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Internal Memorandum

Introductory Conversation with Dr. Watrous Irons, President of the Federal Reserve Bank of Dallas, and Morgan Rice

Mr. Rice is Vice President in charge of Research. Dr. Irons was head of the Research Department, the Vice President, before he was promoted to the presidency.

Hampered though he may be as a relative newcomer to the Dallas Bank, there is no doubt that Irons is intelligent. He has the reputation in the Bank of accepting an idea quickly, if it is a good one, and of not being afraid of new ideas. He has an eager, tenacious nature.

Conversation with Dr. Irons was mostly about the economic background of the Bank. Dallas was founded about 1850 as a small trading post. Its growth began when the railroads came in. There is a very active competition between Dallas and Houston. Considering the degree of competition between Texas towns, the first question was why the Federal Reserve Bank should have been located in Dallas rather than in one of the other cities. A considered answer was that there was no clear economic reason why Dallas should have been chosen as the home office of the Federal Reserve Bank. In 1914, the city of Houston was smaller than it is now, and also, it is not as central as Dallas. Fort Worth is a railroad center and probably offered much more competition. The two men both agreed that leadership in Dallas is a particularly active and cohesive force and that this was probably the answer as to why this city was chosen above any other in the large state of Texas. (Political reasons of the time have faded)

The eleventh district includes not only the entire state of Texas, which is big enough, but counties in northern Louisiana, a southern fringe along Oklahoma, part of Arizona and of New Mexico. The result is a huge, sprawling district, which, when it was laid out, must have been extremely difficult to administer. It would be very interesting to collect early stories of moving around over this vast and, to a certain extent, empty territory in the course of a banker's ordinary business.

The economic condition of Texas when the Bank was founded was dependent on two crops, first cattle, and then cotton. It is true that oil had been discovered in Texas in 1901, but it did not assume great enough proportions to dominate the economic picture until after World War I. Beaumont oil fields came in in the 1920's, and the west Texas fields after the second World War (check that date).

If, in the early days of the Bank, the eleventh district was, because of its dependence on cattle and cotton, always in a boom or bust psychology, in which the bankers had to carry the farmers until the moment when the crops or the cattle were sold, and debts were liquidated at only one time of the year when the money came in for these crops or cattle, the last forty years have brought about extraordinary changes. As a whole, it can be said that, with the exception of periods of going backwards like the bank failure era of the 1920's and the bank holiday era of the 1930's, the general trend of Texas economic life has been upward. The degree of expansability has varied, but growth has been the order of the day.

Over the last decade and a half (this really starts as from 1938 on), the great developments have taken three lines, first in chemical industries allied to petroleum and sulphur. The Texas oil fields have provided the raw materials for intensive petro-chemical development. The southwest contains the greatest and, I think, the only sulphur deposits in the United States. These have been discovered and exploited within this period. Also, there has been enormous advance in handling magnesium and aluminum within the district. All these modern industries have brought great growth to Texas.

The second line of development has been in air transport and the development of air fields for civil and military. Aviation has provided a use for otherwise useless ground in that it takes great stretches of open territory for air fields, and Texas has more stretches of open territory than almost anything else; also it provides a steady influx of personnel with wages to spend. Dr. Irons told of going to the San

Angelo district in the middle of the drought to see how banks and towns were getting on. He expected to find a repetition of the scare of the 1920's; on the contrary, things were doing very nicely, not because there were any crops being harvested or anything being grown in the midst of the drought, but because of the nearby air personnel and the wages which they were steadily pouring into the economy of the town.

The <u>third</u> line of growth has been in small industry, highly diversified and starting up in all sorts of small places where it was not expected. Much of this came out of the sub-contracts granted by big industry during the war. A small factory employing 3 or 4 men would get enough experience to launch a business on their own once the war was over. To Dr. Irons the war looked like a catalyst which freed a great potentiality of growth. Without the war, he thinks the United States might have achieved the same growth by 1960, but the war pushed the country into it very suddenly and brought about the extraordinary changes which are so noticeable in this region.

The result of these three lines of expansion is a new state of balance and a new degree of health in the Texas economy. Where they used to have to depend on the two crops, cattle and cotton, and then on the oil boom, to make them rich one year and poor the next, they now have a steadily growing diversification within industry and a new balance between industry and agriculture.

Dr. Irons finds that agriculture is now over-rated as a factor in the Texas economy. He gives it a rating of only about 17% in the whole economic picture, with industry occupying the rest. He is not sure that people realize as yet how great a change has taken place. He would not go as far as to say that another "bust" was not possible, but he does not think it likely. The new Texas, which is of course a rapidly changing thing, is a very different place from the Texas of the 1920's. That difference is, to a certain extent, mirrored in the growing solidity of banks and banking practices. There was a banking failure recently within the Dallas district, but it was caused by a robbery which literally stole so high a proportion of the Bank's resources that it had to close.

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