. Louis-based district, but that at the
request of Kansas City bankers, the Joplin clearinghouse signed
a statement supporting Kansas City’s bid for a Reserve bank:

*The Kansas City boys ... are a little quicker on the trigger than
the St. Louis boys. ... I personally rather want to join the asso-
ciation in St. Louis ... but the clearinghouse passed a resolution
favoring Kansas City. ... [W]hen you go out to Kansas City, you
will find the busiest live wires out there you ever saw; they are
certainly on their job, and Kansas City is full of that sort. We
call it “pep.” The nicest lot of fellows you ever met, and if Kansas
City was not out there, I think you would have no trouble about
determining the location of a Federal Reserve Bank for St. Louis,
but, naturally, they are ambitious.*
As my Joplin friend said, the Kansas City people are very quick on the trigger. They are a very nice bunch of fellows; we are very fond of them; they came to Tulsa and we endorsed them. Since that time we have become a little more familiar with the conditions, and it is a question in our minds whether the Committee [RBOC] would locate two banks in Missouri. ... If you expect to locate a bank in Texas, we do not want to be

Some bankers in western Missouri and Oklahoma testified that they would be satisfied being placed in either a St. Louis- or a Kansas City-based Federal Reserve district. However, they strongly opposed being tied to a Federal Reserve bank in Texas. For example, O.H. Leonard, a vice president of the Exchange National Bank of Tulsa, Okla., testified:

The pneumatic tube system enabled fast and easy delivery of documents and other papers from one department to another at the St. Louis Fed. Early on, as in this 1930s photo, a tube operator was on duty full time, taking the canisters that arrived with a “whoosh” at the central hub and then inserting them into the destination’s tube. The system remained in operation until 2009.
attached to that, because we have no business relations with Texas, neither do we have any business relations with Denver, Colorado. The only business relations we have where we would like to be attached to would be either Kansas City or St. Louis.66

L.W. Duncan, cashier of the First National Bank of Muskogee, Okla., and representative of bankers in his region, testified similarly: “We want to be in either St. Louis or the Kansas City district. … The only thing we want to guard against is being put in a southern district. The period of the year that we need money they need money in the south.” 27

After visiting St. Louis on Jan. 21-22, 1914, the RBOC traveled to Kansas City, where it held hearings Jan. 23. The RBOC then visited Lincoln, Neb., and Denver. The committee then visited several other cities before concluding hearings in Cleveland, on Feb. 17.

RBOC SURVEY OF BANKER PREFERENCES

Besides the hearings, the RBOC relied heavily on the results of its survey of national banks to guide the selection of Reserve bank cities and district boundaries. The survey asked bank executives to identify their top three choices for the location of the Reserve bank to which they desired to be connected, as well as to recommend at least eight, but no more than 12, cities nationally for Reserve banks.

Responding to the survey were 6,724 bank leaders, each naming at least one city as his or her bank’s preferred location for a Reserve bank. Fifty-nine cities, including St. Louis, Louisville and Memphis, were the first choice of at least one respondent. No respondents listed Little Rock as their first choice, but one listed the city as its second choice.
St. Louis was the first choice of 307 survey respondents and the second choice of 583 respondents. The city’s total of 890 first- and second-choice votes was exceeded only by New York City and Chicago. Figure 4 on page 75 shows the relative number of votes each city received, with the size of a city’s dot being proportional to the number of first- and second-place votes it received. The 12 cities chosen for Reserve banks are marked with green dots.

Figure 5 on page 75 shows the relative number of times each city was named when voters were asked to recommend at least eight, but no more than 12, cities nationally for the location of Reserve banks. Only New York City, Chicago and San Francisco were recommended more often by respondents than St. Louis.  

The RBOC survey of national banks was clearly important in the committee’s selection of Reserve bank cities and their respective districts. The RBOC felt compelled to explain why, for example, it put a Reserve bank in Richmond, Va., but not Baltimore, in Atlanta but not New Orleans, and in Kansas City but not Denver, Lincoln or Omaha, Neb. Regarding the last decision, the committee explained that its survey of bankers had played a major role in the decision:

Careful consideration was given to the claims of Omaha, Lincoln, Denver, and Kansas City, which conflicted in this region. ... [Banks in] the greater part
of New Mexico asked for Kansas City. Western Texas, Kansas, and Nebraska [banks] unanimously protested against going to Denver. Kansas [banks] desired Kansas City; Nebraska [banks] preferred Omaha or Lincoln; and Texas [banks] wanted either a Texas city or Kansas City or St. Louis. … With Montana, Idaho, Arizona, Texas, Kansas, and Nebraska [banks] in opposition, it was clearly impossible to make a district with Denver as the location of a bank. … It seemed impossible to serve the great section from Kansas City to the mountains in any other way than by creating a district with Kansas City as the headquarters.  

A few cities protested when they were not selected for a Federal Reserve bank. A committee of bankers and other citizens of Baltimore submitted a formal request to the Federal Reserve Board to designate Baltimore, rather than Richmond, as the location of a Reserve bank for the Fifth Federal Reserve District. The appeal was denied, but a branch of the Richmond Bank was opened in Baltimore.  

Although St. Louis was among the 12 cities chosen for a Federal Reserve bank, the RBOC assigned much of the territory sought by St. Louis boosters to other districts, notably the Eleventh District headquartered in Dallas and the Tenth District headquartered in Kansas City. Still, when it was formed, the Federal Reserve Act of 1913 created a Reserve Bank Organization Committee to draw the boundaries of the districts (between eight and 12 of them) and then to pick a headquarters city for each district. Besides holding hearings around the country, the committee surveyed national banks to gauge their preferences for Reserve bank cities. More than 6,700 national banks responded. The relative total number of first- and second-choice votes is reflected in the dot size above. Cities chosen by the committee for a Reserve bank are shown in green; other cities receiving votes are shown in blue. St. Louis came in third in the voting, after New York City and Chicago.  


When those taking the survey were asked to recommend between eight and 12 cities for Reserve banks, St. Louis placed fourth, after New York City, Chicago and San Francisco. Again, the dot size indicates the total number of times a city was recommended. The winning cities are shown in green.  

the St. Louis-based Eighth District was the sixth-largest in terms of land area and the third-largest in terms of population, after the Second (New York) and Seventh (Chicago) districts.

States in the Midwest and South historically had relatively fewer national banks than other states, however; consequently, the Eighth District ranked only 10th in terms of national bank capital and deposits.31

FROM SELECTION TO OPENING AND BEYOND

Once it had designated 12 cities for Federal Reserve banks, the RBOC began a process that led to the incorporation of the Reserve banks and the election of their boards of directors. On May 18, 1914, representatives of five national banks designated by the RBOC met at the offices of the St. Louis clearinghouse to sign the organization certificate of the Federal Reserve Bank of St. Louis. The RBOC then sent ballots to all national banks in the Eighth District to elect a board of directors for the St. Louis Reserve Bank. On Aug. 10, 1914, the RBOC announced the election of Frank O. Watts, Walker Hill and Oscar Fenley as Class A directors; and Murray Carleton, W.B. Plunkett and LeRoy Percy as Class B directors.

On Sept. 30, 1914, the Federal Reserve Board announced the appointment of three Class C directors: William McChesney Martin Sr., who was named Federal Reserve agent and chairman of the board of directors; W.W. Smith, who was named deputy Federal Reserve agent and vice chairman; and John W. Boehne.

The board of directors met for the first time Oct. 28 in the boardroom of the Mississippi Valley Trust Co. of St. Louis. One of the board’s first acts was to appoint Rolla Wells as governor, William W. Hoxton as deputy governor and C.E. French as cashier of the Federal Reserve Bank of St. Louis.

All 12 Federal Reserve banks opened for business on Nov. 16, 1914. The Federal Reserve Bank of St. Louis occupied temporary quarters on the fourth floor of the newly built Boatmen’s Bank building, at the corner of Olive Street and Broadway in downtown St. Louis. On opening day, the Bank’s staff consisted of six officers and 17 other employees. On that day, the
FIRST BOARD OF DIRECTORS OF THE FEDERAL RESERVE BANK OF ST. LOUIS

Bank established a discount window and set its discount rate at 6 percent. The Bank made its first loan, in the sum of $1 million, on Nov. 18. The Bank began to provide clearing services a few days later. By Dec. 4, the Bank was offering to collect checks and drafts drawn on any Federal Reserve bank and on all Eighth District member banks.

Besides lending to member banks through its discount window and providing clearing services, another important function of the Federal Reserve was to supply currency to its member banks. The Federal Reserve Bank of St. Louis made its first delivery of currency to a member bank Dec. 1, 1914.12

The Federal Reserve Bank of St. Louis moved to new, though still temporary, quarters in 1915, and eventually to its present location, at the northeast corner of Broadway and Locust Street, in 1925. Full-service branch offices were also opened in Louisville, Memphis and Little Rock in 1917, 1918 and 1919, respectively.

Security forces stood guard in 1937 at the vault at the Little Rock Branch of the St. Louis Fed.
Figuring prominently among the criteria for choosing the locations of Reserve banks and branches in 1914 were the size of a city’s banks and its commercial and transportation networks. In 1914, federal law prohibited interstate branch banking, and many states disallowed any branching within their state borders. Paper checks, bank drafts and cash moved by rail or, locally, by armored truck. In those days, a city’s size, business connections and transportation networks were crucial for a Reserve bank to serve its district banks. With nationwide branch banking and rapid electronic communications, such infrastructure is no longer as important for the location of a Reserve bank. Electronic payments sent over the Internet have largely replaced paper checks, for example. Still, many of the benefits of a structurally decentralized Federal Reserve System remain as important today as they were in 1914. The structure remains important, for example, in the gathering of economic information for use in monetary policymaking, as well as in communicating policy actions to the public. A local presence also facilitates and enhances banking supervision, community outreach and economic education, to name just a few of the responsibilities and services a Reserve bank provides within its district. The Fed’s decentralized structure also ensures that diverse views are heard in monetary policy deliberations.

Over the years, the Federal Reserve Bank of St. Louis has continued to provide payment services and discount loans for its member banks and other depository institutions, while seeing its responsibilities grow to include important roles in monetary policymaking, banking supervision, the provision of services to the U.S. Treasury and community outreach.
ENDNOTES

1. See Primm. This commemoration of the Bank's 75th anniversary includes a discussion of the problems of the U.S. banking and monetary systems that Congress sought to overcome by establishing the Federal Reserve System. The book also includes background on the selection of St. Louis as the location for a Federal Reserve bank. See www.stlouisfed.org/foregone/index.cfm.


3. The population data are from the census of 1910. The three cities later chosen for branches of the Federal Reserve Bank of St. Louis—Little Rock, Louisville and Memphis—had populations of 45,941, 223,928 and 131,105, respectively.

4. See Smith.


6. Correspondent deposits, sometimes referred to as interbank deposits, are deposits held on account for other banks. Correspondent banks often provide services, especially payment services, for their respondent banks. National banks in St. Louis held a combined $90 million of deposits for other banks. New York City national banks held by far the largest amount of correspondent deposits, with $742 million, and Chicago national banks held $279 million. See United States, Reserve Bank Organization Committee. Decision of the Reserve Bank Organization Committee, April 2, 1914 (With Statement of the Committee in Relation Thereto, April 10, 1914), Table D, p. 15. See http://fraser.stlouisfed.org/publication-series/?id=603.

7. For example, national banks in Kansas City ($95 million), Dallas ($6 million) and Atlanta ($4 million) held substantially less correspondent balances than did St. Louis' national banks. National banks in Louisville and Memphis held $2 million and $2 million of correspondent deposits, respectively.

