

Transcript of Associate Professor Kochin, Justin Tsang, and Rayan Krishnan at University of  
Washington, Savery Hall, room 334

0:00

...

Professor Kochin: “The Panic of 1907 was the last crisis he had an important role because in 1914 he was dead. He had an important role in the 1893 crisis because the survival of the US Gold Standard was in question, and he loaned the US government for the purchase of gold. He has experience as a coordinator for response to crisis, and in 1907, within the country, there were many objections to having an individual [respond]. No one thought the 1907 crisis response was the best that could be done. Even those who felt that J.P. Morgan had dealt within the constraints, the institutions available had done a very good job. But other people would point out that he used his position in 1907 ... What J.P. Morgan did to defuse the crisis also transferred a fair amount of wealth to him. He obtained permission for US Steel to purchase TCI, rescuing a brokerage that might have otherwise gone under, probably exasperating the crisis. One thing in anti-trusts was that Taft did not pursue anti-trusts vigorously enough. But there was one anti-trust he pursued vigorously. He disregarded Theodore Roosevelt’s promise and sued US Steel. This is after Roosevelt had accused him of being easy on anti-trusts, so he then went after US Steel, which is one that Roosevelt had allowed. After this, there was a committee of a commission to examine the question of how questions like this should be handled. There were two senators involved. Aldrich was one of them, he was very wealthy, and his daughter married John D. Rockefeller Junior. He authorized what were effectively Federal bank notes. That was supposed to be the temporary fix, so if there were to be a crisis, issuing temporary notes could

augment the money supply, emergency notes. If I remembered correctly, they had the notes sitting in Washington D.C. printed and ready to be issued, after the authorization. And in 1914, the Fed had been operation, before WWI, they issued these notes. It was a considerable measure. There were a number of Wall Street commissioners who had a meeting on Jekyll Island. Morgan himself did not go, but those who went there, in some direct sense were his partners. There had been proposals for the Republicans for a central bank. Some of the ways the banking system changed was the policies. In some sense, the act passed had twelve central banks. Twelve Federal Reserve banks, with the coordinator in Washington D.C.. The Federal Reserve board was originally thought of as a regulator, to regulate the banks sort of like a private organization. In fact, the reserve banks retained a great deal of autonomy from 1914 to 1933. They could to some extent operate independently, and the Federal Reserve board had certain controls on them, but the person who was in charge. Benjamin Strong was in fact, the director, was the most important person in setting Federal Reserve policy from 1914 to 1928 when he died. In that sense, the actual operation of the fed from 1914 to 1928 more closely resembles the Jekyll Island Proposal in terms of operation. New York set a lead which meant that the Federal Reserve system was essentially being controlled by a Wall Street figure, Benjamin Strong. The other Federal Reserve kind of came in line, and the Federal Reserve Bank did not have much responsibility. Strong was at the center of policy. Then Strong died, and since his influence hadn't been based on an institutional position, that he was in charge, but he was instead a helpful person and everyone realized that he knew what he was doing. He had an institutional position, he was at the head of the largest, most important Federal Reserve bank, but the coordination of policy that he imposed was by force of personality and not by institutional position. When he died, the Federal Reserve banks came to a lack of much coordination. This was part of what was

responsible for the poor reaction to the Great Depression. If Strong had lived, the Great Depression might have never have happened. At that point, the changes that were imposed by the Democrats became very important and very harmful. The fact that there were 12 Federal Reserve banks and they had a lot of authorization, they could if they wanted to, in a fair extent independently. There wasn't really coordination of policy. The Federal Reserve banks outside of NY did not really understand central banking. The Federal Reserve system is now heavily centered on the Reserve Board. The economists in the Federal Reserve banks, not the board, provide the information that's provided to the open market committee. The president of the NY Federal Reserve is always on the committee, but the positions of the others rotate. So, everything is centered in Washington now. The original proposal would have had in this sense, similar to the central banks of England, is a unified body in London, or the Parisian or Germany central bank. So all of these had a similar structure, the structure most similar to the Federal Reserve bank is the European central bank. They have coordination technique, and a board. It was a new deal reform that centralized decisions. So the European central bank is not as well coordinated as the America central bank. That sets up problems, because there can be miscommunications within it. The Germans in general don't want to go for expansive policies, which most other central bankers want to go to.

Rayan Krishnan: Have you heard of the Pujo Committee?

Professor Kochin: Doesn't ring a bell.

Justin Tsang: It was organized in early 1913, Arsène Pujo let a committee to investigate the concentration of wealth among NY's biggest bankers.

Professor Kochin: I know there were such investigations, but I forgot the name of them. I do not know of the committee had any impact on the Federal Reserve Act, but I know they animated the

concentration of wealth among these bankers on Wall Street. These people led to the Federal Reserve system, which was not well coordinated. The anti-banker sentiments could not allow recovery during the Great Depression. This made it worse, rather than improving the matters. Ben Bernanke has a speech about the failure of the Fed in the Great Depression, and he said well we generated the Great Depression once, we promise not to do it again. You'll see what he says about the failures of the Fed. His discussions are more about their failure to act in certain ways, rather than how the Act and its policies made it difficult at the time. So, anyway, so ok. I think I have somebody else

Rayan Krishnan: Thank you.

Justin Tsang: Thank you very much.

28:41