

Senator Robert Owen of Oklahoma and the Federal Reserve's Formative Years

By Chad R. Wilkerson

One hundred years ago this December, President Woodrow Wilson signed into law the Federal Reserve Act. The Act's sponsor in the U.S. Senate was Robert Latham Owen, a frontier lawyer, banker, and businessman who had been chosen as one of Oklahoma's first two U.S. senators when the state was admitted to the Union in 1907. Owen's bill authorized the creation of the Federal Reserve System, the United States' first central bank in more than 75 years, including both a government agency in Washington, D.C., and 12 semi-independent regional Reserve Banks around the country.

This article describes Owen's role in both championing the formation of the Fed and later criticizing some of its policies after World War I. His role and views are juxtaposed with developments in the economy of what is now the Federal Reserve's Tenth District. The article finds that Owen's interest in central banking began with his personal experiences as president of a community bank in Indian Territory (Oklahoma) during the Panic of 1893. His preference for a quasi-public, decentralized structure for the Fed came from skepticism about placing too much control in either a central agency in Washington, D.C., or, especially, a

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small number of bankers on Wall Street, which he thought would make the institution unpopular and unfair to much of the country. Owen generally praised the Fed's early performance but became a critic in the early 1920s, and again in the 1930s, when its deflationary policies were especially harmful to the agricultural economy of his home region.

Section I describes developments in Owen's life and in the regional and national economies around the turn of the 20th century that led to increasing demands for a central bank in the United States. Section II reviews Owen's role in passing the Federal Reserve Act and his views on the Fed's early performance. Section III investigates Owen's criticisms of Fed policy after World War I in light of developments in the regional economy at the time.

I. OWEN AS A COMMUNITY BANKER IN PRE-FED OKLAHOMA

Before the Federal Reserve System was formed in 1913, the United States experienced intermittent financial panics. The last two panics, in 1893 and 1907, hit the states of the future Tenth District especially hard, resulting in calls from the region for banking reform. Owen personally experienced the Panics of 1893 and 1907 and took an increasing interest in how the nation could prevent future panics.

Owen's background and the Panic of 1893

Owen was 34 when he obtained a charter in 1890 to open the First National Bank of Muskogee. By then a number of experiences had shaped his understanding of the regional economy. In the previous decade, he had been a newspaper editor in Vinita, Oklahoma; speculated in oil production throughout the region; and served as federal agent overseeing the Five Civilized Tribes of Indian Territory (Oklahoma). It was in this last role that Owen, a Cherokee citizen, successfully navigated a number of land ownership and citizenship disputes. Researchers largely agree that Owen maintained a strong degree of tribal sovereignty while also allowing for the economic development of the region (Brown; Keso). These activities and others helped Owen accumulate considerable personal wealth through his private law practice. He also formed a sizable ranch north of Bartlesville near the Oklahoma-Kansas border and established a successful mercantile business in McAlester, in southeast Oklahoma.

But it was as president of a community bank in Muskogee during the Panic of 1893 that the seeds were sown for Owen's future involvement in establishing a new monetary system for the United States. He later described the impact of the widespread hoarding of currency that characterized the Panic:

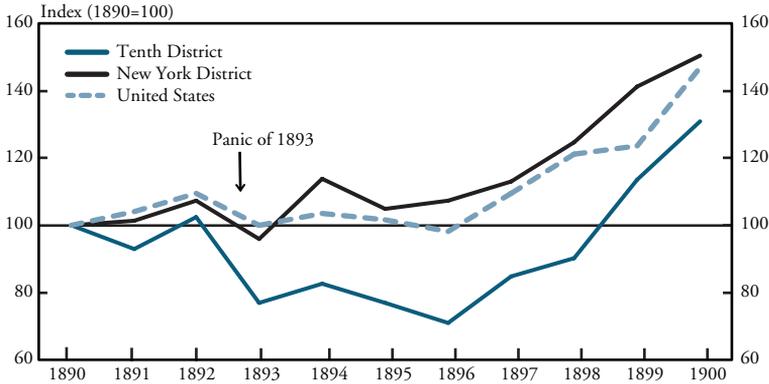
“Money suddenly appreciated in value, so that property measured in money fell in value in some cases to half of its previously estimated value. This enabled thousands of creditors to take over the property of thousands of debtors on a basis that was ruinous to debtors, causing the bankruptcy of hundreds of thousands of people; causing a violent dislocation of business; and throwing out of employment vast numbers of people and inflicting injuries which required years to repair in the industrial and commercial life of the nation” (Owen 1919).

The episode brought back memories from Owen's teenage years when, following the Panic of 1873, he remembered “the value of my father's property was completely destroyed and my mother, from a life of abundance, was suddenly compelled to earn her living by teaching music” (Owen 1935b). Owen's bank survived the 1893 crisis and subsequent economic depression. Records from an 1898 examination by the Office of the Comptroller of the Currency (OCC) declared the bank's “general condition good, business prosperous” (OCC 1898). However, thousands of banks and other private businesses around the country were not so fortunate.