8. New York City ranked first in national bank capital, deposits and loans. Its 35 national banks had combined capital of $249 million, deposits of $772 million and loans of $1.1 billion. For comparison, Louisville had eight national banks, with combined capital of $8 million, deposits of $20 million and loans of $28 million. Memphis had three national banks, with combined capital of $2 million, deposits of $7.5 million and loans of $7 million. See United States, Reserve Bank Organization Committee. Decision of the Reserve Bank Organization Committee, April 2, 1914 (With Statement of the Committee in Relation Thereto, April 10, 1914), Table E, p. 15. See http://fraser.stlouisfed.org/publication-series/?id=603.

9. The Federal Reserve Act required all national banks, i.e., all commercial banks with a federal charter, to join the Federal Reserve System. Membership was made optional for state-chartered banks that met minimum capital requirements. State-chartered member banks were further required to comply with reserve and capital requirements applied to national banks and to submit to examination and regulations prescribed by the Federal Reserve Board.

10. For the locations of all RBOC hearings and a list of witnesses heard and exhibits presented at each location, see United States. Reserve Bank Organization Committee. Index of Witnesses and Exhibits for the Hearings before the Reserve Bank Organization Committee. See http://fraser.stlouisfed.org/publication-series/?id=599.


13. Ibid.
14. Ibid.
27. Ibid, p. 1,736.
30. See United States. Reserve Bank Organization Committee, 1914, Box 2661, Folder 1: #89, Brief on Behalf of the Citizens of Baltimore Before the Federal Reserve Board. See http://fraser.stlouisfed.org/docs/historical/nara/nara_r0082_e02_b2661_01.pdf.
31. As of March 4, 1914, the District's 458 national banks had $83 million of capital and $379 million of deposits. By comparison, the Tenth District had 836 national banks with $53 million of capital and $521 million of deposits. See United States. Reserve Bank Organization Committee. Decision of the Reserve Bank Organization Committee, April 2, 1914 (With Statement of the Committee in Relation Thereto, April 10, 1914), Table A, p. 10. See http://fraser.stlouisfed.org/publication-series/?id=603.

REFERENCES


The St. Louis Fed has always been located in downtown St. Louis (second building from the left). Fans of the St. Louis Cardinals baseball team swarmed the streets after the team won the World Series in 1926.
Today, Louisville, Ky., Memphis, Tenn., and Little Rock, Ark.—the St. Louis Fed’s branch city locations—are known for their leadership in such areas as logistics and shipping, health care and medical research, music and other entertainment. A hundred years ago, they were better known for gristmills, cotton exchanges and lumber.

Then, and now, these three cities were the economic powerhouses of their regions. They were also banking centers; in fact, two of the three were in the running for a Federal Reserve bank.

The branches in all three cities started operations soon after the Federal Reserve Bank of St. Louis opened for business in 1914: Louisville opened its doors in 1917, Memphis in 1918 and Little Rock in 1919. (For a look at what the branches are doing today, see the essay “St. Louis Fed Branch Offices” on page 139.) What follows is a little history on why these cities were chosen as branches.
Louisville, Ky.

HISTORY AND ECONOMY

The population, industrial base and banking industry of Louisville all grew rapidly in the years following the Civil War, especially toward the end of the 19th century and the beginning of the 20th century. The city’s population increased by more than five times between 1890 and 1914, from 43,194 to 235,114. This expansive growth spurred business and residential development within the city: apartment buildings, skyscrapers and the trappings of modern life.¹

The growth of Louisville’s manufacturing sector was also explosive. Between 1899 and 1909, the real (inflation-adjusted) value of manufactured product in Louisville rose 25 percent. Although growth subsequently slowed, the total employment and output of the city’s manufacturing firms exceeded those of all other Kentucky cities in 1914. In that year, Louisville firms produced 46 percent of the state’s industrial output. The city’s leading industries included distilled liquor, railroad repair, ground flour and grains, metals and machinery, and printing and publishing.²

BANKING

As in much of the nation, banking was volatile in Louisville during the 19th century, which saw numerous bank failures and general banking instability. Despite these difficulties, the city was a leading regional banking center. Louisville boasted the first national bank south of the Ohio River, and its bank clearinghouse was established immediately following the Civil War.
FLOOD EQUIPMENT - LOUISVILLE BRANCH - FEDERAL RESERVE BANK OF ST. LOUIS - JAN. 22 TO FEB
In the years that followed, Louisville's banking industry continued to expand. By 1889, 22 banks, including 10 national banks, were located within the city's limits. Louisville's banks provided much of the capital that was used to develop the city's industrial base and burgeoning livestock industry, as well as to finance the construction of railroads and bridges. When the Reserve Bank Organization Committee (RBOC) surveyed national banks for their preferred locations for Federal Reserve banks, 73 percent of banks in Kentucky selected Louisville as their first choice.

Louisville was among 37 U.S. cities to petition the RBOC to be chosen as the headquarters of a Federal Reserve district. The city's boosters argued that Louisville's location and industrial and commercial prominence made it well-situated to serve the interests of both its region and the nation. In its argument before the committee, Louisville left no room for concession: "We have not seriously considered Louisville being attached to some other reserve city. To attach it to Atlanta would be to attach the greater to the lesser, the independent to the dependent, to reverse the natural order of things, to violate precedent, and therefore it is not seriously to be considered." The RBOC did not choose Louisville for a Reserve bank. Instead, the city and the western portion of Kentucky were placed in the Eighth Federal Reserve District, headquartered in St. Louis. In 1916, Louisville's representatives petitioned the Federal Reserve Board for a branch office of the St. Louis Fed, arguing that large amounts of bank deposits were being diverted away from their city to St. Louis, thereby degrading the integrity and strength of banks in Louisville. Importantly, Louisville bankers argued that a local branch was needed to properly administer and discount the whiskey and tobacco paper, which was in widespread use throughout the region.

A few St. Louis bankers opposed the establishment of a Fed branch in Louisville. Louisville's regional importance and national prominence, however, made it nearly inevitable that a branch would be opened in the city.
On Dec. 3, 1917, the first branch of the Federal Reserve Bank of St. Louis was opened in Louisville. Two years later, the Branch had 53 employees and served 95 member banks.7

Memphis, Tenn.

HISTORY AND ECONOMY

Located on the fourth Chickasaw Bluff along the Mississippi River, Memphis has served as a hub for commerce and trade regionally, nationally and internationally throughout most of its history. Like Louisville, Memphis developed rapidly in the late 19th century, diversifying its economy and investing heavily in infrastructure improvements.8 The city’s population grew rapidly, from 33,592 in 1880 to 64,495 in 1890 to 102,320 in 1900. By 1914, Memphis’ population was estimated to be 143,231, making it the largest city in the state of Tennessee.9

At the turn of the 20th century, the cotton trade was the dominant business in Memphis. Founded in 1873 in response to the formation of cotton exchanges in New York City and New Orleans, the Memphis Cotton Exchange

In November 1939, prices were being recorded at the Memphis Cotton Exchange before closing time. At the turn of the 19th century, cotton was king in the area. The exchange was founded in 1873, and by 1913, Memphis had the largest inland cotton market in the world.

On Dec. 3, 1917, the first branch of the Federal Reserve Bank of St. Louis was opened in Louisville. Two years later, the Branch had 53 employees and served 95 member banks.
grew to international importance. According to the Annual Statement of Trade and Commerce of Memphis, in 1913 the city had the largest inland cotton market in the world, with receipts for some 1 million bales of cotton. In that year, Memphis also reportedly had the world’s largest hardwood lumber market.

In addition to its cotton and lumber markets, Memphis had a developing manufacturing sector. Between 1909 and 1914, the city’s manufacturing output grew by 29 percent, led primarily by the production of oil and cottonseed products, tobacco goods and food preparations. In 1914, the industrial output of Memphis exceeded that of all other Tennessee cities.

**BANKING**

Memphis’ first bank opened in 1834. Like many cities, Memphis faced episodic banking instability throughout the 19th century. A nationwide banking panic in 1873, which coincided with a yellow fever epidemic in the South, nearly brought down all of Memphis’ banks. However, not a single Memphis bank failed when another panic struck in 1893. Memphis’ banks were heavily involved in the financing of cotton agriculture, but also helped to finance the city’s economic diversification and growth at the turn of the 20th century. In 1913, the year the Federal Reserve Act was passed, there were 27 banks operating in Memphis, including three national banks.

Memphis was also one of 37 U.S. cities that petitioned the RBOC for a Reserve bank. Memphis saw itself as having the amenities to meet the region’s economic needs: within 300 miles of 13 states, a well-developed mail service, access to the Mississippi River for transportation and trade, and 17 rail lines connecting it to the rest of the country.

Whereas Memphis was the largest city in Tennessee and ranked first in manufacturing output, the city was not the first choice for the location of a Reserve bank among many Tennessee bankers. In the RBOC survey of national banks about their preferred location for a Reserve bank, Memphis received fewer first- and second-place votes than did Chattanooga and Nashville—sister cities in Tennessee. Ultimately, the RBOC placed Memphis, along with the western part of Tennessee, in the Eighth Federal Reserve District, headquartered in St. Louis. The St. Louis Fed soon opened a seasonal office in Memphis to provide discount window loans and other services to area member banks during the cotton season. The Memphis office was upgraded to a full-service branch in 1918. By the end of 1919, the Memphis Branch had 68 employees and served 42 member banks.
This building at Jefferson Avenue and Third Street (seen here in 1943) housed the Memphis Branch from 1929 to 1972.
Little Rock, Ark.

HISTORY AND ECONOMY

Because of its location along the Arkansas River and close proximity to the center of the state, Little Rock was well-situated as the Arkansas state capital and as the state’s economic leader. In 1914, Little Rock was the only Arkansas city with more than 50,000 residents, accounting for 3 percent of the state’s population.¹⁷

Little Rock grew rapidly during the early 20th century, doubling in size between 1890 and 1914, including 17 percent between 1909 and 1914. Construction activity was brisk: The city’s first skyscraper (1907), the Arkansas Capitol (1899-1914) and the municipal airport (1917) were all constructed during these first two decades.¹⁸

Though small in stature, Little Rock was a city on the rise. The leading industries of Little Rock in the early 20th century were lumber, cottonseed, and printing and publishing. Lumber production and allied products employed 39 percent of the Little Rock manufacturing labor force and comprised 28 percent of the city’s total manufacturing output.¹⁹

BANKING

According to University of Arkansas historian John Dominick, Arkansas state banks were chartered at an “alarming rate” in the late 19th and early 20th centuries. The number of banks increased from 83 in 1891 to a peak of 425 in 1914. This haphazard growth brought with it a
series of bank failures, which, in Dominick’s estimation, occurred primarily as a result of an oversaturated market, low capital requirements and poor bank management. State legislators saw a need for more regulation. In 1913, they passed legislation establishing a state bank department to regulate bank operations and institute a more stable foundation from which the banking industry could flourish. 

While clearly the most important city in Arkansas, Little Rock was not seen as a national center for banking and finance. In the RBOC’s survey of national banks about their preferences for the locations of Reserve banks, Little
Rock received no first-choice votes, one second-choice vote and just two third-choice votes. The majority of the state’s national banks listed St. Louis or Kansas City as their first choice.21

The RBOC placed Little Rock, along with the entire state of Arkansas, in the Eighth Federal Reserve District, headquartered in St. Louis. In 1918, the Federal Reserve Board granted a petition to establish a branch of the Federal Reserve Bank of St. Louis in Little Rock. The Little Rock Branch opened Jan. 6, 1919. By the end of the year, the Branch had 38 employees and served 57 area member banks.22
ENDNOTES

1. See Yater, pp. xxii-xxiii.
2. Preceding two paragraphs are from Sandmeyer, “Kentucky.”
5. See United States. Reserve Bank Organization Committee, 1914, Box 2654, Folder 1: Arguments in Behalf of Louisville as a Federal Reserve City, p. 9.
6. See Federal Reserve System Board of Governors, pp. 8-10.
7. See annual reports of the Federal Reserve Bank of St. Louis from 1917 through 1919 at http://fraser.stlouisfed.org/publication/?pid=149.
8. See James and Young, pp. 579-83.
9. Memphis Merchants Exchange, p. 38. However, the RBOC’s Location of Reserve Districts in the United States (Table F) reports that there were 22 banks in Memphis.
11. See annual reports of the Federal Reserve Bank of St. Louis from 1917 through 1919 at http://fraser.stlouisfed.org/publication/?pid=149.
13. See Bell.
14. See James and Young, p. 213.
15. See United States. Reserve Bank Organization Committee, 1914, Box 2654, Folder 1: Arguments in Behalf of Louisville as a Federal Reserve City, p. 9.
16. See annual reports of the Federal Reserve Bank of St. Louis from 1917 through 1919 at http://fraser.stlouisfed.org/publication/?pid=149.
20. See Dominick.
22. See annual reports of the Federal Reserve Bank of St. Louis from 1917 through 1919 at http://fraser.stlouisfed.org/publication/?pid=149.

