

Robert Owen and His Legacy

Esther L. George
President and Chief Executive Officer
Federal Reserve Bank of Kansas City

Oklahoma History Center
Oklahoma City
October 16, 2013

The views expressed by the author are her own and do not necessarily reflect those of the Federal Reserve System, its governors, officers or representatives.

I am honored to be here today as we commemorate the contributions of Senator Robert Owen in the establishment of the Federal Reserve System a century ago.

The Federal Reserve Bank of Kansas City is responsible for Federal Reserve activities in Oklahoma, and we feel a special connection with Senator Owen, but he also served this state for many years as a teacher, attorney, newspaper publisher, banker and United States Senator.

In each of the roles he played throughout his career, it's clear that Owen was driven to not only succeed, but to serve. He did so by representing the interests of Native Americans in the legal and political systems, by meeting the needs of small business owners and bank depositors in Muskogee, Okla., and by helping establish a more stable financial system for the entire country by working with others in Congress and the White House to create the Federal Reserve System.

Today, I will focus on his accomplishments in this latter effort, which was one of Owen's most notable achievements in the Senate.

Compromise in Washington is not something that comes about easily. From our perspective on current events, we can surely appreciate the significance of Owen's efforts that led to the compromise that established the Federal Reserve.

Robert Owen's experience

First, I think it's important to understand Senator Owen's motivation in pursuing a central bank for the nation. His personal experiences dealing with the nation's recurring financial panics in the late 19th and early 20th centuries would frame his views on banking and economic reform.

As a teenager, Owen experienced the first-hand effects of a financial crisis. During the Panic of 1873, the value of his father's property was, as Owen put it, "completely destroyed," and in order to meet ends meet, his mother began teaching music.

The financial loss, and the death of his father, eventually led Owen and his mother to move from Virginia to this region, where as members of the Cherokee Tribe, they were entitled to property. After working for a time as an attorney and a newspaper publisher here, Owen turned to banking, opening the First National Bank of Muskogee in 1890. Unfortunately, it would be only a matter of time before a crisis came again.

It was during the Panic of 1893 that Owen once again felt the effect of a financial crisis. But, in addition to the personal impact, Owen, as a community banker, saw how ill-equipped the nation's monetary system was in meeting the needs of farmers, merchants and workers in this part of the country.

More than half of the deposits in Owen's bank were withdrawn during this panic as customers hoarded their cash and tried to wait out the crisis. Owen later wrote that the panic resulted in "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."

The structure of the nation's monetary system at this time added to the pain felt in Oklahoma and the rest of the western United States. The nation's banks relied on "reserve city" banks in Chicago, St. Louis, and New York for liquidity. Once the markets in these cities seized up, the effects rippled out to the rest of the country. Banks in the western United States were affected more than others because of the physical distance between them and banks in reserve cities.

In addition, because Oklahoma's economy was dependent on agriculture, it experienced sharp seasonal credit swings tied to the harvest cycle that led to routine shortages of money. Volatile prices also played a role, and when crop prices fell in the late 1800s, Oklahoma was hit even harder.

It was these factors, along with his personal experiences during the nation's recurring banking panics that shaped Owen's views and led him to strongly advocate for reforming the monetary system. For several years, Owen published a number of reforms aimed at easing the effects of financial crises. While several lawmakers supported his ideas, none managed to gain wide support.

Panic and reform

It would take yet another crisis, this time the Panic of 1907, before any significant reform movement would take hold.

By this time, Owen had been selected as one of Oklahoma's first Senators and was one of the nation's first senators of Native American descent. However, as a freshman senator from a new state, and a member of the minority Democrat Party, Owen's legislative proposals for banking reform went nowhere.

By 1913, when Owen's party had won the majority and he was appointed to serve as chairman of the newly formed Senate Banking Committee, he was finally in a position to create something significant and usher in serious reform measures. By then, a commission created by Congress in the wake of the 1907 panic had recommended the creation of a National Reserve Association, which would consist of 15 branches located across the country and would be governed by a board of 46 directors.

While he appreciated the movement toward the creation of a more “elastic currency,” as reformers labeled their goal, Owen did not support the Association’s structure, which would have placed the system under the control of the banking industry.

Instead, Owen supported a system involving government control, with centers of reserves spread out across the country. Many bankers, especially in money centers like New York, objected to handing over responsibility of the banking system and currency to the federal government, which they recognized would limit their power. Owen, who was 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.

The debate over the structure of the system continued for some time. In response to a central banking bill submitted by Rep. Carter Glass of Virginia in 1913 that would have placed control of the system largely in private hands, Owen proposed his own bill in the Senate that provided for somewhat more government control but still offered a decentralized, regional system.

Throughout the summer of 1913, President Woodrow Wilson had several meetings with Glass, Owen and others at the White House to resolve these differences and build unified support for one central bank proposal. Wilson preferred a government-appointed board for the central bank, but he initially favored the Glass bill, which was the most popular with bankers.

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, which came to be known as the Federal Reserve Act, was signed into law on Dec. 23, 1913.

The system reflected Owen’s long-standing position that called for monetary reform based on a decentralized system that represented the interests of communities from across the country. Today, this central bank, consisting of 12 regional Reserve Banks that are overseen by a government body located in Washington, reflects the system of checks and balances that we see in other important institutions in the United States.

A legacy of diversity

Interestingly, Owen would later become one of the Federal Reserve’s most vocal critics. This criticism was based on the Fed’s response to deflation and financial distress during the 1920s and 1930s.

It might seem unusual for someone to speak out against an institution they helped create. On the contrary, it is clear that Owen understood that in a democracy, no institution, including the central bank, should be immune from criticism. The Federal Reserve is not a monolithic organization, and such feedback—both from outside and inside the organization—ensures that the Fed remains accountable to the public it serves.

It is important that the Federal Reserve’s structure today still allows for a range of views to be considered when it deliberates actions that affect so many people.

That it remains so is a tribute to Owen, who understood that the diversity of views—even dissent—is not confusing, it is clarifying. And that transparency of these views does not create cacophony, but enhances credibility.

Later in his life and after he had retired from the Senate, Owen remained proud of the Federal Reserve, despite his often critical views. His personal copy of the Federal Reserve Act and a pen used by President Wilson to sign the law remained his most prized possessions. Just

before his death in 1947, he presented the pen to President Harry Truman and participated in ceremonies honoring him at the Federal Reserve Board in Washington, D.C. Today, we take part in another ceremony to honor him. A part of Senator Owen's legacy is reflected in the institution that he helped create a century ago.

The Federal Reserve's operations have evolved since 1913, and Congress has clarified the central bank's specific responsibilities. The decentralized and representative structure that Owen envisioned for the nation's central bank remains a durable feature of the institution and offers an effective way to support the U.S. economy.

Thank you again for the opportunity to speak about Senator Owen and his lasting legacy as it relates to the Federal Reserve. I would also like to thank the Oklahoma History Center and its staff, Steve Agee, and Gov. Bill Anoatubby for their work on creating this exhibit, which will help tell the story of Robert Owen and the Federal Reserve's connection to Oklahoma.