In addition, the seven states that would make up the Tenth District, including Oklahoma, were hit particularly hard by the Panic of 1893. While annual data on state economic activity in the late 19th century is largely unavailable, OCC banking data show that assets of national banks in the seven states fell 25 percent from 1892 to 1893 on a per capita basis, considerably more than the 10-percent drop for the nation (Chart 1). Moreover, banking assets in the seven states didn't rise back above 1892 levels until 1899, two years later than in the rest of the country, and five years later than banks in New York.

What caused the Panic of 1893, and why did it hit the central part of the country so hard? Economic historians generally agree that a primary cause was the failure of several large corporations that had

Chart 1

PER CAPITA BANKING ASSETS AT NATIONAL BANKS,
1890-1900

Source: Office of the Comptroller of the Currency.

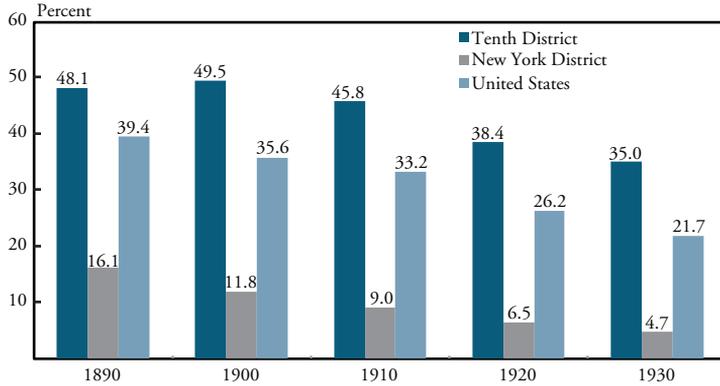
become overextended in previous years, including two major railroads. (Carlson; Federal Reserve Bank of Philadelphia 2010). These failures raised concerns about the solvency of other large businesses and their creditors. The result was a sharp drop in the stock market and a hoarding of liquidity among solvent firms and banks, precipitating a crisis.

Given the structure of the national banking sector at the time, borrowers relying on rural banks likely had the least access to liquidity needed to fund their operations. This was because these so-called “country banks” relied for a good portion of their liquidity on “reserve city” banks, located in larger cities around the country. “Reserve city” banks in turn relied on banks in the three “central reserve” cities—New York, and later Chicago and St. Louis—for much of their needed liquidity.¹ As a result, when markets seized up, those banks and firms furthest from the central reserve cities, and especially New York, tended to be hit the hardest. Given the rural nature of much of the future Tenth District, this structure generally worked against the region in a crisis.

Moreover, sharp declines in agricultural commodity prices resulting from the Depression hit the region particularly hard. Agriculture was by far the largest industry in the states of the Tenth District in the late 19th and early 20th centuries, as well as in most other regions outside of the New York District (Chart 2). Corn prices fell nearly 50

Chart 2

AGRICULTURE'S SHARE OF TOTAL EMPLOYMENT, 1890-1930



Source: U.S. Census Bureau.

percent from 1892 to 1896, reaching their lowest level since the Civil War, devastating the incomes of the region's farmers and related businesses and making it difficult—if not impossible—to repay debts.

Another factor leading to both the Panic of 1893 and the subsequent deeper depression in Tenth District states was a collapse in the silver market. Silver prices rose sharply after the passage in 1890 of the Silver Purchase Act, which required the U.S. government to make sizeable monthly purchases of silver (Carlson; Federal Reserve Bank of Philadelphia 2010). This greatly boosted silver mining in a number of western states, especially Colorado in the future Tenth District. However, in 1893, the new administration of President Grover Cleveland opposed and sought to repeal the Act, causing silver prices to plummet, resulting in the closure of many western mines.

Owen's push for the nation's third central bank

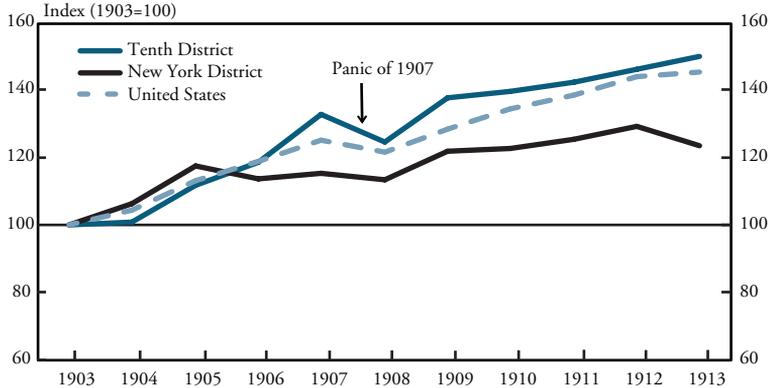
The fallout from the 1893 financial crisis convinced Owen and others in the middle of the country that the United States again needed something like a central bank. According to one account, “the stringent years which followed [the Panic of 1893] allowed ample opportunity for the contemplation of bank reform which the continued low commodity prices and the agitation in the western grain states made more essential than ever” (Underhill).

