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# *Beyond the Federal Reserve Act*

Robert Owen's influence in the formation of the Federal Reserve





**R**obert Latham Owen's business dealings before the 1890s in Oklahoma helped him accumulate wealth and shaped his understanding of the regional economy. But his experience as a banker—he obtained a charter in 1890 to open the First National Bank of Muskogee—sowed the seeds for his future involvement in establishing a central bank in the United States.

Owen sponsored the Federal Reserve Act in the U.S. Senate, which President Woodrow Wilson signed into law one hundred years ago this December. 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.

His preference for a quasi-public, decentralized structure for the Federal Reserve came from skepticism about placing too much

control in either a central agency in the capital, or, especially, a small number of Wall Street bankers, which he thought would make the institution unpopular and unfair to much of the country.

Owen generally praised the Federal Reserve'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.

### **Sowing the seeds**

Although Owen, a Cherokee citizen, amassed a fortune as a lawyer and businessman, he maintained a strong degree of tribal sovereignty while also allowing for the economic development of the region. But it was during the Panic of 1893, when he was president of the community bank in Muskogee, that he discovered the effect of widespread currency hoarding.



**1893**

Robert Owen experiences the Panic of 1893 as president of the First National Bank of Muskogee, Okla.



“Money suddenly appreciated in value, so that property measured in money fell in value in some cases to half of its previously estimated value,” he wrote years later. “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.”

The episode brought back memories from Owen’s teenage years when, following the Panic of 1873, “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’s bank survived the 1893 crisis and subsequent economic depression, but thousands of banks and other private businesses around the country were not fortunate.

Also, the seven states that would make up the Federal Reserve’s Tenth District, including Oklahoma, were hit particularly hard by the Panic of 1893. Office of the Comptroller of the Currency 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.

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.

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”

**Robert L. Owen**  
 United States Senator  
 from Oklahoma and  
 Master-BUILDER of the  
 Federal Reserve Act  
 has written

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*Sen. Robert L. Owen's book about the Federal Reserve was one of many he authored that was advertised and sold nationwide.*

1898

Owen visits the central banks of England, France, Germany and Canada to learn about modern central banking.



relied for a good portion of their liquidity on “reserve city” banks, located in larger cities. “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.

As a result, when markets seized up, those banks and firms furthest from the central reserve cities, and especially New York, were struck the hardest. Given the rural nature of much of the future Tenth District, this structure generally worked against the region in a crisis.

Also sharp declines in agricultural commodity prices resulting from the depression and the collapse in the silver market hit the region particularly hard.

## **Push for a central bank**

The fallout from the 1893 financial crisis convinced Owen and others in the Midwest that the United States again needed something like a central bank.

The nation had been without a central bank since 1836. 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 nation’s first central bank, formed in 1791 by Alexander Hamilton, also closed when its 20-year charter was not renewed.

In 1898, Owen visited the central banks of England, France, Germany and Canada to learn more about how a modern central bank might work in the United States. 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.”

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 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.

## **Early attempt at a central banking system**

Although people were concerned about the national banking system, especially after another bank panic in 1907, they disagreed about how to structure a central bank.

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. Late in that year and early 1908, he introduced seven bills that sought to reform and strengthen the nation’s banking system, but as a freshman senator in the minority party and from a new

**1907**

Owen selected as a U.S. senator for the new state of Oklahoma.

**1907-1908**

Owen introduces several unsuccessful bills to reform and strengthen the U.S. banking system.

state, his bills went nowhere.

Instead of dwelling on his setbacks, Owen signed 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. The bill introduced a number of banking reforms, including most importantly the establishment of a more elastic currency. The Act also established the National Monetary Commission, to be chaired by Nelson W. Aldrich, to study central banking issues and to propose a new system for the United States.

While Owen appreciated and supported the Aldrich-Vreeland Act's creation of a more elastic currency with adequate protections, he

had several long-standing disagreements with other provisions. In particular, Owen criticized "putting the system in the control of the banks and making the currency difficult of access and expensive."

The National Monetary Commission (NMC) recommended the creation of the National Reserve Association of the United States, an institution similar to what would become the Federal Reserve System, but with key differences.

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 with banks appointing the rest.



*Sen. Owen, second from right, was chair of the Senate Committee on Banking and Currency during the 63rd Congress when the Federal Reserve Act was drafted and approved. Photographed attending this undated Committee meeting with two House counterparts were, from left, Sen. James A. O’Gorman, New York; Rep. Charles A. Korbly, Indiana; Sen. James A. Reed, Missouri; Sen. Henry F. Hollis, New Hampshire; Sen. Atlee Pomerene, Ohio; Sen. Owen; and Sen. John F. Shafroth, Colorado. Writing on the back of the photo indicates Rep. Carter Glass of Virginia was also in attendance at the meeting, but is hidden from view by O’Gorman.*

1913

Owen becomes the first chairman of the new Senate Banking Committee.

Dec. 23, 1913

President Woodrow Wilson signs the Federal Reserve Act into law, which Owen sponsored.