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Construction on the St. Louis Fed’s current headquarters at Broadway and Locust Street started in 1923, and the building opened on June 1, 1925.

During its first 10 years, the St. Louis Fed lived a nomadic existence. After opening for business Nov. 16, 1914, at the Boatmen’s Bank Building at Olive Street and Broadway (the current Marquette Building), the Bank relocated several times within downtown St. Louis to accommodate growth in staff.

Land for the current building at Broadway and Locust Street was bought in 1918, but high construction costs delayed the groundbreaking until 1923. The building was designed by the architectural firm Mauran, Russell and Crowell in a neoclassic style. It was constructed of Bedford, Ind., limestone and Rockville, Minn., granite. Medallions were carved into the stone with the coats of arms of the United States and of each state the Eighth District serves.

When the Bank opened the doors of its new building June 1, 1925, it had 219,000 square feet of floor space.

The building sits atop the Bank’s vault, which was described in a 1925 internal Bank publication as “near burglar, mob, fire, and explosive proof as science and engineering
skills can make them.” The vault’s 44-ton, 30-inch-thick door remains in use today.

Over the years, the St. Louis Fed’s headquarters has undergone several renovations. An annex, consisting of 25,000 square feet, was added in 1946. In 1949, the Bank bought and renovated property adjacent to the Bank—the former Nugent’s Department Store. In 1991, the Bank’s lobby, research library and mezzanine floor underwent major renovations.

Following the turn of the 21st century, the Bank undertook an evaluation of its long-term space needs. Under consideration were both a new building, and renovation and expansion of its long-standing home. The Bank elected to stay in the heart of downtown St. Louis and take on a major renovation of the entire building. Improvements included constructing a new attached tower, recladding the former Nugent’s building to provide a cohesive exterior appearance while also improving security, modernizing the conference and dining facilities, renovating all staff work areas to better meet current business needs, and enhancing the physical security in the wake of the terrorist attacks of Sept. 11, 2001.
The St. Louis Fed was built on top of the vault, which was described in a 1925 Bank publication as “near burglar, mob, fire, and explosive proof as science and engineering skills can make them.” The vault, still in use today, has a door that weighs 44 tons and is 30 inches thick.
What does the St. Louis Fed actually do? Our key leaders each explain their responsibilities and those of their staff—from everyday operations to the short- and long-term goals. Here and there, some of the numbers behind this work are highlighted. Programs and services that serve as the face of the St. Louis Fed are highlighted as well.
In the 1920s, much of the customer service was provided face to face. For example, tellers were on hand to redeem savings bonds and conduct other financial transactions. Today, service is provided in many high-tech ways, but in-person connections haven’t been forgotten.
As with those of all organizations, the Federal Reserve Bank of St. Louis’ vision, goals and strategies have evolved over the past century to address changing times, key environmental factors and our own aspirations. However, one constant that hasn’t changed (at least in the two decades I have worked at the Bank) is a commitment to provide valued services to our constituents and to be viewed by them as a premier service provider.

How do we turn this commitment into real results, rather than just management rhetoric? First, we listen to our customers. All Bank functions, regardless of whom they serve, have mechanisms in place to capture feedback, such as through formal surveys, social media and one-on-one interactions, whether in person or over the phone. For example, close to 550 financial institutions were visited by our Branch regional executives over the past three years as a part of our regional Financial Institution Touch program, which is designed to seek input on local economic conditions and to answer questions about services...
provided by our Bank. Second, we systematically use that feedback to assess customer satisfaction and to identify needs that could lead to new products and services. An example comes from a survey of users of Federal Reserve Economic Data (FRED), our signature online economic database. They wanted enhanced graphing functionality, and we delivered one-step graph downloading, mouse-sensitive plot displays and other interactive capabilities. Third, we closely monitor our performance against targets that represent a “stretch” for us to achieve. At the executive level, we monitor more than 50 quality and constituent-satisfaction metrics to ensure that we meet or exceed targets, as well as to identify and resolve problems in a timely manner. And fourth, we assess our performance against external benchmarks to provide additional insight into potential opportunities to strengthen the value of our services.

Following these processes isn’t complicated or obscure. They are pretty much straight out of a textbook for a business 101 class. But they work because we are committed to making them work and because we are disciplined enough to methodically follow them, refine them and assess their effectiveness. We didn’t achieve 100 percent of our targets...

St. Louis Fed agricultural economist Don Henry visited the H.P. Smith Farm in Hodgenville, Ky., in 1947 and spoke on cost and return of soil improvement in front of an audience of farmers and bankers.
right out of the gate. We still don’t have it perfect. But the journey continues.

Although listening to our customers is key to being a premier service provider, equally important are employees who have a relentless desire to innovate and a positive work environment. We have both.

Innovation is the engine that drives ongoing constituent satisfaction. Although the core responsibilities of the Bank have remained largely unchanged over the past century, how we meet the needs of the people we serve has evolved. Listening to and leveraging feedback from customers has led to innovative services. Recent examples include:

- **Dialogue with the Fed and its Spanish version, Diálogo con la Fed:** These discussions with Bank economists and other experts are held periodically at the Bank and its branches, providing information on the key economic and financial issues of the day. The sessions are free and open to the public; questions from the audience are always encouraged so that there is a true dialogue. All discussions are archived in one form or another and are available to be viewed at any time on the Bank’s website.

- **Ask the Fed:** This monthly call-in program provides an additional communication channel between Fed officials and leaders of state member banks and bank holding companies throughout the nation on emerging and important financial and supervisory topics.

- **Go Direct:** This education and marketing campaign, conducted on behalf of the U.S. Treasury, was designed to encourage recipients of federal benefit checks (such as Social Security) to switch to electronic payments, such as direct deposit. The campaign has resulted in an estimated $1.15 billion savings for the Treasury and, therefore, the American taxpayer.

- **FRED:** This is an online database of more than 236,000 time series of economic data from more than
We also believe that a positive culture is the most powerful, long-term employee motivator. As such, no organization can be a premier service provider without a sustained positive culture. We are proud that Bank employees have consistently viewed the work environment positively. In a national business and industry ranking, the Bank’s workforce commitment score placed in the 93rd percentile among the more than 900 organizations participating in the survey. As with our process-improvement efforts and our innovative spirit, we are committed to providing an outstanding work environment for our employees—it’s the right thing to do for them, and it’s the right thing to do to serve our constituents.

The Bank has received several awards over the past few years that speak to the quality of our services and operations. Among other honors, we received the Missouri Quality Award and were named one of the St. Louis Regional Chamber’s “Top 50 Businesses.” We view these awards as indicators that we are on the right track when it comes to being a premier service provider.

But this is a journey that has no end, because we are always pushing ourselves to improve and to exceed our constituents’ expectations.
The Research division of the Federal Reserve Bank of St. Louis has long been renowned for its cutting-edge research, policy analysis and provision of economic information to the public. This tradition dates back to the 1960s, when Homer Jones was the director of the Bank’s Research division. At that time, the St. Louis Fed took a very contrarian stance on how monetary policy should be conducted and backed that stance with top-flight economic research.

Although theoretical arguments are necessary to win the war of ideas, empirical evidence is needed to support those theories. That requires data. Hence, for more than 50 years, the Research division has melded the collection and analysis of relevant data with frontier economic research to support the Bank’s presidents in their monetary policy role.

Most of our research is in the academic tradition, in which we encourage economists to identify and pursue good research questions on their own. The objective of academic research is to expand
the boundaries of knowledge about economics and policy. Thus, for the most part, we encourage our staff economists to pursue their own ideas, rather than tell them which questions to work on.

We have found that the best policy advice comes from economists who work at the frontier of economic thinking. Academic economists are often vocal in their views about policy and are willing to critique actions taken by the Federal Open Market Committee, the main policymaking body of the Federal Reserve System. To evaluate arguments of academic critics and make use of good ideas and research for policy, the Fed must have economists who work at the frontier of knowledge. Fed economists must be able to explain their own views in a rigorous way, as well as explain why an alternative...
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claim about policy is suspect. A healthy competition of ideas allows the best theories and policies to win in the end.

At the St. Louis Fed today, we largely eschew "directed" research. That is, we rarely tell one of our economists to answer a specific question, let alone to do so in a very short period of time. An example of a directed research question would be: Why did labor force participation rates drop so much last month? The economist would track current economic data, particularly local conditions, and tell a narrative to explain the data movements. (An example of a directed research question on the housing market was: Why did labor force participation rates drop so much last month? The economist would track current economic data, particularly local conditions, and tell a narrative to explain the data movements.)

Until the 1960s, however, directed research was the norm throughout the Federal Reserve System. That changed in St. Louis under Jones, who believed that research should help guide monetary policy and that it should focus on interesting issues long before they come to the attention of policymakers. For example, in 2000, few if any focused on interest-rate issues long before they come up in discussion. Jones believed that research should be at the forefront of economic thinking. Academic research is valuable because it is proactive in that it often focuses on interesting issues long before they come to the attention of policymakers. For example, in 2000, few researchers focused on interest-rate issues long before they came up in discussion.

Academic research is rigorous and vetted before publication. It is forged in the fires of debate and criticism. Academic research also takes the form of program evaluation (economic autopsies) of major economic events. It can take years to analyze and understand what happened and what policies or regulations need to be changed. In this sense, it is timeless.

In contrast, directed research is time-sensitive and reactive in nature. It often leads to quick and incomplete answers.

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In contrast, directed research is time-sensitive and reactive in nature. It often leads to quick and incomplete answers.
Consequently, high-quality directed research requires a deep understanding of academic research, which usually requires economists who are engaged in academic research at a high level.

The key takeaway is that both forms of research—academic and directed—are valuable; they are complements, not substitutes. The research staff at the St. Louis Fed engages primarily in academic research because that forms the basis for the directed research and policy advice that we provide to our president, our board of directors and the general public.

Anatol “Ted” Balbach, seen here in 1984, headed the St. Louis Fed’s Research division from 1975 until 1992. During his tenure, the division built on its reputation as a main center for research on the role of money in the setting of monetary policy.
Keeping a Watchful Eye

BANKING SUPERVISORS TAKE ON NEW CHALLENGES

By Julie L. Stackhouse
SENIOR VICE PRESIDENT
BANKING SUPERVISION AND REGULATION

Banking supervision has changed considerably over the past 100 years. While the work of banking supervisors has always been different from the portrayal in Frank Capra’s 1946 film, *It’s a Wonderful Life*, the process has evolved from a point-in-time examination—during which even the bank’s cash was counted—to a sophisticated approach—whereby part of the examination might be conducted off-site using electronic records from the institution.