In addition to the economic depression, credit had become increasingly tight at regular seasonal intervals in the quickly expanding agricultural regions of the Midwest, with limited access to credit during both the spring planting and fall harvest seasons. At these times of year, needed funds were shipped from larger financial centers to the agricultural regions. This movement put pressure on reserves throughout the banking system and often caused apprehension about whether liquidity would actually be provided to farming communities (Underhill). As such, calls for a more “elastic currency”—one for which liquidity could be provided more quickly both during financial panics and during more regular, seasonal intervals—were increasing.

The nation had been without a central bank since 1836 when the charter of the Second Bank of the United States was not renewed during the presidency of Andrew Jackson, a skeptic of centralized banking power. The Second Bank, headquartered in Philadelphia, included branches throughout the young country, but its decision-making power was concentrated in the Northeast (Federal Reserve Bank of Philadelphia 2010). The nation’s first central bank, formed in 1791 by Alexander Hamilton, also closed when its 20-year charter was not renewed. The First Bank of the United States, also headquartered in Philadelphia, had likewise been a largely monolithic institution, with power concentrated in the Northeast (Federal Reserve Bank of Philadelphia 2009). Indeed, given the unpopularity of the First Bank of the United States, some historians suggest the Second Bank was formed in 1816 only because of the need to service massive national debts built up during the War of 1812 (Todd).²

To learn more about how a modern central bank might work in the United States, in 1898 Owen visited the central banks of England, France, Germany, and Canada. While each institution differed in its structure and overall approach, Owen concluded that each could do something that no institution in the United States had the authority to do: “quickly expand the currency when financial fear threatens the country” (Owen 1919). His published recommendations in 1899 and 1900 suggested future financial crises could be avoided by implementing various aspects of central banking from other countries and adjusting for the specific needs and political realities of the United States. In particular, he advocated issuing new Treasury notes, to be backed by

Chart 3

PER CAPITA BANKING ASSETS AT ALL BANKS,
1903-13

Source: Federal Reserve Board.

standard collateral, to expand the currency when needed. He also was an early advocate of some type of deposit insurance. Some of Owen's proposals were taken up by congressmen, but ultimately were not included in bills at the time (Keso).

The Panic of 1907 as a tipping point

Concerns about the national banking system escalated in 1907 when the failure of the Knickerbocker Trust Company in New York precipitated another financial crisis. As in the Panic of 1893, the Panic of 1907 hit banks in Tenth District states somewhat harder than banks nationally, as liquidity remained harder to acquire outside of central reserve cities (Chart 3). Although this crisis was halted more quickly and resulted in a shorter economic downturn than in 1893, the Panic of 1907 amplified the call to find a way to avoid future panics. This was especially true for Owen and other leaders from the middle part of the country, which had been disproportionately harmed by the crises of 1893 and 1907. But it was also true for Wall Street bankers, who stemmed the Panic of 1907 only by gathering in J.P. Morgan's private library and monitoring and distributing liquidity to major New York banks as needed (Meltzer).

II. OWEN AS SENATE CHAMPION OF THE FEDERAL RESERVE ACT

While consensus was building for better financial protections in the United States, people disagreed about how to structure a central bank. As a U.S. senator and with considerable personal banking experience, Owen was well positioned to play a leading role in the debate, especially after his party gained power in the 1912 national elections. His vision of a central bank was largely the view that prevailed.

Owen's views on initial central bank proposals

Upon being selected in 1907 as a Democratic U.S. senator from the new state of Oklahoma, Owen focused much of his early attention on issues related to central banking. In late 1907 and early 1908, he introduced seven bills that sought to reform and strengthen the nation's banking system (Keso). These bills included proposals for a more elastic currency and deposit insurance, as he had advocated in 1899 and 1900. In addition, he put forward bills to restrict speculative loans and stock gambling. However, as a freshman senator in the minority party and from a new state, it is not surprising that none of Owen's initial bills was considered, leading him instead to sign on with other bills that at least included parts of his proposals.

The key piece of banking legislation resulting from the Panic of 1907 was the Aldrich-Vreeland Act of 1908, sponsored by Nelson Aldrich of Rhode Island, a Republican and chairman of the Senate Finance Committee. The bill introduced a number of banking reforms, including most importantly the establishment of a more elastic currency. Specifically, the bill allowed national banks to join together during financial crises to supply emergency currency backed by securities other than government bonds, the usual security used for such note issuances. The Act also established the National Monetary Commission, to be chaired by Aldrich, to study central banking issues and to propose a new system for the United States.

While Owen appreciated and had long supported the Aldrich-Vreeland Act's creation of a more elastic currency with adequate protections, he had a number of long-standing disagreements with other provisions of the Act. In particular, Owen criticized "putting the

system in the control of the banks and making the currency difficult of access and expensive” (Owen 1919). The Act provided for a limit of only \$500 million in emergency notes in times of crisis. In addition, only national banks were eligible to receive the emergency notes, and in amounts limited by their capital. Moreover, over 6,000 types of national bank notes remained in circulation, issued by banks rather than one type of note issued by the government. Owen later noted that each of these restrictions was ultimately removed in the Federal Reserve Act.

