



Reflecting back,
forging ahead

President Hoenig retires after
38 years with the Federal Reserve



When Tom Hoenig walked into the Federal Reserve Bank of Kansas City's headquarters at 925 Grand Blvd. on Aug. 1, 1973, he was starting on a path that no one else had taken. Although the Bank hires many employees directly out of college, Hoenig is the first one to rise through the ranks to the Bank presidency, an office he would hold longer than any of his predecessors.

Hoenig, the second of seven siblings, was born Sept. 6, 1946, in Fort Madison, Iowa. Hoenig's father was a plumbing contractor in the river town along the Illinois border just north of the Missouri state line who took on big jobs when the economy was thriving and did home plumbing repairs when times were slow.

"It was kind of a Tom Sawyer/Huck Finn upbringing on the Mississippi River," Hoenig recalled in a 2010 interview for the Bank's archives. "We did a lot of camping on the islands in the middle of the river and had a lot of fun."

He left Iowa in the mid-1960s to attend what was then called St. Benedict's College in Atchison, Kan., earning a bachelor's in

economics and mathematics from the school, which was later renamed Benedictine College. Plans for graduate school were delayed by the draft.

"I knew the day I was drafted where I was going, so I spent a year in Vietnam," Hoenig said. "I got put into the artillery, which I was thankful for."

Having a background in math, Hoenig was assigned to fire direction control for a gun unit that supported infantry movements. Hoenig's team calculated the setup and instructions to the gun crews directing fire to the target. It was a high-pressure environment where an error in calculation could have tragic results. Because of his experience, he was eventually involved in reviewing the work of his peers during official investigations of errors and misfires. During this period, which Hoenig later referred to as "a maturing year," he continued to apply to graduate schools and took an accounting course by mail.

Once back in the states, he married Cynthia Stegeman, whom he'd started dating as an undergrad. The couple moved to Ames, Iowa, where he pursued a master's degree, and



The Federal Reserve's Federal Open Market Committee meets eight times a year in Washington, D.C., to consider adjustments to the nation's monetary policy. President Hoenig (on the far left side of the table) has participated in the meetings for 20 years.

later a doctorate, from Iowa State University. Although many seeking post-graduate degrees hope to one day teach, Hoenig's focus was on working at the Federal Reserve.

His interest, he said, had been sparked after hearing a Federal Reserve Bank of Kansas City official speak to students at St. Benedict's. In graduate school he did everything he could to position himself in a way that would make it a reality, passing his macroeconomic qualifying examination with distinction. While visiting Kansas City in 1971 he saw a newspaper article about how the Kansas City Fed had created the Division of Bank Supervision and Structure, that, among other things, would conduct financial and competitive analysis on bank mergers. The division would be led by Wilbur Billington, an economist on the Bank's staff.

"So, I cut the article out and, in 1973, when I began looking for work, I pulled it out," Hoenig said. "I wrote Wil a letter with my résumé and my background and sent it to

him. They happened to be looking for people at that time who had an interest in banking as well as monetary policy, so he called me and asked if I would be interested in interviewing for the job."

In fact, he ended up being offered jobs at Federal Reserve Banks in both Kansas City and Chicago. He took the position in Kansas City, in part because of his familiarity with the area, but also because it was a unique opportunity that perfectly matched his interests.

In a September 2010 profile for *Bloomberg BusinessWeek*, journalist Paul Barrett wrote that "for a bookish young economist, writing reports on competitive conditions for agricultural finance was as good as it gets."

The 26-year-old Hoenig was responsible for reviewing bank mergers and acquisitions early in his career, a job that required a substantial amount of travel around the Tenth District. The work gave Hoenig an opportunity to see firsthand how monetary policy had an

impact on the economy. When agricultural and energy-related real estate values soared in the 1970s and '80s, Hoenig, who was promoted to assistant vice president in 1979 and vice president in 1981, was working in supervision during one of the most tumultuous periods of the region's financial history: the banking crisis of the 1980s. When values for these assets began to tumble in the collapse of a speculative bubble, Hoenig was heavily involved with cleaning up the resulting aftermath—a process that saw 350 Tenth Federal Reserve District banks either close or receive assistance.

“What I took from that was that it followed a period of very easy credit,” Hoenig told Barrett. “It followed a period when people felt prices could only go up. It also followed a period where the Federal Reserve, with the best of intentions, kept interest rates too low for too long.”

The presidency

Hoenig was promoted to senior vice president of Bank Supervision and Structure in 1986, and on Aug. 13, 1991, the Bank announced Hoenig had been selected from a field of hundreds of applicants to succeed the retiring Roger Guffey as president. Less than a month past his 45th birthday, Hoenig was the youngest president in the Bank's history. His first day on the job, Oct. 1, 1991, he attended a meeting of the Federal Reserve's monetary-policy-setting Federal Open Market Committee.

Billington, who was Hoenig's mentor, later told a reporter that he was certain Hoenig had his eye on the Bank presidency early in his career. Hoenig, he said, didn't look simply at the job at hand, but focused beyond the immediate task.

“That's what propelled Tom along,” Billington said in the Oct. 15, 1991, edition of *The Kansas City Star*. “He didn't see things in isolation; he saw them in relation to the whole. That is one of his great strengths.”