Perhaps the greatest changes have come in the past five years. As a result of the Dodd-Frank Act, which was signed into law in 2010, the Federal Reserve now supervises and regulates all bank holding companies, savings and loan holding companies, state-chartered banks that are members of the Federal Reserve System, and any nonbank that is designated as a systemically important financial institution by the Financial Stability Oversight Council. Institutions and industries previously outside of the Fed’s purview now must be...
supervised with the same amount of skill, critical analysis and depth of knowledge that is employed in our banking examination processes.

The changes in our financial and regulatory systems can be seen in many attributes, many of which are integral to the banking supervision function of the Federal Reserve Bank of St. Louis:

*The Fed is focused on forward-looking risk analysis and is as concerned with systemic risk as it is with institutional risk.*

Supervising a spectrum of institutions—from large and complex to small and community-oriented—requires the Fed to be adequately prepared to address the challenges of today and to be able to anticipate, and effectively identify, the risks of tomorrow. While examiners continue to review the financial health and compliance effectiveness of each institution, they also look across institutions and business lines to identify risks. For example, supervisors today not only will look at the loan portfolio and compensation practices of an individual institution, but also may conduct a horizontal review of executive compensation or commercial real estate lending.

In today’s dynamic environment, banking supervisors also recognize that risks are not inherent solely in a bank’s loan book. There are risks related to the processing of payments for third-party vendors, risks related to fair lending and risks involving cybersecurity, to name a few. Banking supervisors must understand and be able to integrate all sorts of risks, even those that can emerge from consumer or service operations or through inadequate infrastructure investments.

*Banking supervisors strive for a regulatory system that is balanced relative to institutional risk:* Banking supervisors understand that banks are natural innovators and need to be able to respond to changing consumer demands and changing economic factors to be successful. But the operations of a community bank are not the same as the operations of a large bank. Community banks typically have a traditional risk profile that is easy to understand and examine. Systemically important financial institutions,
on the other hand, are far more complex and subject to many additional regulations, including enhanced prudential standards under the Dodd-Frank Act, capital stress testing and liquidity regulation.

*Banking supervisors work closely with their regulatory and functional counterparts:* In today’s environment, banking supervisors must maintain open lines of communication with other state and federal regulators, banking trade associations and community organizations that operate in markets served by these institutions. They must understand the Fed’s traditional role in promoting U.S. financial stability and the risks posed by payment and settlement activities, and they must interact with colleagues in lending and payment risk functions.

*The Fed ensures that both examiners and financial institutions understand the laws, regulations and industry issues facing them:* This responsibility is significant. The Dodd-Frank Act alone has 848 pages and, by some estimates, has resulted in more than 400 new rules for the financial services industry. The St. Louis Fed has taken a leadership role in aiding the banking supervision staff and the financial industry in understanding the expectations contained within laws and regulations through its Ask the Fed program (for bankers only) and Rapid Response program (for examination staff only). These programs, which were largely originated during the financial crisis, allow for important supervisory and regulatory information to be communicated, in nearly

* Supervising a spectrum of institutions—from large and complex to small and community-oriented—requires the Fed to be adequately prepared to address the challenges of today and to be able to anticipate, and effectively identify, the risks of tomorrow.

Much has changed about banking supervision since these St. Louis Fed examiners were on the job in Hot Springs, Ark., in 1958. For example, parts of an exam might now be conducted off-site using a bank’s electronic records.
real time, to state and federal regulators and financial institutions. Effective communication is paramount to promoting financial stability and ensuring the safety and soundness of the U.S. banking system.

The Federal Reserve’s centennial commemoration reminds us that the reason we’ve been effective as an organization is that we’ve changed to meet the challenges of our financial system. The challenges of today will not be the challenges of tomorrow. Banking supervision has evolved to keep up with the speed of change and innovation in the banking industry. Although this has never been a perfect process, the lessons we’ve learned over the past 100 years, including during the most recent financial crisis, position us for superior effectiveness in the next 100 years.

Banking Supervision: The Basics

The Fed has supervisory and regulatory authority over a variety of financial institutions and activities. In general, the Fed’s supervision staff works to promote: 1) a safe, sound and stable financial system that supports the growth and stability of the U.S. economy, and 2) a fair and transparent market for consumer financial services.

These efforts are accomplished through:

- Assessing the safety and soundness of supervised financial institutions
- Carrying out consumer compliance supervisory activities to protect consumers and promote a fair and transparent market for the services they need
- Processing applications to acquire or merge with other institutions or to change ownership
- Ensuring enforcement of laws and regulations
In 1915, the 12 Federal Reserve banks were designated as fiscal agents of the United States. Today, the Reserve banks provide support for the U.S. Treasury Department’s accounting, collections, payment and debt-management functions. The Federal Reserve System is a trusted partner, helping the Treasury meet its goal of transforming and modernizing federal financial management.

The responsibilities for the Fed are great, as it is charged with supporting the essential financial-management services provided by the Treasury and its bureaus to federal agencies and the public. For the fiscal year ending September 2013, the Treasury auctioned more than $7 trillion in marketable securities, collected $3.16 trillion in receipts and issued more than $2.4 trillion in payments. In addition, the Treasury’s Bureau of the Fiscal Service accounts for the nation’s debt to the penny each day. As fiscal agents, the Federal Reserve banks ensure that the systems that facilitate and track this extensive volume of financial transactions are working properly; the banks also ensure that the flow of government funds is efficient, dependable and secure.
At the St. Louis Fed, we share the Treasury’s commitment to innovation and efficiency. The St. Louis Fed’s Treasury division is composed of four departments: Treasury Financial Management (TFM), Treasury Agency Support (TAS), Treasury Collateral and Cash Management (TCCM) and the Treasury Relations and Support Office (TRSO). Through these, the St. Louis Fed not only provides financial-management systems and operations support to the Treasury, but also performs an important leadership and coordination function for Treasury support activities throughout the Federal Reserve System.

The St. Louis Fed’s Treasury division has been instrumental in rewriting several of the federal government’s accounting systems. Overhauling these systems is a multiyear endeavor, one that is necessary for increasing the accuracy and timely reporting of federal accounting information.

Innovation, likewise, is driving the St. Louis Fed’s efforts to develop state-of-the-art systems for forecasting and investing federal government funds. These systems will enhance the Treasury’s ability to produce daily forecasts of its funds held at the Fed and to determine the government’s borrowing needs, ensuring that the total debt outstanding is within statutory limits.

At the same time, we are working to consolidate multiple systems into a single authoritative source for federal government accounting information. The applications developed and operated by St. Louis’ TFM department will provide the Bureau of the Fiscal Service and federal agencies with the ability to produce financial reports that are more timely, accurate and reliable, while reducing the reporting and reconciliation burden on federal agencies.

Building on our proven record of leadership, the St. Louis Fed’s responsibilities were expanded in 2012 to provide critical support for the Treasury’s efforts to reduce the issuance of improper government payments. This resulted in the formation of a new office within the Treasury division: the TAS department. The Do Not Pay team in TAS is helping all federal agencies to confirm that the right recipients receive the right payments for the right reasons at the right times. By incorporating robust data analytics into the government’s payment functions, the St. Louis Fed is helping agencies identify and eliminate improper payments. With the data analytics and business intelligence services provided by the Do Not Pay team in St. Louis, government agencies are able to strengthen internal controls to reduce payment errors, waste, fraud and abuse.
In addition to Do Not Pay, TAS provides customer call center support for a broad portfolio of Treasury programs. TAS interacts with federal agencies on the Treasury’s behalf, providing outreach and onboarding services for a range of the Treasury’s financial-management applications and services. Collaboration between the Reserve banks and the Treasury is essential, not only for ensuring the smooth functioning of government financial systems, but also for establishing future plans to enhance and evolve these systems to meet the changing needs of government.

In 2013 and early 2014, the Treasury conducted a review of all fiscal agent support in the Fed System with a desire to better align similar functions and improve efficiency and cost effectiveness. In April 2014, the Treasury announced that the St. Louis Fed was selected as one of four “core” Reserve banks that will support the Treasury’s cash-management, accounting, collateral and enterprise functions. The St. Louis Fed will be taking on responsibility for five additional fiscal agent functions currently provided by other Reserve banks. Some of the transferring functions (such as the Treasury Collateral Monitoring function and the Bank Management Service) and other current St. Louis Fed functions (such as all cash management functions) will fall under the new TCCM department, which was established in mid-2014.

In 2001, the St. Louis Fed was selected as the Reserve bank responsible for establishing and leading the TRSO. The TRSO manages the Fed System’s overall relationship with the Treasury—coordinating all System initiatives related to the Treasury—and serves as the central point of contact for policy issues, new initiatives and problem resolution. The office monitors most of the fiscal agent support provided by the 12 Reserve banks. The TRSO serves a unique role among the Reserve banks, offering System-wide leadership and coordination of fiscal agent support to the Treasury. The TRSO identifies opportunities to improve and streamline existing Fed System support for the Treasury, along with identifying potential new support activities that would help the Treasury to achieve its strategic objectives.
Hot-button issues, such as the 2013 debt-ceiling situation and the government shutdown, often require the TRSO’s active engagement. The TRSO works with each Reserve bank and Treasury representatives to assess the operational impact of policy decisions and to determine appropriate actions for keeping the government’s payment and support systems fully functional in the event of any type of disruption or crisis.

In addition, in recent years, the TRSO has been tapped to manage two high-profile public education campaigns on behalf of the Treasury, both with the ultimate goals of increasing efficiencies within the government’s financial systems and saving taxpayer dollars. The Go Direct program began in 2004 to encourage recipients of federal benefit payments to switch to electronic direct deposit for those payments, thereby reducing the Treasury’s issuance of costly paper checks. The Treasury department estimates that the Go Direct campaign saved $1.15 billion in taxpayer dollars and will save $1 billion more over the next 10 years. By the time the Go Direct campaign concluded in March 2013, the program surpassed the goal to have 96 percent of all federal benefit payments made electronically.

In 2012, the Treasury discontinued the sale of paper savings bonds and began selling bonds exclusively online. Again, the goal was to make government transactions more efficient and save taxpayer dollars. And again, the TRSO was asked to manage a public education campaign to support the switch. The campaign is called Ready.Save.Grow. The move from paper to electronic bond sales is expected to save American taxpayers approximately $70 million over the first five years of the program. Since being launched, Ready.Save.Grow. has developed into a robust education campaign to help people save through affordable, safe and convenient Treasury savings options. These include the myRA Treasury retirement account, announced by President Barack Obama in his 2014 State of the Union address. A key task for the TRSO will be to raise awareness about and support the implementation of the myRA Treasury retirement account.

As fiscal agent, the St. Louis Fed’s Treasury division is committed to providing exceptional support to the Treasury. Whether developing new systems, providing support to agencies and the public, or leading and coordinating Reserve bank fiscal agent services, our goal is to help the U.S. Treasury meet its strategic objective to transform federal financial management.
Adapting as Payments Evolve

The Federal Reserve System plays an integral role in ensuring an efficient and reliable payment system, allowing consumers, businesses and other organizations to be confident in making transactions. The Federal Reserve Bank of St. Louis, in particular, has played a significant role in helping the System respond as consumer payment preferences have shifted over the years.

It wasn’t that long ago that checks were the dominant form of payment. As recently as 2007, the St. Louis Fed alone was working around the clock to process approximately 3.5 million checks per day. Across the System, the Fed in the early 2000s had 45 check-processing sites. These were split among the 12 Reserve banks and their branches, including the St. Louis Fed and its three branches in Little Rock, Ark., Louisville, Ky., and Memphis, Tenn.

One of the challenges of having so many processing sites was that many different methods, software programs and platforms were used. Toward the end of the 20th century, the System embarked
on a redesign of its check-processing services. The effort, called Check Modernization, was highly successful. It also occurred as checks were rapidly losing favor as the preferred method of noncash payments by consumers.