The National Monetary Commission (NMC) created by the Aldrich-Vreeland Act reported its recommendations in January 1912. In drafting the report, Aldrich had traveled with other Commission members to central banks around the world. He also had convened the now famous clandestine meeting in 1910 with New York bankers on Jekyll Island, Georgia, to determine “how to create a central bank that could effectively function in a country such as the United States, with its diverse geographic, political, and economic interests” (Federal Reserve Bank of Atlanta). Most prominent among the attendees was Paul Warburg, a partner in Kuhn, Loeb & Co. in New York and the source of the substance of much of Aldrich’s legislation. The NMC’s main proposal was to recommend the National Reserve Association of the United States, an institution similar to what would become the Federal Reserve System, but with several key differences (NMC). In addition to plans for better provision of elastic currency, the proposed Association had a regional structure with 15 branches across the country and 46 directors. Four of the directors were to be politically appointed while banks would appoint the rest.

Owen summarized the primary objections he and others had to portions of the proposed National Reserve Association as twofold:

“1) The entire banking powers of the United States were to be concentrated in the executive officers (private persons), who would be located in New York City, and this power would be sufficient to coerce every member bank and large business in America. It was desirable, on the contrary, that the control of the system should be in the hands of the Government of the United States, and, second, that the reserve centers should be

distributed and not concentrated in any one city where a small clique could control the system.

“2) So long as the Reserve Association issued its own bank notes it followed as a corollary that the Association would control its own notes as it saw fit, and thereby could control the currency of the country and thereby control the credits of the country regardless of the will of the American people, since the Government under the proposal would not have been in control” (Owen 1919).

While bankers, especially in money centers like New York, appreciated the need for increased liquidity during financial crises, many objected to handing over responsibility for the banking system and the currency to the federal government. They preferred to retain overall control themselves, and both the Aldrich-Vreeland Act and the NMC proposals reflected these preferences. Owen, still a director at First National Bank of Muskogee, recognized these concerns but was more worried about power being too concentrated, especially on Wall Street.

Owen's role in the Federal Reserve Act of 1913

The debate over the scope of private versus public control and centralized versus decentralized structure at the proposed “central bank” continued for nearly two more years. In the interim, the national election of 1912 placed a Democrat in the White House and gave the party control of Congress. As a consequence, the recommendations of the Republican-led NMC were not acted upon although they served as the baseline for ongoing discussions about a central bank. In early 1913, Owen became the first chairman of the new Senate Banking Committee, reflecting his leadership and focus on banking reform bills in his first term as senator (Brown). This position allowed him to lead discussions of central bank bills in the Senate.

That spring, the new Democratic leaders produced several bills. Carter Glass of Virginia, head of the House Banking Committee, presented an initial central bank bill that made moderate modifications to the Aldrich proposals, keeping most of the authority with the banks (Table 1). Owen then drafted a Senate bill, providing somewhat more public control but a still-decentralized system. Treasury Secretary William McAdoo also presented a proposal of a more centralized and governmentally controlled institution (Brown).

Table 1

PRIMARY COMPETING PROPOSALS TO FORM A U.S. CENTRAL BANK, 1913

Author(s)	Position(s)	Proposed central bank structure
Rep. Carter Glass, D-VA Parker Willis	Chairman, U.S. House Banking Committee Glass's aide; economics professor	Decentralized system with board of primarily bankers, 20 or more regional reserve banks, currency a private bank liability
Sen. Robert Owen, D-OK	Chairman, U.S. Senate Banking Committee	National currency board, appointed by the government, eight regional reserve banks, currency a government liability
William McAdoo	U.S. Secretary of the Treasury	Government central bank within the Treasury Department, no regional reserve system, currency a government liability

Many accounts—including Owen's memoir, *The Federal Reserve Act*—have described the process by which the central bank bill was ultimately approved and signed by President Woodrow Wilson. While some details differ, historians generally agree that throughout the summer of 1913, Wilson had several meetings with Glass, Owen, and McAdoo at the White House to resolve differences and agree to one central bank proposal to put before Congress. While Wilson preferred a government-appointed board for the central bank, he initially favored the Glass bill, which was the most popular with bankers of the Democratic proposals. In the following weeks, however, Owen and Secretary of State William Jennings Bryan pushed for more government control and believed such a bill could pass. Wilson ultimately agreed, and a version including more government control was put forward that fall for debate in both houses. After months of sometimes intense debate, the Owen-Glass bill, or Federal Reserve Act, was signed into law on December 23, 1913 (Brown).³

Historians have assigned varying degrees of credit to Owen for “founding the Fed” relative to other individuals vital to passing the Federal Reserve Act. In some cases, credit is due for their work in positions they held later in their careers. Glass went on to serve as Treasury Secretary and U.S. Senator. He was co-author of another one of the key finance bills of the 20th century, the Glass-Steagall Act of 1933, which separated commercial banking from investment banking. Parker Willis, Glass's aide and a professor of economics, drafted the initial House

bill and served as the first Secretary of the Federal Reserve Board. Aldrich led the NMC and provided the initial baseline for a central bank bill. Warburg, a New York banker who provided much of the substance of Aldrich's proposals, became one of the original members of the Federal Reserve Board. McAdoo, as Treasury Secretary, became the first Chairman (ex-officio) of the Federal Reserve Board, a position that would later be changed. Bryan, the three-time presidential candidate from Nebraska—a longtime opponent of the gold standard, and the most powerful Democratic politician in the middle part of the country—lent crucial support by rallying key populist votes for the Act. And of course Wilson, who had campaigned for president on a particular vision of a central bank, convened numerous meetings at the White House to ensure it would be passed.