Under Hoenig's leadership, the Bank engaged in one of the most significant projects in its nearly century-long history: the

construction of a new headquarters building at 1 Memorial Drive. The 600,000-square-foot building was built on a prominent Kansas City hillside that, in recent years, had become something of a city eyesore as the site of the vacant St. Mary's Hospital. The new headquarters replaced the Bank building at 925 Grand Blvd., which was built in 1921 and had become the oldest Federal Reserve building still in service.

Hoenig referenced the old building during the 2005 groundbreaking on a sweltering June afternoon.

“While our current facility is beautiful, it is unable to meet today's needs. So, here we are at this spectacular location, ready to begin the construction of a new building, which, when completed, will provide us a world-class facility—one that will enable us to remain a vibrant part of our 12-Bank system for at least the next 80 years,” Hoenig said. “It is my expectation that, upon its completion, we will be prepared to serve our nation, this great city of Kansas City, and the other great cities and towns in the heart of America that define the Tenth Federal Reserve District.”

The building, which opened in 2008, was



The placement of a time capsule in a cornerstone during the construction of the Bank's headquarters building at 1 Memorial Drive marked an important milestone in the Bank's history. Joining President Hoenig were, from left, Robert Funk, then-chairman of the Bank's Board of Directors; Lu Córdova, then-deputy chairman; and Rich Rasdall Jr., who was first vice president.

part of an evolution at the Federal Reserve Bank of Kansas City during Hoenig's tenure that perhaps is equaled only by that of Jo Zach Miller Jr., the Bank's founder and leader during the construction of the previous headquarters and the opening of Branch offices in Denver, Oklahoma City and Omaha.

Those Branch offices underwent a significant change during Hoenig's leadership. Each was remade to raise its participation in the Federal Reserve's monetary policy mission with regional economists moved to all three locations. In addition to serving as Branch executives, the economists are relied upon to closely monitor the economy in their part of the District through contact with local business leaders as well as conduct economic research.

Too big to fail, expectations of inflation

Although Hoenig's leadership on the new building project and at the Branches had echoes of Miller's presidency, the final years of

his career at the Federal Reserve Bank of Kansas City had a resonance with his early years at the Bank. The connection was not lost on Hoenig, an avid reader and student of history.

When he was named the Bank's president, much was said about what had already been a nearly 20-year career in bank supervision.

"As a regulator, Hoenig was a frontline witness to the economic turmoil that ravaged the region's agriculture and energy sectors in the 1980s," *The American Banker* wrote in its Aug. 15, 1991, edition. "Ushering banks through hard times was a painful but valuable experience."

Little did he know how valuable that experience would be.

In the aftermath of the 2007 recession, Hoenig was thrust upon a national stage as he spoke out frequently about the financial crisis and its causes, as well as the response to the crisis in terms of both regulatory changes and monetary policy. He cast the lone dissenting vote against the FOMC's easy money policies at each of the eight FOMC meetings in 2010 and

One of the most publicly visible projects completed under President Hoenig's leadership was the construction of a new headquarters in Kansas City. The facility replaced the Bank's long-time home at 925 Grand Blvd., which was, at the time, the oldest building in the Federal Reserve System.



was troubled by the FOMC's stated promise of keeping the federal fund rates at a historic low for "an extended period." The exceptionally low rates were creating a number of problems including a misallocation of resources—or a bubble—that, in turn, would lead to another similar crisis. He also spoke out frequently about the large and systemically critical financial firms known as "too big to fail," whose carelessness and mismanagement, he said, were a major cause of the crisis that grew even larger and more influential in its aftermath. Hoenig had warned about the dangers posed by these firms in a public speech more than a decade before the crisis.

"It's not just the Fed's loose-money policy that bothers Hoenig," David Von Drehele wrote in *Time* magazine's Feb. 14, 2011, edition. "He feels that little has been learned from the crisis and that government policy continues to smile on Wall Street but not on Main Street. Instead of breaking up the financial giants whose gambles crashed the economy, the government has let the biggest banks grow even bigger. Now they're gorging on free money. Where is the penalty for failure?"

Articles often mentioned that a framed 500,000 German mark produced when Germany faced hyperinflation hangs on his office wall. It was a gift from a neighbor that was also a dire warning about inflation: Although the note could have paid for a home at one time, a few years later it would have bought only a loaf of bread.

Although the note received much attention, Hoenig often explained that inflation can build momentum slowly over a long period of time. As an example, he noted that the soaring inflation of the late 1970s had roots going back a decade or more that later led up to the crisis in the 1980s.

Barrett, in the *BusinessWeek* profile, referred to Hoenig's views as a brand of "prairie populism."

Those who know him well, however, think of it another way.



Meeting with community leaders across the seven states of the Tenth Federal Reserve District requires a lot of time on the road. With an expansive and largely rural District, trips often meant long hours behind the wheel for President Hoenig.

"Tom has seen the good, the bad and the ugly, so people listen to him," Terry Moore, a Kansas City Fed director and president of the Omaha Federation of Labor, AFL-CIO, told *BusinessWeek*. "We feel like Tom represents the heartland view of the economy you don't necessarily get from New York or Washington. He's ... from Iowa, and we like that."

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