One study on the Fed payment system shows that the total number of checks processed fell from about 50 billion in 1995 to about 37 billion in 2003. The System began consolidating its 45 check-processing sites in 2003, eventually going with a single processing site—the Federal Reserve Bank of Atlanta—by early 2010. In the Eighth District, check processing for the Little Rock and Louisville branches was consolidated in 2004, the Memphis Branch stopped processing checks in 2008, and the St. Louis Fed processed its last commercial check Feb. 20, 2009.

When the branches lost their check-processing responsibilities, many lost the bulk of their operations work. The only such work that was left was providing cash services for commercial banks. But without the check business to pay for support and overhead costs, it was no longer economi-
cally efficient to provide these cash services. The St. Louis Fed pioneered an alternative that has since been adopted in some Fed offices: cash depots.

With a cash depot, the Fed contracts with a third party, such as an armored carrier, to act as a secure collection point for Federal Reserve currency deposits. The depot also distributes currency that depository institutions order from the Fed. The work of counting deposits and preparing orders is done by a Fed office in another city, and the Fed pays for the transportation between the Reserve bank office and the depot operator.

Establishing cash depots made it possible to continue to provide cash services to financial institutions on a timely basis while cutting the Fed’s costs. In fact, this innovation led to annual savings of $2 million to taxpayers.

Today, cash operations continue to be a significant function within the St. Louis Fed. In 2013, the St. Louis Fed and its Memphis Branch received and sent out about 3 billion Federal Reserve currency notes, shredded more
The St. Louis Fed continues to examine the future of payments in the U.S., recognizing continued shifts in consumer preferences and coming up with innovative ways to ensure stability and efficiency of the payment system.

These changes to the work done by the St. Louis Fed have contributed to the ongoing evolution of its workforce.

At one time, most employees worked in operations; today, more and more are skilled in technology and business analysis, in addition to banking and economics.

As the “bankers’ bank,” the St. Louis Fed handles billions of pieces of currency a year. In the process, it counts and sorts the money, discards currency that is worn out and hands suspected counterfeit notes over to the Secret Service.
In the days when everybody wrote checks, various Federal Reserve banks—including the St. Louis Fed—processed millions of them every day. And that meant there were check records to store—nine shelves high in this St. Louis Fed storeroom in 1967.
Keypunch operators were high tech in 1964.
Structure and Governance

PROVIDING OVERSIGHT AND A WINDOW TO MAIN STREET

By Mary H. Karr
SENIOR VICE PRESIDENT, GENERAL COUNSEL AND CORPORATE SECRETARY

An earlier section of this commemorative book discussed the political compromises and considerations that led to the creation of the Fed and the placement of one of the 12 Reserve banks in St. Louis. The same consideration—balancing the interests of Main Street, Wall Street and Washington, D.C.—remains as relevant today as it was in the early 20th century, when the Fed was created. That these distinctions remain important to national well-being was evidenced during the financial events of the early part of the current century. Views about the ultimate causes of the financial crisis vary widely, but all acknowledge that its impact was felt differently on Main Street, on Wall Street and in Washington.

Even in “normal times,” it is beneficial to the nation to have a decentralized central bank that reflects the needs and interests of the entire country. The Washington part of the Fed—the Board of Governors, an independent agency—oversees the regional Reserve banks, sets supervisory policy for the financial institutions it regulates.
and leads the Federal Open Market Committee (FOMC),
the monetary policy arm of the central bank. The Federal
Reserve Bank of New York reflects the views of Wall Street
and the largest banks, and the other 11 Reserve banks,
located throughout the country, reflect the views of their
districts—or, as we think of it, the Main Streets throughout
the nation.

The regional Feds, including the St. Louis Fed, reach out
to their districts in many ways. The most formal and endur-
ing way is through their boards of directors.

Directors play a key role in representing Main Street. At
each board meeting, they report on their local economies
by collecting information about their own businesses and
industries and reviewing assessments they receive from
local contacts. This information can vary from the state of
the coal-mining industry throughout the world to the state
of business for a local scrap-metal dealer or jeweler. All
of this real-time information about the economy is used
by the bank’s president and the research staff to develop
a more complete view of the state of the economy. This,
in turn, informs the president’s actions and views on the
appropriate stance of monetary policy in the FOMC.

Each bank’s board is responsible for the general oversight
of the bank and its management. Like directors of any cor-
poration, the directors review the bank’s strategies, budget,
audits and financial performance. Directors also concern
themselves with succession planning for key positions in
the bank and with the performance of senior management.

In addition, six of the nine directors (the representatives
of banks are excluded) play a key role whenever there is a
need to appoint the bank’s top two officers—the presi-
dent, who also carries the title of chief executive officer,
and the first vice president, who is also the chief operating
officer. These six directors appoint these officers, subject to
approval from the Board of Governors.

Each bank’s board of directors also reviews and recom-
mends a rate that its bank should charge creditworthy
commercial banks within its own district that are eligible to
borrow short-term funds from the bank. The actual
rate to be charged is determined by the Board of
Governors, but through their recommendations about
this rate, the directors can express their views on monetary
policy and credit conditions.
There is a key function of the banks in which the role of the board members is specifically limited. As previously noted, the Washington part of the central bank regulates all bank holding companies and savings and loan holding companies, certain financial market utilities, designated systemically important nonbank financial companies and all state banks that are members of the Federal Reserve System. The Board of Governors is also responsible for supervising these companies and banks—a role that it has delegated in part to the Reserve banks. Because this duty “belongs” to the Board of Governors, it functionally reports to Washington. As a result, the boards of directors of Reserve banks do not have a role in the supervision of district financial institutions.

Reserve bank directors and employees are subject to a number of policies that relate to ethical conduct. Central banks are more credible and better able to accomplish their primary missions if they are accountable to, but independent of, the political branch of government. To ensure that Reserve banks are independent of poli-

The board of directors (here, circa 1940s) is responsible for oversight of the St. Louis Fed and its management. The directors also serve as a link to Main Street, gathering information on their local economies and sharing it with the Bank’s president for use in discussions on monetary policy.
Directors Represent More than Bankers

Each of the Federal Reserve banks has a nine-member board, as required under the Federal Reserve Act. The act sets out details for the selection or election of directors to ensure representation of the public in each district.

Six of the nine directors must not be part of the banking sector. Three directors, called Class C directors, are chosen by the Board of Governors to represent the public in the district. These three directors may not be affiliated with (for example, serve as a director or employee) or own stock of a financial institution. The chair and deputy chair of each bank’s board are chosen from this group of directors by the Board of Governors.

Six directors are elected by the national and state member banks in the district. Of the six, three (Class A directors) represent the district’s banks and three (Class B directors) represent the public in the district. These latter three directors may not be employees or directors of financial institutions. To further ensure wide representation (and complicate this discussion) within the six elected directors, each district’s commercial banks are divided into three groups by size, and the banks in each group elect one “banker” director and one “public” director.

The St. Louis Fed has three branches: Little Rock, Ark., Louisville, Ky., and Memphis, Tenn. Each has a seven-member board. Three members of each board are chosen by the Board of Governors and must generally meet the same qualifications as the Class B directors—that is, they represent the public and may not be affiliated with a financial institution. Four members of each branch board are chosen by the St. Louis Fed’s board of directors and are business and community leaders or bankers.

Politics, both directors and officers of the Reserve banks are restricted from many political activities. They may vote, donate money and express a personal opinion, but they may not run for political office, serve in the campaign of anyone who is, or be active in a political party.

Reserve bank directors and employees also recognize the importance of integrity and public trust. All are bound by rules of conduct designed to prevent conflicts of interest. For example, a banker-director’s supervisory matters or applications to engage in a new business that would normally be delegated to the Reserve bank for decision are instead referred to staff at the Board of Governors.

Employees are subject to a detailed code of conduct and are trained to follow it carefully.
YES, THE FED IS AUDITED, AND IT HAS BEEN SINCE ITS FOUNDING

By Michael D. Renfro
SENIOR VICE PRESIDENT
AND GENERAL AUDITOR

Over the past few years, Congress and the general public have been clamoring for the Federal Reserve to be audited. This public outcry is not new: Since the Fed’s inception, bills have been introduced in Congress calling for expanded auditing of the Federal Reserve. This demand is probably rooted in the idea that all public entities should be transparent and accountable. The Fed can appear to be neither in the eyes of some people because of the complexity of its monetary policy decisions and its independence from the executive branch. But, in fact, the St. Louis Fed and the other 11 Reserve banks have been subject to auditing ever since the Fed was founded. Here, we’ll explore an abbreviated history of this auditing, with a focus on current activities.

The Federal Reserve Act of 1913, which established the Fed, stipulated that the Federal Reserve Board (now called the Board of Governors) should “order an annual audit of each Federal Reserve Bank.” The act was not specific on how this examination should be conducted, so staff of the Board took on the role of “bank examiner”
Keeping good records is critical to accountability and transparency. The St. Louis Fed has always done so—even for kitchen and cafeteria supplies back in the 1920s.

by conducting audits of each Reserve bank every year. This approach had some distinct advantages: The examiners were familiar with Fed operations and, therefore, were very knowledgeable about Fed activities. However, this arrangement created an appearance of a lack of independence because the auditors, while not employed directly by the bank being audited, were employees of the Federal Reserve Board.

Congress, in one of its challenges to the Board’s auditing approach, proposed in 1954 that what is now known as the Government Accountability Office (GAO) perform an audit of the Board, the Federal Open Market Committee and the Federal Reserve banks. Then-Fed Chairman William McChesney Martin Jr. explained that the Board had been audited for years by a Reserve bank audit department on a rotating basis and recently had contracted with an account-
ing firm to conduct an independent audit to remove any doubt about impartiality. In addition, another nationally recognized audit firm was hired to accompany the Board examiners on one of their 12 bank audits each year. These arguments were persuasive; the GAO was not granted broad, sweeping audit powers over all aspects of the Fed.

However, challenges regarding the Fed’s approach to auditing were ongoing over the next 40 years. Thus, in 1996, the Fed hired an external auditor to conduct an independent audit of two Reserve banks. This was a pilot program to determine whether the concept was beneficial and could be applied more broadly to all 12 Reserve banks. The results were primarily favorable; therefore, the Fed opted to extend the annual external audits to all Reserve banks.

Since then, the use of audited financial statements has expanded to include a combined set of financial statements for all Reserve banks and a full set of footnotes, providing information about the structure of the Fed and definitions and explanations for all financial statement line items.

Additionally, while not required for nonpublic entities, the external audit reviews the internal control environment of each Reserve bank in accordance with the framework set up by the Committee of Sponsoring Organizations of the Treadway Commission (a non-Fed body that gives guidance to organizations on internal controls and fraud deterrence). The Fed voluntarily agreed to this review in an effort to be fully transparent and in alignment with the banking institutions that it supervises.

The Board and all Reserve banks publish their financial statements and external audit opinions online or in hardcopy annual reports. (Copies of the St. Louis Fed’s financial statements are available at www.stlouisfed.org/ar.) In addition, key aspects of these financial statements are published
in an annual report for the entire Federal Reserve System. (This report is published, submitted to Congress annually and placed on the Board’s public website.) To further transparency efforts, in August 2012, the Fed began publishing unaudited quarterly financial reports for the Reserve banks, a practice required by the Securities and Exchange Commission only for companies whose stocks are publicly traded on an exchange.

In addition to the annual audits conducted by an external public accounting firm, the Fed is subject to targeted audits by the GAO, the Fed’s own Office of Inspector General, the Treasury’s Office of Compliance and internal auditors who are housed in all Reserve banks. The internal auditors also work collectively to coordinate audit coverage of select System operations. In 2013, approximately 300 auditors devoted 276,000 hours to conduct audit work throughout the System.

Certainly, the Fed is audited. It is audited often by a variety of groups, both internal and external, and many of the results are published for the consumption of the general public. This growing trend toward more transparency has proved to be extremely helpful in expanding understanding of the Fed’s purpose, role and, more recently, the impact on the Fed’s balance sheet resulting from the recent financial crisis and the actions taken by the Fed to address it.