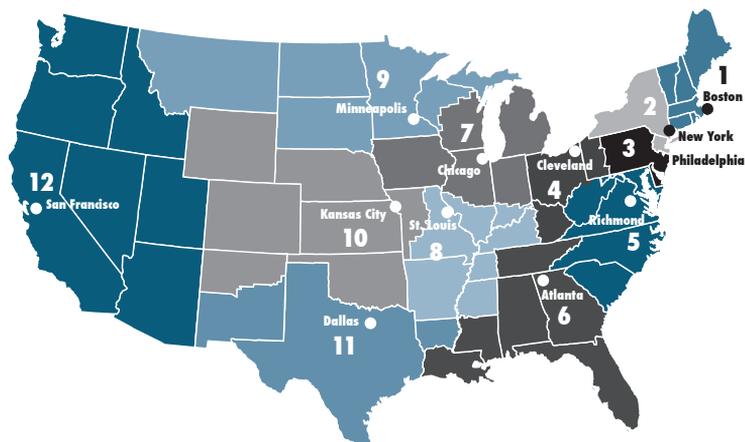
It appears clear, however, that Owen's general preferences prevailed in the debate, even if others may have contributed more vitally to obtaining all of the necessary votes to pass a central bank bill. For more than a decade, Owen had consistently preferred a balance between the privately controlled, decentralized institution suggested by Glass, Aldrich, and Warburg and the more government-controlled, centralized institution preferred by McAdoo, Bryan, and Wilson. Owen's version, with only modest variation, is ultimately what the Federal Reserve System came to be—12 regional Reserve Banks set up as independent corporations across the country under the general oversight of a government-appointed board in Washington, with the currency an obligation of the government rather than of private banks (Map).

Owen's views of the Fed's early performance

Owen was generally pleased with the early functioning of some of the decentralized and quasi-public aspects of the Federal Reserve System, attributes that made it somewhat unusual among the world's central banks and that created perhaps the most tension in the final debates over his bill. He concluded, "The expansion of the Federal Reserve banks under this Act has surprised and delighted the country," and "The management of the Federal Reserve banks by the six directors elected by the member banks and the three directors chosen by the

Map

FEDERAL RESERVE SYSTEM



Note: The Federal Reserve System divides the United States into 12 Districts.

Governmentally-controlled Federal Reserve Board has proven satisfactory to the Government and to the country” (Owen 1919).

Between the December 1913 signing of the Act and the November 1914 opening of the Reserve Banks, however, World War I broke out in Europe. Thus, the Fed operated in its first years during a time of war finance and considerable economic uncertainty. The presence of a central bank in the United States helped on both of these fronts via its ability to provide emergency currency but made the early experience somewhat unusual. The Fed largely operated as a financing arm of the U.S. Treasury, especially after the United States entered the war in 1917. Indeed, a primary role of Federal Reserve Bank Presidents (then called Governors) was to chair committees set up in each Fed District to sell Treasury bonds to the nonbank public (Meltzer).

Contemporary analysts generally agreed that the Fed operated well during the war given the needs of the day, although the effectual monetization of war debt by the early Fed may have caused unforeseen problems in subsequent decades. Owen concluded that “Except for this Act the United States could not have adequately financed this war, and the Government of the United States would have faced a serious panic at the beginning of the war.” The Comptroller of the Currency at the time, John Skelton Williams, went even further, saying, “It has made

this Nation and Government an impregnable financial force and the strongest the mind of man has devised. That one measure [the Federal Reserve Act] won the war. It enabled our finances to endure, without a quiver, every shock and strain. It gave us the power to help our allies instantly and without stint when their need was sorest, with a help most needed” (Owen 1919).

III. OWEN AS A CRITIC OF POST-WORLD WAR I FED POLICY

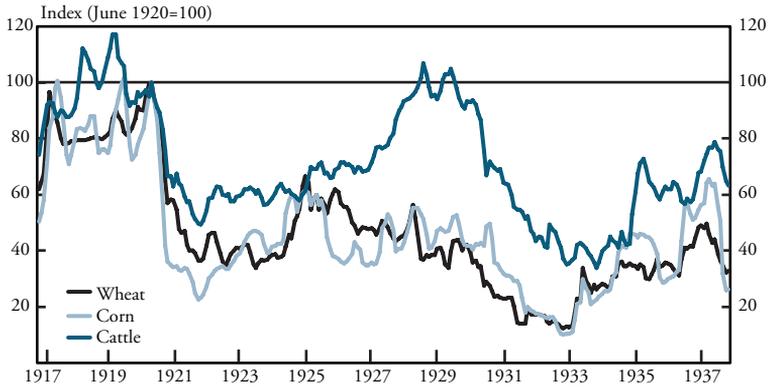
The praise Owen and many others had for the nation’s new central bank quickly soured in the post-World War I period, however, as the Fed transitioned into peacetime operations. In particular, the severe deflation of 1920-21, which devastated agricultural regions of the country, along with the later deep deflation of the Great Depression, called the main objectives of the nation’s central bank into question. Owen and others viewed price stability and moderate interest rates as key objectives while most other early Fed leaders preferred to focus on maintaining the international gold standard and the strength of the banking system.

