

Robert Owen and the Federal Reserve

Remarks by

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

October 4, 2019  
Economic Forum  
Tahlequah, Oklahoma

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 delighted to join you today.

I'd like to spend a few moments talking about the Federal Reserve's important connection to Tahlequah. The history and design of our nation's central bank is often misunderstood, but is as important today as ever. Tahlequah is an especially appropriate location to discuss this history because events that occurred in this area more than a century ago had a direct and significant impact on the Fed's design.

As you may know, sometime before 1880 a gentleman named Robert L. Owen came to the Tahlequah area as a teacher and supervisor of the Cherokee National School System. The historic Owen School House, now known as the Park Hill/Owen Community Center, near the Cherokee Heritage Center that bears his name.

After leaving the school, Owen became a lawyer and practiced law not far from here in Muskogee where he organized and served as president of the First National Bank for a decade. In 1907 he was elected one of Oklahoma's first United States Senators, making him one of the first two Native Americans to serve in the Senate.

He joined the Senate at a time of economic turmoil. Only a few weeks earlier, the nation experienced a financial crisis that would become known as the Panic of 1907. Soon after, Congress began discussions about how to improve the nation's financial system, launching a process that would lead to the Federal Reserve Act of 1913.

There, Owen played a key role, serving as the legislation's Senate sponsor and chair of the Senate Banking Committee.

Owen's 10 years in Oklahoma banking contributed importantly to his thinking about the role of a central bank and how it should be designed. Owen was a banker during a particularly volatile time for our nation's banks and the U.S. economy. The panic of 1893 led to the closing

of 500 banks. Owen later talked about how he saw the problems in the banking sector during this period ripple across the economy, affecting property values, business failures and unemployment, which reached 25 percent or higher in some areas of the United States.

He later wrote that the panic of 1893 “demonstrated the complete instability of the financial system of America and the hazards which businessmen had to meet under a grossly defective banking system.”

He had spent much time considering how to address these issues and, as fate would have it, was ideally suited to shape a solution when the opportunity was presented.

## **MISSION AREAS**

Before I talk about the structure, however, it might be helpful to explain the full mission of the Federal Reserve.

Although monetary policy is likely the first thing that comes to mind when the Fed is mentioned, as the central bank of the United States, the Fed has other responsibilities that focus on the stability of our nation’s financial system.

We are a banking supervisor with regulatory responsibilities that entail not only examining depository institutions for financial fitness, but also ensuring that all customers are offered financial services on fair and appropriate terms. Here we focus on such matters as the ability of borrowers to access the credit that may be necessary to fund an education, establish a business or purchase a home.

We are a bank for banks and also serve as the government’s bank. This means we not only hold deposits but we are a provider of important services such as those necessary for the smooth functioning of the payments system. This has included the processing of checks along

with the use of other payment rails to transfer funds between depository institutions. Recently, you may have seen some headlines about a new Fed initiative for real-time payments, a system which will expedite the actual flow of funds to match the speed with which consumers pay for things using apps on their phones or other online services. This initiative, which might be thought of as a high-tech plumbing network for the financial system, is the most substantial innovation in payments in at least 40 years.

And, of course, there is our role in conducting the nation's monetary policy, where we operate under a directive from the U.S. Congress that is widely known as the Fed's dual mandate: to foster economic conditions that achieve stable prices and a maximum level of sustainable employment.

The Fed relies on a substantial foundation of research in support of these operations. The economists who study a variety of economic issues include for example, our Oklahoma City Branch with particular expertise in the nation's energy economy. Others are experts in banking, financial markets and payments.

## **THE FOUNDATION OF TODAY'S FED**

As I list these responsibilities, it is clear that there are many instances where the financial system has evolved in ways that Owen and the Fed's other congressional founders could not have predicted.

For example, when Congress was debating the Federal Reserve Act, the gold standard was literally the standard for the world's most important currencies. That began to change internationally during World War I and changed later in the United States. Thus monetary policy, as it is administered by the FOMC today under the delegation of Congress, is an area that has seen significant change. In addition, technology has increased the pace of commerce around the

globe. Meanwhile, innovation in financial products and services has fostered with it a corresponding expansion of risks.

In the same way the authors of the Constitution could not plan for every eventuality, the framers of the Federal Reserve Act recognized that they were establishing a framework for a central bank that would have to evolve if it would be capable of serving the public interest.

In terms of structure and governance, there were two main ideas put forward during the deliberations: On one side were those who supported a decentralized structure under the control of the private sector; on the other side were those who believed that the system should be highly centralized under government control.

Owen, however, believed in what might be considered a third option: He was among those who supported the idea of a balanced system where both sides could share in governance. With a background in rural Oklahoma banking, Owen had understandably strong opinions about the potential risks associated with a central bank operating under Wall Street's direct control. In a debate on an early proposal that did not advance, Owen voiced his concern about a system that was "concentrated in any one city where a small clique could control" it.

Such an arrangement could present a couple of key risks. First, a closely aligned group of like-minded leaders might not have sufficient perspective for gauging risks since they would likely have similar views. For example, a group dominated by an East Coast perspective might not have an appreciation for the full diversity of our banking system and the economy. No one here needs to be told that the banking needs of a Wall Street firm and a Tahlequah entrepreneur are very different.

Thanks in part to Robert Owen, we have a central bank structured in a manner that serves our nation well. General oversight of the Federal Reserve is through a government-appointed

Board of Governors in Washington, D.C. The 12 regional Reserve Banks, meanwhile, are independent corporations that, along with their affiliated Branch offices, operate under the leadership of a local board of directors.

Currently, two Oklahomans serve on the Board of Directors of the Kansas City Fed's head office. Rose Washington, who some may know from her work as CEO of the Tulsa Economic Development Corporation, currently serves as chair, while Doug Stussi, with Love's Travel Stops in Oklahoma City, is a director. Meanwhile, Susan Chapman Plumb from here in Tahlequah is one of seven Oklahomans serving on the Board of our Oklahoma City Branch.

In addition to their oversight roles, these directors are especially important to me in my role representing the Tenth Federal Reserve District in FOMC policy deliberations. Along with our advisory councils and other local contacts, they are a source of information regarding emerging developments in banking and the economy. As intended by Robert Owen, they are the critical link in ensuring that our nation's central bank is not an isolated institution but one that considers the broad economic experience of all Americans.

This broad representation across the United States provides the regional Reserve Banks with a degree of protection against a risk that was recognized early in U.S. history by Alexander Hamilton. That is the risk that politicians could try to wield undue and dangerous influence over the central bank.

Robert Owen, a school teacher from Tahlequah, might not have imagined that the institution he shaped more than 100 years ago, would have proven so durable amid the economic and political challenges it would face. But I think he would be pleased to see that the Fed, by design, has a system that provides a forum for civil discourse about monetary policy and other important central bank issues. And in my view, it continues to serve our nation well.