Although not listed on the Fed’s balance sheet today, accountability and transparency are assets to be valued, protected and fostered if the Fed is to continue to live up to the vision and expectations of the authors of the Federal Reserve Act.
Earning the Public’s Trust

OPEN AND DIRECT COMMUNICATION IS KEY

By Karen L. Branding
SENIOR VICE PRESIDENT
PUBLIC AFFAIRS

Throughout the Federal Reserve’s history, public opinion and dialogue about the institution have ebbed and flowed. When inflation or unemployment is high, the Fed is often in the public eye. During 1991-2001, the period of the longest economic expansion in modern U.S. history, the Fed faced generally little criticism. But the financial crisis of 2007-09 put the Fed in the public spotlight in a way it had not experienced since the deep recession and high inflation of the early 1980s. Today’s 24/7 news cycle and rapid expansion of social media have made the Fed the subject of daily discussion among not only its traditional audiences of bankers and financial media, but also mainstream commentators in online and broadcast media.

Congress did not design the Fed to roll over when criticized. The Fed’s independent, decentralized structure ensures that unpopular but necessary policy actions can be made to achieve results for the economy overall. But with independence comes the responsibility for being accountable. Today and throughout history, confidence in the...
Fed as an institution is contingent on the public’s trust—trust in the Fed’s competence, dependability and integrity. Open and direct communication from the Fed plays a vital role in earning that trust.

What had been a gradual movement toward more transparency on monetary policy since the 1980s was accelerated by former Fed Chairman Ben Bernanke. Under his leadership, the Federal Open Market Committee (FOMC) effectively modernized Fed communications on monetary policy, establishing several practices that provide the public a clearer view of the Fed’s actions and the tools it uses. Press conferences after four FOMC meetings now help clarify what happened at the meetings and translate the long-standing technical statements handed out after these meetings. A long-run goal for inflation is now explicitly stated. A summary is regularly available of the projections that each FOMC participant brings to the FOMC table regarding gross domestic product, inflation, unemployment and the federal funds rate.

But the priority the Fed puts on transparency goes beyond matters of the FOMC. Federal Reserve Bank of St. Louis President James Bullard, like his predecessors, regularly addresses business and academic audiences. In addition, he gives interviews frequently to financial and business reporters here and abroad, leading to a better understanding by the public of our central bank and its monetary policy. He also meets regularly with the congressional delegation from the Eighth Federal Reserve District, serving as a nonpolitical resource for economic and monetary policy analysis. Economists and leaders from our Bank also speak to industry and banking groups throughout the Eighth District, providing updates on the economy and gaining insights about the economic conditions on Main Street, which, in turn, contribute to the Bank’s thinking on monetary policy. Events like our Dialogue with the Fed series connect the general public with Fed experts, who translate today’s financial headlines and help people better understand how the economy works.
Digital media are central to a more transparent Fed. The St. Louis Fed launched its first website in 1995; today, our websites receive more than 6 million visitors every year. The Bank entered the social media space with Twitter in 2010. Many of our Twitter followers today retweet our posts, helping the Bank reach millions of people around the globe each year with news and information about the economy, monetary policy, banking, economic data and other services. In 2013, the St. Louis Fed was

REGISTERED ATTENDEES FOR DIALOGUE WITH THE FED IN 2013

327

TWITTER FOLLOWERS AS OF THE END OF 2013

33,310

FACEBOOK “LIKES” AS OF THE END OF 2013

3,314

The Public Affairs division has long produced a variety of publications for both external audiences and employees.
named one of Business Insider’s “106 Finance People You Have to Follow on Twitter.” And in this, our centennial year, we launched the Bank’s first public blog (www.stlouisfed.org/on-the-economy) and opened the Inside the Economy Museum to further transparency and financial literacy.

Open, timely, transparent communication is also a priority with our employees, keeping them in the know about Bank news and information, helping build stronger connections with colleagues and to the Fed’s purpose, and equipping them to be ambassadors of the Fed with their friends and neighbors.

Communication technology will keep changing radically. Paste-ups and typewriters of yesterday’s communications shops are a distant memory. Social media have revolutionized how news and other information are delivered and shared, positioning organizations like the Fed to reach vast audiences—territory enjoyed once only by businesses through paid advertising. Mobile devices have now surpassed personal computers in how Americans access the Internet. By 2020, an estimated 50 billion devices will be connected to the Internet, enabling ever-greater hyperconnectivity to other people, information and smart systems. By then—just six years from now—the aformentioned...
St. Louis Fed stats will seem quaint and perhaps even ineffectual. It is unimaginable how the technologies of 2050 and beyond will evolve the communication function within organizations.

It is said that the past informs the future. In the 1970s, the St. Louis Fed’s vice president over public information, Ruth Bryant—the first female vice president in the Federal Reserve System—and her staff were charged by then-Bank President Lawrence Roos with surveying hundreds of people in the St. Louis phone book to determine whether the public understood what the Federal Reserve did; she and her staff found that some 95 percent didn’t. Armed with those results, Roos

In the 1970s, the St. Louis Fed’s Ruth Bryant (left) was instrumental in a campaign to help educate the public about the Federal Reserve and its actions. Here, Bryant, the first female vice president in the Federal Reserve System, attended a reception at the White House in 1970 as part of the annual convention of the National Association of Bank Women, Inc. to which she had just been elected president. With her are first lady Pat Nixon (center) and outgoing president of the association, Bobbie Taylor.
helped convince his fellow 11 Reserve bank presidents that it was a priority for the Fed to undertake a more coordinated and comprehensive approach to disseminating public information and reaching out at each Reserve bank, dedicated to helping the public to better understand the central bank and its actions. The task was assigned to the newly formed Federal Reserve Subcommittee on Public Information, which still exists today as a systematic forum where public information officers across the Federal Reserve System coordinate on communications, transparency and accountability.

As communicators, we must be well-versed in managing for both change and continuity. At the Fed, the constant in the midst of ever-changing media is the fundamental importance of open, straightforward, regular communication—not only to keep the public informed but also to earn its trust.
It wasn’t long after the Federal Reserve System was created that Reserve banks saw the need for additional offices to serve their districts. St. Louis was certainly no exception. The Federal Reserve Bank of St. Louis opened Nov. 16, 1914, and in short order, branches were opened in Louisville, Ky., Memphis, Tenn., and Little Rock, Ark., in 1917, 1918 and 1919, respectively.

The roles of the branches have changed over the years. For example, the Memphis Branch was started as a seasonal agency (a limited-service office open only part of the year) to provide discount window loans and other services to area member banks during the cotton season. (See the essay “Reaching Our Constitu-
Today, the Memphis Branch staff is responsible for cash services, bank supervision, community development and economic education.

Branches remain important in helping the St. Louis Fed serve its region and fulfill its mission. One of the most significant contributions of our branches is gathering anecdotal economic information about their regions. These data help the St. Louis Fed president and our other economists to understand local economic conditions.

Gathering in-depth information for a district covering more than 180,000 square miles would be a challenging task to accomplish from a single location, especially given the diverse nature of the businesses and local economies in the Eighth District. Branches allow not only for a more efficient collection of information, but also for deeper relationships through staff involvement in their local economies, producing a breadth and depth of information not possible from hundreds of miles away.

Branches gather some of this information through their local boards of directors and the District’s Industry Councils. Each board is a diverse group of local business leaders who meet eight times per year. They provide anecdotal information on a variety of industries, such as banking, retail, health care and telecommunications. Again, this information is passed on to the Bank’s president and other key staff, who consider it in monetary policy deliberations.
Industry Councils meet semiannually to keep an open line of communication between the Fed and industry representatives throughout the District. The District has four councils, focusing on agribusiness, health care, real estate and transportation. Each branch, as well as the main office in St. Louis, supports one of the councils: Louisville supports the health care council; Memphis, transportation; Little Rock, agribusiness; and St. Louis, real estate. The council members’ observations complement the data and information developed through the Federal Reserve’s Beige Book, the St. Louis Fed’s Burgundy Books and meetings of the Bank’s boards of directors.

This flow of information is truly an exchange, not just a one-way channel. It helps the public, business leaders and community bankers—the groups representing Main Street—to connect to the branches and, thus, the Fed. In turn, the exchange allows the branches to disseminate economic data and related information from higher levels of the Fed to key audiences, allowing these audiences to make more informed decisions about their organizations.

The exchange of information takes place on a one-to-one basis, too, as in the Financial Institution Touch (FIT) program carried out by the branches’ executives. The FIT program was established in 2009 as a means of discussing issues and conditions with local financial institutions that may not have established contacts with the Fed, may not be member banks or are located too far away for their executives to attend Fed events. The branch executives visit each of the institutions in their zones at least once every two years.

The Community Development function at the branches is another example where the St. Louis Fed’s deep knowledge and strong relationships help local community-based organizations and financial institutions. The Fed’s community development specialists are out in the communities they serve, identifying and addressing an expansive range of challenges confronting low- and moderate-income communities. The

Memphis, Tenn.

© Shutterstock/ Natalia Bratslavsky
relationships they develop also allow for gathering data about local community and economic development conditions, and they allow the specialists to share their expertise and act as resources for information, technical assistance and regulatory guidance to financial institutions, community-based organizations, government entities and others.

Key areas of focus include affordable housing, the Community Reinvestment Act, community and economic development, small-business lending, issues related to credit access in underserved markets, neighborhood stabilization and household financial stability. In addition, local specialists facilitate productive partnerships, bringing together various organizations to stimulate ideas and share insights, and serve as catalysts for local community and economic development initiatives.

The branches also serve their local communities through educational outreach. The education programs administered by the branches are customized for local users. Economic Education staff members at each branch use the St. Louis Fed’s award-winning education programs to help local teachers better prepare for classroom instruction on economics and personal finance.

And finally, the Federal Reserve Bank of St. Louis’ Banking Supervision and Regulation division, under the delegated authority of the Federal Reserve Board, oversees the safety and soundness of Eighth District bank holding companies, thrifts and state member banks. As part of this mission, the Bank conducts on-site examinations with a staff of highly trained examiners who are based out of the St. Louis headquarters, as well as out of satellite offices in the Little Rock, Louisville and Memphis branches.

All of these “branching out” efforts are aimed at providing Fed services at the grass-roots level throughout the District. These local connections also aim to ensure that the many voices of Main Streets across the District are heard by policymakers in St. Louis and Washington.
For many people, their connection to the St. Louis Fed has less to do with monetary policy, banking supervision and the payment system and more to do with economic education, community development and the sharing of data and economic research.

What follows are snapshots of programs and services that, for many, are the face of the St. Louis Fed.
Recognizing people’s increasing interest in developments in today’s economy, the Federal Reserve Bank of St. Louis started a discussion series for the general public in 2011. Titled Dialogue with the Fed: Beyond Today’s Financial Headlines, this series focuses on one important topic at a time. Our economists (or other experts at the St. Louis Fed) address the issue of the day, after which the audience has a chance to pose questions and to otherwise comment. Hundreds of people have attended these free sessions, which have been held at the St. Louis Fed’s main office, as well as in its branch cities.

The topics have run the gamut, from the financial crisis of the recent past to virtual currencies of the future. In between, there have been programs on the federal deficit, unemployment, European sovereign debt, fiscal sustainability, family balance sheets, the U.S. payment system and even the St. Louis Fed’s centennial. Occasionally, the dialogues are held in Spanish—Diálogo con la Fed.

The St. Louis Fed has long held similar programs for specific audiences—bankers, other business executives, teachers and local government officials, for example—but created the Dialogue With the Fed sessions so that the general public also had access to our experts in an open forum. Many of those who’ve attended these sessions say they leave with a better understanding of what the Federal Reserve does.