Owen thought the plan put control in the hands of bankers in New York, where this power could coerce every member bank and large business in America. He wanted the system in the hands of the government and reserve centers dispersed throughout 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. 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

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. 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 kept most of the authority with banks. Owen then drafted a Senate bill, providing somewhat more public control but still a decentralized system. Treasury Secretary William McAdoo also presented a proposal of a more centralized and governmentally-controlled institution.

While some details differ, historians agree that throughout the summer of 1913, President Wilson had several meetings with Glass, Owen and McAdoo at the White House to resolve differences and agree to 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



*Dec. 26, 1913*

The Federal Reserve Organizing Committee had its first meeting and announced that it would have hearings for the establishment of the Federal Reserve Districts and the locations of the 12 regional banks.

*March 26, 1914*

President Woodrow Wilson meets with Senators Robert Latham Owen (Oklahoma) and James A. Reed (Missouri), members of the Senate Banking Committee about the possible location of a regional reserve bank in Kansas City, Mo.

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 Dec. 23, 1913.

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

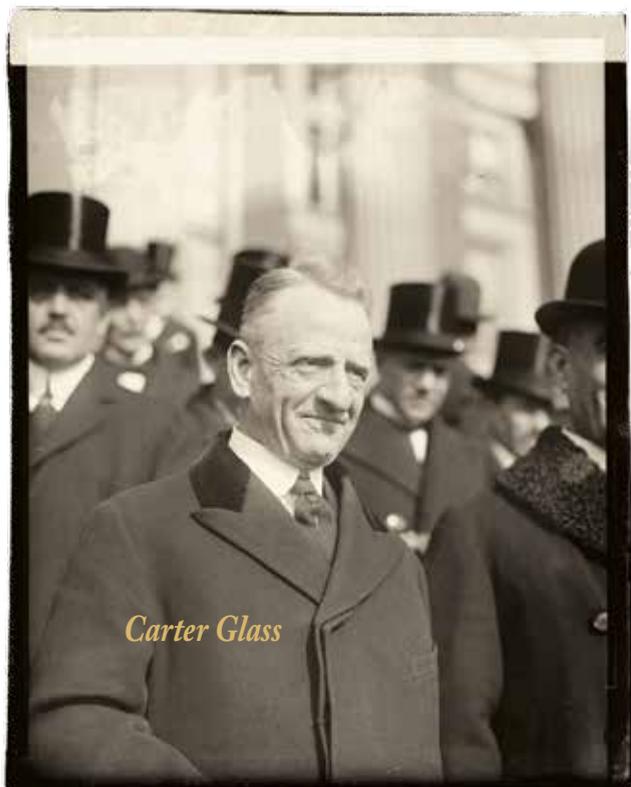
due for their work in positions they had later in their careers.

For more than a decade, however, Owen had consistently preferred a balance between the privately controlled, decentralized institution suggested by Glass, Aldrich and Paul 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.

### **Owen’s criticism of the Federal Reserve**

Owen had a limited understanding of monetary economics, as did others of his day. In hindsight, however, 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.

The praise Owen and many others had for the nation’s new central bank had soured due to the severe deflation of 1920-21,



*Carter Glass*

### *April 2, 1914*

Boston, Mass., New York City, N.Y., Philadelphia, Pa., Cleveland, Ohio, Richmond, Va., Atlanta, Ga., Chicago, Ill., St. Louis, Mo., Minneapolis, Minn., Kansas City, Mo., Dallas, Texas and San Francisco, Calif., are designated as the locations of the 12 regional Federal Reserve banks.

### *Nov. 16, 1914*

The Federal Reserve banks formally open at approximately 10 a.m. (EST). The opening date for Federal Reserve banks is nearly five months ahead of schedule due to fears of a possible panic caused by the outbreak of war in Europe.

which devastated agricultural regions of the country. The later deep deflation of the Great Depression, also called into question the main objectives of the nation's central bank.

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. This difference led to political backlash from Owen and others.

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, led the Board to make poor monetary decisions. One result was an even greater crisis, the Great Depression of 1929-33.

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.”

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 participated in ceremonies honoring him at the headquarters of the Federal Reserve Board in Washington, D.C.

This essay was created using the research paper “Senator Robert Owen of Oklahoma and the Federal Reserve’s Formative Years” by Chad R. Wilkerson. To view the paper, go to [www.KansasCityFed.org/publicat/econrev/pdf/13q3Wilkerson.pdf](http://www.KansasCityFed.org/publicat/econrev/pdf/13q3Wilkerson.pdf).

*Oct. 17, 2013*

The Kansas City Fed in conjunction with the Oklahoma History Center had an event in October that included the unveiling of a special exhibit at the Center commemorating the history of the Federal Reserve, the Kansas City Fed's Oklahoma City Branch and Robert L. Owen Jr. The exhibit opened to the public Oct. 17. Read the winter 2014 issue of TEN to learn more about the event. For more information about the exhibit, visit [www.okhistory.org/historycenter/federalreserve/index.html](http://www.okhistory.org/historycenter/federalreserve/index.html).