Fed policy and District impacts in the 1920-21 deflation

The first years of the 1920s were transformative for the Tenth District economy. Agricultural commodity prices had risen strongly during World War I, and Tenth District “farmers prospered as never before, with livestock also bringing in large returns” (Underhill). But beginning in early 1920, interest rates increased for the first time since the war, and commodity prices also started to plummet. By the end of 1921, cattle prices were down 50 percent from their 1920 levels, wheat prices were down over 60 percent, and corn prices were down nearly 80 percent (Chart 4).

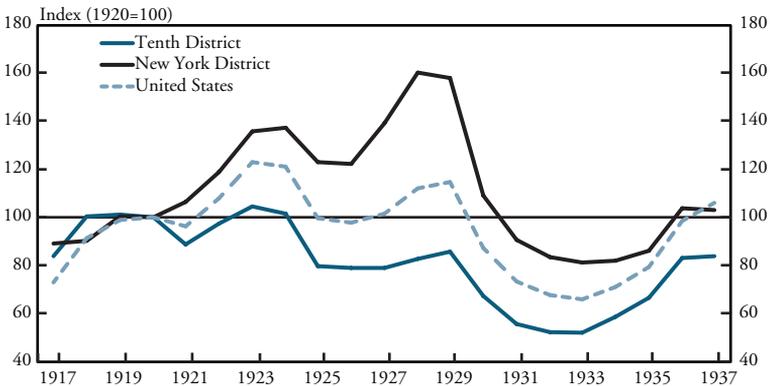
Some interest rates had risen even more in several agricultural Fed Districts in 1920. In early 1920, the Phelan Act allowed Reserve Banks to charge “progressive” discount rates based on the frequency with which banks borrowed at the discount window, to discourage “excessive” borrowing. Progressive rates were applied as an extra one-half of 1 percent to each 25-percent increase in borrowing beyond a bank’s regular credit line. Such progressive rates were applied in the Atlanta, St. Louis, Kansas City, and Dallas Districts, impacting primarily agricultural banks in those regions, and thus farmers.

Chart 4
AGRICULTURAL COMMODITY PRICES, 1917-37



Source: USDA.

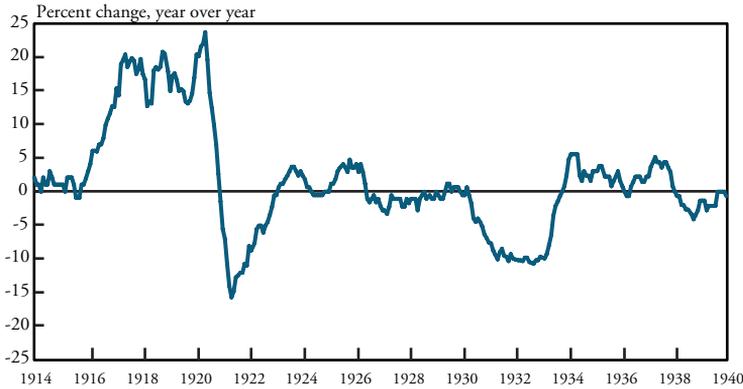
Chart 5
REAL PER CAPITA PERSONAL INCOME, 1917-37



Source: Internal Revenue Service.

The Tenth District’s economy was hit hard by the drop in agricultural prices and rise in interest rates. From 1920 to 1921, the region’s real personal income on a per capita basis fell 10 percent, over twice as much as the nation overall and in contrast to a rise in real incomes in the New York Federal Reserve District (Chart 5). According to the Federal Reserve Bank of Kansas City’s sixth annual report, by the end of 1920, “the recession was reflected in every branch of trade and

Chart 6
CONSUMER PRICE INDEX, 1914-40



Source: Bureau of Labor Statistics.

industry. Manufacturing and mercantile activities were curtailed, mining restricted, petroleum production reduced, and building at a standstill. The movement of grain to market was also retarded” (Underhill).

Why had the Fed raised interest rates in early 1920, and held them there for over a year despite extreme economic distress in many parts of the country? Fed historian Allan Meltzer summarizes the prevailing view as “Federal Reserve officials defended the deflationary policy as a means of reversing the effects of the previous inflation and restoring the gold standard at the prewar gold price,” a goal that was viewed by many central bank leaders around the world as a key component of producing international stability. The consumer price index had risen at nearly 20 percent annual rates from 1917 to 1920, and so the “correction” of 1920-21, with prices falling as much as 15 percent on an annual basis and over 20 percent overall, was viewed as a proper functioning of the monetary system (Chart 6).