The dialogues are another opportunity for the public to learn about the economy and the Fed. The programs complement the Bank’s publications, websites, self-teaching courses and social media (Twitter, Facebook, etc.). All of the past Dialogue with the Fed events are available on the Bank’s website. Visit www.stlouisfed.org/dialogue-with-the-fed to view these events or learn about upcoming sessions.
Fostering a Stronger Economy through the Classroom

Improved education about banking, economics, money and personal finance should foster a stronger economy. The Federal Reserve Bank of St. Louis’ economic education effort, Econ Lowdown, seeks to make a difference by providing K-16 educators and their students with a variety of award-winning materials for use in the classroom. These include lesson plans, online courses, videos, podcasts, interactive whiteboard applications, mobile applications and slides. Econ Lowdown also provides professional development for educators who teach economics and personal finance. These opportunities include conferences, in-service programs, a monthly newsletter, online courses, webinars and workshops.

Econ Lowdown is also a self-teaching tool for the general public, providing mini courses and other information in a variety of formats on such topics as establishing credit, paying for college and saving for retirement.

This material has been developed by nationally recognized experts and former educators. For example, the head of Econ Lowdown, Assistant Vice President Mary Suiter, worked with the Council for Economic Education to write the National Standards for Financial Literacy, published in 2013. The Bank’s Economic Education team works with several other national, state and local organizations that promote and improve economic education, in addition to the Council for Economic Education. These groups include the National Association of Economic Educators and the Jump$tart Coalition for Personal Financial Literacy.

The Econ Lowdown staff also consults with the local education communities in St. Louis and the three Eighth District branch cities: Little Rock, Ark., Louisville, Ky., and

The Economic Education staff provides professional development for educators who teach economics and personal finance.
Memphis, Tenn. Econ Lowdown has educator advisory boards in all four cities. These boards of local teachers advise Bank staff on curriculum and professional development.

The St. Louis Fed’s Economic Education department, in cooperation with the Bank’s Office of Minority and Women Inclusion, also appoints a student board of directors each year. This board is made up of high school seniors; they visit the Bank several times during the school year to learn about economics and personal finance and to partake in leadership development and career planning. The students compete for summer internships at the Bank, too.

All Federal Reserve banks produce educational material on economics and personal finance. The content produced by the St. Louis team makes up more than one-third of all content on the Federal Reserve System’s economic education website, www.federalreserveeducation.org.

To see any of the St. Louis Fed’s materials, go to www.stlouisfed.org/education_resources.

The Three Most Popular St. Louis Fed Econ Lowdown Courses, Measured by Enrollment

*Supply and Demand:* This course includes three interactive lessons that introduce supply, demand and market equilibrium, using a fictitious chocolate shop to help explain the concepts.

*GDP and Pizza:* This course is designed to help students in civics, economics and social studies classes grasp the various aspects of gross domestic product. It uses an illustration of a pizza to demonstrate the various points.

*It’s Your Paycheck:* Course participants learn about budgeting, about the benefits of saving, about understanding credit reports and about the link between education and income.
Bringing Data from around the World to Your Desk, Phone or Tablet

Federal Reserve Economic Data—or FRED, as it’s known to millions of users around the world—is the St. Louis Fed’s signature online database. FRED is a free, public resource that includes more than 236,000 economic time series from more than 60 regional, national and international sources.

Each time series is displayed in a chart on which data are plotted at regular intervals over a certain span of time—such as gross domestic product for every quarter from 1947 to the present. The data cover topics with broad appeal—such as the consumer price index in the U.S.—as well as niche topics—such as total electricity production for China (in gigawatt hours, not seasonally adjusted).

A creation of the St. Louis Fed’s Research division, FRED goes beyond simply providing data: It combines data with a mix of tools that helps the user understand, interact with, display and disseminate the numbers. Users can, for example, change the timeline, switch the data from daily to monthly or monthly to annual, and even transform data from levels (such as dollars) to percent change.

FRED is popular with economists, market analysts, government researchers, teachers, students and journalists, but anyone can access the service. Many changes have been made in recent years to make FRED easier, faster and more convenient to use than ever:

- FRED’s free iPhone, iPad and Android apps are convenient for those who need economic data on the go.
- FRED’s toolkit allows users to create custom graphs, share economic data and graphs via email and social media, and receive alerts when their favorite series are updated. Data can even be downloaded automatically via the Excel add-in.
- Users can download FRED graphs as publication-quality files, share FRED charts on social media or easily embed graphs into a web page. A FRED widget can also be integrated into web pages so that visitors see a real-time snapshot of a select group of data series.
• Users can create a dashboard allowing them to assemble a collection of widgets that can be shared, such as time-series FRED graphs, data tables, data lists and individual observations.

• Those who use data-centric programs can automatically retrieve series using FRED’s application programming interface (API). API toolkits exist for programs written in Python, PHP, Java, Ruby and .net.

• FRED easily integrates with researchers’ software packages so that users can smoothly perform sophisticated statistical analysis on FRED data.

More than 2 million people per year from almost every country in the world take advantage of what FRED has to offer. If you want to join them, start here: http://research.stlouisfed.org/fred2.

Other FRED Tools Available from the St. Louis Fed

GeoFRED allows users to map FRED’s data at county, state, metropolitan statistical area and international levels.

ALFRED (Archival Federal Reserve Economic Data) is a database that concentrates on vintage data. In ALFRED, users can retrieve versions of data that were available on specific dates in history—whether from a day ago or decades ago. Although economic data are commonly updated (advance estimate, second estimate and third estimate of each quarter’s gross domestic product, for example), researchers often need to see what was originally reported. Users often access ALFRED to test economic forecasting models and analyze the decisions made by policymakers with the same data that they used.

Other Databases Available from the St. Louis Fed

FRASER (Federal Reserve Archival System for Economic Research) is a digital library of economic, financial and banking materials covering the economic history of the U.S., from the American Revolution to the present. The more than 450,000 items include speeches, data and statistical publications, government documents, archival collections, photos and maps. The St. Louis Fed’s centennial website is hosted on FRASER at http://fraser.stlouisfed.org/centennial.

CASSIDI (Competitive Analysis and Structure Source Instrument for Depository Institutions) is a one-stop shop for information on banking competition. CASSIDI helps users find banking markets and the branch structure for depository institutions. CASSIDI can also perform “what if” analysis on banking market structures. Mapping options make it easy to view banking market boundaries and view branch locations in the banking market.
The History of FRED

No history of the Federal Reserve Bank of St. Louis would be complete without an entry—or chapter—on its leadership in providing economic data for the masses. From simple beginnings about 20 years ago, Federal Reserve Economic Data, or FRED, has come to be known around the world by people who care about the numbers driving today’s economies.

FRED is a descendent of the data publications created by Homer Jones, who was the research director of the St. Louis Fed from 1958 to 1971. Jones was a proponent of making economic data widely available. His goal was to provide information not just to policymakers but to members of the public—information that would allow them to judge for themselves the state of the economy and the outcome of policy.

The technology of the time was paper, so the data were printed and sent out via the U.S. postal system. Employees from the 1970s and 1980s have said there was intense pressure to get the main data publication—the weekly *U.S. Financial Data* (USFD), still popular today—out on Thursday afternoons. Reporters were constantly calling, asking for the numbers so that they could publish them in the next day’s newspaper. The St. Louis Fed would also get calls from economists, students and college professors, among others.¹

These paper data publications translated well to online posting. FRED got its start in 1991 as a free electronic bulletin board (a precursor to the Internet) and offered “free up-to-the-minute economic data via modems connected to personal computers,”² providing data from the USFD. The response was described as “staggering” and “overwhelming.”³ Initially, FRED had 620 users who were given access to 30 data series that could be downloaded at a modem speed of up to 14.4 kilobits per second.
Because users were limited to one hour a day, they were advised to read the instructions in advance to make the most of their time. Eventually, data series from other St. Louis Fed publications were added, with FRED housing more than 300 series in 1993.

The next innovation for FRED was moving to the Internet in 1995. FRED contained 865 data series by then, and the site was accessed an average of 6,000 times per week. At the time, there were only an estimated 12 million people on the Internet. So that at least some employees could experience FRED, the St. Louis Fed granted access to a computer located in a special Office Computing Services area. The computer provided a window to the Internet, but only for employees who had a business need.

Over the next 20 years, FRED evolved quickly. By 2004, FRED had more than 2,900 economic time series and offered data downloads in Excel and text formats. Graphs of the data were also possible.

By November 2010, FRED had expanded to more than 24,000 data series, which included more than 21,000 regional data series. Today, FRED has more than 236,000 regional, national and international economic data series, with the data coming from more than 60 reporting agencies around the world. It operates on a high-speed Ethernet service (with download speeds in the millions of bits per second), provides sophisticated graphing software, is available via apps on smartphones and tablets, can be mapped, is accessible via Excel and is used in classrooms all over. What began as a simple, printed data publication has grown into a sophisticated and successful vehicle for sharing important economic data with anyone around the world.

1. Interview with employee Pam Hauck, Federal Reserve Bank of St. Louis, June 21, 2012.
3. Ibid.
In an effort to disseminate economics research worldwide, the Federal Reserve Bank of St. Louis hosts IDEAS (http://ideas.repec.org/), a website where more than 1.6 million working papers, articles, books and even software components from economists around the world can be browsed and searched by anyone at no charge. Many of these can be downloaded, too.

IDEAS uses Research Papers in Economics (RePEc) data, with RePEc being one of the world’s largest open bibliographies of academic material. RePEc (http://repec.org/) is a collaborative effort of hundreds of volunteers in more than 80 countries whose goal is to enhance the dissemination of research in economics and related sciences.

RePEc was started to help those interested in economics keep up to date on the latest research, rather than force them to wait for such work to appear in journals, which usually have relatively long vetting and publishing processes. In many cases, the frontier of economic research advances through the publication of working papers, which is why RePEc puts a special focus on these publications. More than 3,800 working paper series submit papers to RePEc. This is not to say that articles in journals are excluded; indeed, submissions come from 2,000 journals. In addition, material comes from more than 1,700 archives (including leading publishers, such as Elsevier and Springer) in more than 80 countries.

IDEAS—one of many services that display or enhance RePEc data for public consumption—makes it easy for anyone to see the papers, articles and work from other
economists that are part of the giant RePEc database. Other services specialize in certain parts of the data. For example, Economics Departments, Institutes and Research Centers (EDIRC) lists nearly 13,000 such institutions around the world.

EconAcademics.org is a blog aggregator for discussion about economics research. RePEc Biblio is a hand-selected collection of relevant articles and papers on a wide variety of economics topics; the information is organized as a tree, and the topics narrow as you follow its branches. These particular services (and more) are affiliated with the St. Louis Fed’s Research division.

Researchers in economics or a related field are invited to register and create their own online profiles via the RePEc Author Service, also hosted by the St. Louis Fed’s Research division. Nearly 40,000 have already done so. After registering, they receive a monthly mailing, detailing the popularity of their works, their ranking and newly found citations. RePEc rankings are computed according to a variety of criteria, including such things as articles published, citation counts and number of downloads.

Lest anyone think that RePEc, IDEAS and the like are all work and no play, there’s the IDEAS Fantasy League. Players log into the fantasy league using their RePEc Author Service credentials to run a virtual economics department, the goal of which is to improve its ranking relative to those of other departments in the league. The league is yet another way to learn about economists and their work.

IDEAS and other RePEc services can be reached via the IDEAS or RePEc websites.
The Center for Household Financial Stability is a research initiative launched by the Federal Reserve Bank of St. Louis in May 2013. The center is focused on the rebuilding of the household balance sheets of struggling American families. Its research focuses on three main topics:

1. What is the state of the American balance sheet? What can we say quantitatively about the overall health of the household balance sheet?