Fed officials seemed to recognize the economic consequences of their policies but, nevertheless, found their actions prudent and indeed inevitable in light of what they viewed as their objectives. Benjamin Strong, Governor (President) of the Federal Reserve Bank of New York and generally considered the most powerful early leader of the Federal Reserve, noted in a 1919 letter that he expected the deflation to be “accompanied by a considerable degree of unemployment, but not for

very long, and that after a year or two of discomfort, embarrassment, some losses, some disorders caused by unemployment, we will emerge with an almost invincible banking position” (Meltzer). Similarly, the Federal Reserve Board’s 1920 annual report noted that higher interest rates were needed to “maintain the strength of the Federal Reserve Banks, which are the custodians of the lawful reserves of the member banks” (Federal Reserve Board).

Political backlash from Owen and others

The sharp contraction in economic activity in agricultural regions produced considerable political backlash and changes in how the Federal Reserve conducted policy. To many, the application of tighter policy in only some Districts “seemed to confirm populist claims that a central bank would be run for the benefit of eastern bankers, especially Wall Street” (Meltzer). Indeed, the first congressional hearings on Federal Reserve policy resulted from widespread complaints of small businessmen and farmers from the Midwest and Great Plains.

Early Kansas City Fed leaders disputed the idea that their actions had harmed farmers in the region. The Bank’s Governor (President), Jo Zach Miller, testified that the average interest rate paid in 1920-21 on discount window loans in the District, including progressive rates, was less than the actual discount rate charged in some Fed Districts (Reserve Banks initially had authority to set differing discount rates per the Federal Reserve Act). An early historian of the Kansas City Fed also noted that “throughout the depression of 1920, the Federal Reserve Bank of Kansas City asked no member banks to curtail their loans to farmers.” However, “member banks were advised to sell their government securities, thus relieving the Reserve Bank from carrying them,” and in the process tightening policy (Underhill). Meanwhile, the Joint House-Senate Commission of Agricultural Inquiry concluded:

“Whatever may be said touching the effects of the application of the progressive rate on the average, both with respect to its effect in compelling liquidation and in respect to the average rate of interest imposed under it, the fact still remains that its application in many instances at least resulted in the imposition of unconscionable rates of interest upon the borrowings or

some portion of the borrowings of the banks borrowing in excess of their base line. It also served to exert pressure for liquidation upon those banks and those communities where the needs were the greatest; that is, to penalize the banks making the greatest effort adequately to serve their customers under conditions of peculiar stress and hardship” (U.S. House of Representatives 1921).

Owen, after unsuccessfully seeking the Democratic nomination for president in 1920, found himself among the minority party after Republicans gained control of Congress and the White House. He spent much of his remaining four years in public office criticizing the tight policy of the institution he had helped found a decade earlier. It was his view, and that of many others, that the Federal Reserve was not functioning as it had been designed, much to the detriment of his constituents. He later wrote that “under the pretext of lowering the cost of living, those in charge of some of the largest banks demanded the contraction of credit and currency. This was done in spite of nine protests I had made on the floor of the Senate between January and June 1920. Policies pursued by those in charge of the Central Federal Reserve Banks resulted in [lowering] the value of money” (Owen 1935b). Other historians also note that “Senator Robert Owen (Oklahoma), an author of the Federal Reserve Act, took a leading role in criticizing [Fed] policy and urging lower rates at the time” (Meltzer).

As more legislation was introduced in Congress in 1921 to limit the Fed’s ability to raise interest rates, the central bank relented. Fed leaders also undertook an investigation of whether the fundamental notion of lending freely but at penalty interest rates in times of crisis, as suggested by monetary theory at the time, was a workable framework in the United States. Leaders were also beginning to understand the power of open market operations to affect the money supply and credit channels in the United States, and an Open Market Committee was formed in 1923 (Meltzer).

Unlearned lessons and the Great Depression

Incomes in the Tenth District recovered somewhat in 1922 and 1923, but at a slower pace than in the rest of the country, given continued

weakness in grain prices. And, in late 1923, “with inflation tendencies abroad and gold flowing into the United States from Europe, it was felt on this side of the Atlantic that business was recovering too rapidly. An increase in discount rates and open market sales of government securities by Reserve banks was recommended by the Federal Reserve Board as a means to counteract the situation” (Underhill). Real incomes in the region and nation fell sharply again in 1925 before recovering later in the decade as rates were lowered. Once again, the Tenth District recuperated more slowly than other parts of the country as grain prices remained low.

Unfortunately, while some lessons were learned from the policy mistakes of the early 1920s, Fed officials still had an incomplete understanding of how monetary systems should work. In addition, fear of massive political repercussions such as occurred in 1921 and 1922 “helps to explain why the Board was reluctant to raise interest rates above 6 percent during the stock market boom at the end of the decade” (Meltzer). The result was an even greater crisis beginning in 1929, to which the response was again inadequate.