2. Why does it matter? What are the economic and social outcomes—at both the household and macro levels—associated with varying levels of savings, assets and net worth?

3. What can be done to improve household balance sheets? What are the implications for future research, public policy, community practice, financial institutions and households?

A basic premise of the center is that families improve their financial stability through broad-based economic growth, higher net household incomes and, especially, stronger balance sheets. Financially stable families face less economic risk and more economic mobility within and across generations. As financially healthy families spend, save and invest more, the national economy grows, too.

The center’s work includes conducting and publishing research on key balance-sheet issues, developing a household balance-sheet index and organizing research and policy conferences and public forums to better understand the balance-sheet issues affecting struggling families and communities.
Key Findings in 2013

- Families that were younger, that had less than a college education and/or that were members of a historically disadvantaged minority group (African-Americans or Hispanics of any race) suffered larger wealth losses in the Great Recession of 2007-09 and have been slower to recover their wealth since the recession than families that were older, had a college education or were white or Asian.

- Although the status of American household balance sheets had improved somewhat, the average American family still had not fully recovered the wealth lost during the recession by the end of 2013. The slow recovery of wealth was due primarily to housing, which only began to rise in value at the beginning of 2012.

- Today’s seniors—who were born before the end of World War II—fared better than younger people during the recent recession. Seniors were more resilient going into the recession, as they had more liquid assets, more stock-market wealth and much less debt than younger people did.

- Between 2005 and 2013, student loan debt per capita in the U.S. grew by 176 percent to $3,407. On average, the increases in student debt since 2005 were larger in Eighth District states than in the nation.

Also Available from the Center for Household Financial Stability

- In the Balance: A research brief offering new perspectives on timely balance-sheet issues

- News from the Center for Household Financial Stability: A periodic newsletter about the center’s publications, events and news

To sign up for the center’s publications and for news about research and events, see www.stlouisfed.org/hfs.
Promoting community and economic development in low- and moderate-income (LMI) areas, as well as promoting fair and equal access to credit for LMI families, is the mission of the Federal Reserve’s Community Development offices.

The Federal Reserve Bank of St. Louis’ Community Development staff provides financial institutions, nonprofit organizations and others with information on the Community Reinvestment Act (CRA), on community and economic development, on household balance sheets and on issues related to credit access. The staff also facilitates partnerships between lenders and their communities in the Eighth District to advance issues pertaining to community development finance, neighborhood stabilization and household financial stability.

In its outreach efforts, the staff provides information about the availability of public and private community development resources; it also promotes an understanding of the rights and responsibilities of individuals, communities and institutions regarding federal laws on such topics as community reinvestment and mortgage disclosure. The key law is the CRA, passed by Congress in 1977. The law requires federal financial regulatory agencies, such as the Fed, to encourage regulated financial institutions to help meet the credit needs of their local communities, including LMI neighborhoods. In 1981, each of the 12 Federal Reserve banks established a Community Development office to fulfill that mandate.

From its headquarters in St. Louis and branch offices in Little Rock, Ark., Louisville, Ky., and Memphis, Tenn., the Eighth District Community Development department publishes research, analysis and other information in various publications, including: Bridges, the Community Development Outlook Survey, the Housing Market Conditions Report, News from the Center
for Household Financial Stability, *In the Balance* and periodic research reports.

*Bridges* is a quarterly review of community and economic development issues, projects and regulatory changes. The publication is aimed at practitioners from community-based organizations, financial institutions’ CRA officers, academics and government officials.

The annual *Community Development Outlook Survey* monitors the economic factors affecting LMI people and communities in the Eighth District. The *Housing Market Conditions Report* is a quarterly overview of housing market conditions in the U.S. as a whole as well as in each of the seven states and the four major metropolitan areas of the Eighth District.

*News from the Center for Household Financial Stability* is a periodic newsletter noting key research, publications and events at the center. The center was established in 2013 within the St. Louis Fed’s Community Development department. The center focuses on the household balance sheets of struggling American families. (See the essay “Center for Household Financial Stability” on page 153.)

*In the Balance* consists of research briefs related to new perspectives on timely household balance-sheet issues.

The staff convenes those working in the field of community development at several in-person events each year. One of the highlights is the Exploring Innovation program, which uses events and webinars to raise awareness of innovations in the field and to search for new ways to improve life in LMI areas.

Leaders from organizations throughout the District serve on the Bank’s Community Development Advisory Council. The executives are experts in community and economic development and represent nonprofit organizations, financial institutions, universities, governments and foundations. The council was created to keep the St. Louis Fed’s president and Community Development staff informed about community development issues and to suggest ways the Bank might support local development efforts.
The Federal Reserve Bank of St. Louis is committed to building an inclusive workplace, where our differences—in gender, race, age and ethnicity, as well as in cultural traditions, religion, life experiences, education, sexual orientation and socioeconomic backgrounds—are recognized as our strength. We make better decisions and recommendations when these reflect a variety of perspectives. Diversity allows each of us to bring our perspectives to the table when generating ideas and solving problems, and encourages an environment in which innovation and excellence thrive.

The Bank assumed additional responsibilities mandated by Section 342 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act). As required by the Dodd-Frank Act, the Bank established the Office of Minority and Women Inclusion (OMWI) and continues its efforts to ensure the inclusion of minorities, women, and minority- and women-owned businesses in activities of the Bank, with emphasis on workforce and procurement diversity.

The OMWI remains committed to developing strategies that will enhance diversity and inclusion within all the Bank’s business activities. As a complement to the existing diversity and inclusion efforts of the Bank, the OMWI will continue to coordinate strategic development of policies and procedures around workplace diversity, supplier diversity and financial literacy.

**Employment**

The Bank emphasizes building diversity at all levels of the organization, beginning at the top. Recognizing that the Bank’s board of directors should represent the community it
serves, the Bank makes every attempt to have diverse members. Of the nine members of the St. Louis board of directors, 33 percent are female and an additional 33 percent are minority (one Hispanic-American male, one African-American male and one Asian-American male). On Dec. 31, 2013, of the Bank’s 1,032 employees, 44 percent were women and 26 percent belonged to a minority group.

Strengthening the diversity of the leadership pipeline continues to be a priority for the Bank. One initiative aimed at bringing in entry-level talent as potential future leaders is our intern program. Through the Bank’s ongoing partnerships with community-based organizations and our active participation in Historically Black College and University (HBCU) recruitment fairs, the 2013 College Internship Program included 27 interns: 16 were minorities and 15 were women, including 10 from HBCUs and two from INROADS, an organization devoted to developing and placing talented underserved youth in business and industry and preparing them for future corporate and community leadership. During 2013, four interns were hired as full-time employees. Of them, two are women, three are minorities and two graduated from HBCUs.

In addition, the Bank’s focus on employee development remains strong, as building organizational capacity and effectiveness are critical factors in accomplishing our vision. The Bank’s mentoring program provides developmental opportunities by matching employees with diverse backgrounds, skills and experiences. Mentors, including executives up to senior vice presidents, are paired with other Bank employees for a year or more. A main goal of the program is to provide developmental guidance to a diverse pool of Bank employees.

**Procurement**

The Bank has made considerable progress in enhancing the ability of minority business enterprises (MBEs) and women business enterprises (WBEs) to provide the Bank with goods and services. For the second year in a row, the Bank’s minority- and women-owned business spending increased over the prior year, rising from 12.0 percent to 20.1 percent.

The Bank’s successes include:

- Expanding sourcing opportunities to MBEs and WBEs through community organizations and partnerships, such as the Women’s Business Development Center
- Increasing the Bank’s presence and outreach efforts through participation in local and national conferences
- Remaining active with local supplier diversity councils, such as the St. Louis Minority Business Council and the Mid-South Minority Business Council
Hosting a Value of Certification event for women- and minority-owned businesses

Financial Literacy

The Bank continues its long-standing reputation as a leader in developing financial literacy programs. According to the most recent data available from the National Center for Education Statistics, approximately 20 percent, or 209, of the high schools within the Eighth District are inner-city, majority-minority and girls high schools (OMWI-defined). The total combined enrollment includes 145,518 students, 70 percent of whom are African-American, 5 percent Hispanic and 1 percent Asian. By providing free, high-quality professional development to the educators in these schools, participating in local, regional and national conferences, and offering highly customizable options for student engagement, the Bank continues to have a positive impact on OMWI-defined high schools within the Eighth District.

The St. Louis Fed continues to increase the number of publications, podcasts and brochures that are translated into Spanish. Lesson plans such as *In Plain English* and *It’s Your Paycheck* help increase financial literacy education with Spanish-speaking populations in the District and beyond. 

Minority- and women-owned businesses learn how to become certified as Fed suppliers in 2013.
What’s Your Role in the Economy? Find Out in the St. Louis Fed’s New Museum

Increased openness, transparency and financial literacy are chief goals of the Federal Reserve, particularly since the financial crisis of 2007-09. As the Federal Reserve Bank of St. Louis closes out its centennial year, it is opening the new Inside the Economy Museum, located inside the St. Louis Fed’s headquarters at Broadway and Locust Street in downtown St. Louis.

The museum immerses visitors in an engaging, interactive experience designed to help them better understand how the economy works and their role in it. Students and adults alike are engaged in a hands-on journey through exhibits that explore:

- The global economy
- Consumer markets
- Bartering and trading
- Money circulation
- Banking
- Inflation
- Unemployment
- Opportunity cost
- Scarcity
- The history and role of the Federal Reserve

Exhibits are brought to life through interactive displays, games, sculptures and videos. A multipurpose classroom is available to groups for discussions and teaching.

The Inside the Economy Museum is yet another vehicle used by the St. Louis Fed to promote economic education and financial literacy. The museum makes for a unique stop for St. Louis tourists and an ideal field trip for students in middle-school and above. Teachers will find that their students’ eyes are opened to vital concepts that will benefit them for the rest of their lives.

Walk-in visitors are welcome at the museum, as are groups that make arrangements ahead of time. Admission is free. Visitors usually spend 45 minutes to an hour in the museum. Learn more at www.stlouisfed.org/economymuseum.
What’s Your Role in the Economy? Find Out in the St. Louis Fed’s New Museum Exhibits in the Inside the Economy Museum provide an interactive learning experience on topics ranging from banking to inflation.
As at any big company, our employees perform a wide variety of work. We have economists and electricians, educators and event planners. We have auditors and programmers, librarians and lawyers. Employees process cash, manage risk, gather statistics, examine banks, provide security, build websites, publish periodicals, staff call-in centers, maintain buildings and keep our computers running. And that’s just the start of the list. But our people aren’t just the employees of the Bank. Dozens more give of their time to serve as directors on boards or as advisers on various councils. They, too, believe in the mission of the Fed and the importance of representing Main Street in the monetary policymaking decisions that affect us all.
Members of the board of directors pose on the steps of the St. Louis Fed in the 1920s.
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Council members represent a wide range of Eighth District industries and businesses and periodically report on economic conditions to help inform monetary policy deliberations.
Community Depository Institutions Advisory Council 2014  The members meet twice a year to advise the St. Louis Fed’s president on the credit, banking and economic conditions facing their institutions and communities. The council’s chair also meets twice a year in Washington, D.C., with the Federal Reserve chair and governors.

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Community Development Advisory Council 2014  The council keeps the St. Louis Fed’s president and staff informed about community development in the Eighth District and suggests ways for the Bank to support local development efforts.

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Rita Green
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Joe Neri
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Federal Advisory Council Member 2014  The council is composed of one representative from each of the 12 Federal Reserve districts. Members confer with the Fed’s Board of Governors at least four times a year on economic and banking developments and make recommendations on Fed System activities.

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Chairman, President and CEO
Stifel Financial Corp.
St. Louis

Ronald J. Kruszewski
Chairman, President and CEO
Stifel Financial Corp.
St. Louis
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Thank you to the St. Louis Fed’s recent board and council retirees.

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