The economic devastation of the Great Depression of 1929-33 resulted in considerable changes for both the country and the Federal Reserve. By that time, Owen had retired from public life and settled into practicing law in Washington, D.C. But his interest in central banking matters had not waned. In 1935, at age 79, he lent his name to the forewords of two of the many monetary treatises of the period that criticized Fed policy. In these, he offered many of the arguments he had made during the debates leading up to the Federal Reserve Act and during the political backlash from the deflation of 1920-21. He concluded one of the forewords with this summary:

“It should be obvious that when the records of our government disclose that the value of the dollar can be doubled or cut in half in the course of two or three years, there is something radically wrong with our monetary structure, and our laws which permit such a violent variation in the purchasing power of money. Such fluctuations make it impossible for the most prudent of businessmen to make dependable contracts extending over a period of time, and leave the people defenseless against depressions” (Owen 1935a).

Nevertheless, despite his opposition to Fed policy in the 1920s and 1930s, Owen remained proud of his role in establishing a new U.S. central bank. The copy of the Federal Reserve Act given to him by President Wilson and the pen he used to sign it were among his most treasured possessions. Just before his death in 1947, Owen presented the pen to President Harry Truman at the White House to have it deposited at the Federal Reserve Board. Owen also gladly participated in ceremonies honoring him at the headquarters of the Federal Reserve Board in Washington, D.C.

IV. CONCLUSION

Robert Owen had a limited understanding of monetary economics, as did others of his day. However, in hindsight, his understanding has stood the test of time better than many. In particular, his view of what the Federal Reserve was supposed to do—provide ample liquidity to avoid deflation and financial distress in times of crisis—and failed to do during the early 1920s and early 1930s is now generally accepted. And Owen clearly understood the negative effects on his home region stemming from the lack of a central bank prior to 1913 and, later, from certain policies undertaken by the central bank.

In Owen's time, successive economic developments—ranging from the financial panics of 1893 and 1907, the war financing needs of 1914 to 1918, the massive deflation that occurred in the early 1920s and 1930s, and the stock market boom in the late 1920s—each presented starkly different challenges and elicited varying policy responses. The early evolution of the Federal Reserve was shaped by these experiences and by the lessons drawn from them. Fed policymakers of today must often grapple with similar issues, from responding to financial crises to guarding against deflation or rising asset prices.

But throughout all those years it was not only the swings in economic activity that affected the central bank's evolution. The period was also marked by sharp divergences and disputes over the level of authority held by bankers compared with the government, and by Northeast interests compared with the more agricultural regions of the West and South. The structure of a central bank that Owen envisioned and that was implemented through the Federal Reserve Act—that of a politically appointed central agency in Washington, D.C. but with

semi-independent Federal Reserve Banks across the country—has now survived for 100 years, unlike previous attempts at central banking in the United States. The geographic breadth and separation of powers of the System—as envisioned by Owen and other founders—has likely allowed for broad consensus for the continuance of a central bank, even as individual policies and changes in approach have created intermittent disagreements and mistakes.

Robert Owen lived a remarkable life, from early adulthood on the Oklahoma frontier in the late 1800s to international travels and national public service in the transformative years and decades that followed. This article only scratches the surface of that interesting life, and hopefully serves as a jumping off point for further investigation of Owen's leadership and accomplishments and of the early history of the Federal Reserve. As an elderly Owen wrote in 1935, "there could be no subject of more supreme importance to the people of the United States than an understanding of money and its power to control our economic destiny. Civilization itself depends upon money, without which man would be reduced to savage life and barter."

ENDNOTES

¹National banks in central reserve cities were required to hold reserves equal to 25 percent of their deposits and to keep them within their own banks. National banks in reserve cities were also required to hold reserves of 25 percent, but half of these could be held on deposit in central reserve cities. National banks outside of reserve cities—so-called country banks—were required to hold reserves of 15 percent of their deposits, with 60 percent of these allowed to be held at reserve or central reserve city banks. State banks by the late 1800s were also required to hold reserves equal to 15 to 25 percent of their deposits, with the percentage varying across states (Carlson; OCC 1907).

²The nation's first two central banks differed from modern central banks in several key ways. While the U.S. government was the largest shareholder (at 20 percent in both cases), it was not a majority shareholder, nor was it responsible for managing the banks. The First and Second Banks also were not officially charged with conducting monetary policy or with regulating other banks, although their gold-backed bank notes provided the nation with a more stable currency than would be the case following their demise. In addition, aside from serving as the federal government's banks, the First and Second Banks also made commercial loans to private individuals and companies.

³Some of the debate was among other U.S. Senators from Tenth District states who served on the banking committee. For example, Gilbert Hitchcock (D-Neb.) and Joseph Bristow (R-Kan.) opposed the bill, and Hitchcock was later angered about the selection of Kansas City over Omaha as a reserve bank city (Primm). James Reed (D-Mo.) and John Shafroth (D-Colo.) became supporters of the Federal Reserve Act after Reed was assured that Kansas City would receive a reserve bank and Shafroth successfully argued for 12 rather than eight reserve banks (Primm; Timberlake).

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