"The Federal Reserve Was a Bad Idea"

Wake Forest University Conference February 11-12, 2011

The Federal Reserve's centennial is approaching and we anticipate oratory, books, conferences, and papers singing its praises. Perhaps this praise is warranted; perhaps it is not. The purpose of this conference is to examine whether or not such praise is truly warranted. Scholars will present papers that support and/or contradict the conference title's assertion by carefully examining the historical record.

This conference is organized by the Wake Forest University Economics Department and is sponsored by the BB&T Center for the Study of Capitalism

BB&T Center for the Study of Capitalism
www.capitalism.wfu.edu

"The Federal Reserve Was a Bad Idea"
Friday, February 11, 2011

10:30 Conference Registration and Refreshments *Kirby Hall of Honor (1st Floor)*

11:00 Conference Welcome *Kirby Hall, B02*
Jacquelyn S. Fetrow, Ph.D., Dean of Wake Forest College

11:05 J. Daniel Hammond, Wake Forest University *Kirby Hall, B02*
"Milton Friedman and the Federal Reserve: Then and Now"

Do recent events show that the Federal Reserve is essential to economic stability, or do they show that the Fed is part of the problem? Milton Friedman left a body of writings that deal with this question for earlier periods of economic instability. We will use Friedman's evaluations of the Fed's history to draw implications for today regarding the Fed and stabilization policy.

12:30 Lunch for Registered Faculty and Guests *Benson Center, 401B*

2:00 John A. Allison, Wake Forest University, *Carswell Hall, Annenberg Forum*
BB&T Chairman and CEO (retired)
"The Practical Impact of the Federal Reserve on Decision Making in Large Financial Institutions"

Based on his 37 year career in banking (20 years as CEO), Professor Allison will discuss the significant impact of the actions of the Federal Reserve on decision making by leaders of large financial institutions. Many of the assumptions underlying academic analysis do not exist in the business world, i.e. decision makers do not have perfect information and must make decisions to keep their firm in business in the short term in order to be in business in the long term. Practical experience indicates that often Federal Reserve decisions made in theory to achieve the "public good" can better be understood in the context of maximizing the well-being of the Federal Reserve itself, which is consistent with public choice theory.

3:30 Refreshments *Kirby Hall of Honor (1st Floor)*

4:00 John A. James, University of Virginia *Kirby Hall, G001*
David F. Weiman, Barnard College
"Panics and the Disruption of Private Payments Networks: The United States in 1893 and 1907"

We analyze the impact of the 1893 and 1907 panics on the national payments system through the lens of domestic exchange markets, where interior banks bought and sold New York funds. We show that the degree of disruption in regional financial centers was increasingly a function of their place or centrality in intercity correspondent networks rather than of local conditions, and then provide both qualitative and quantitative evidence on the effects of such payments disruptions on real economic activity. While pre-Federal Reserve private payments networks were normally quite efficient, when convertibility of New York balances was threatened or limited, they also proved to be important channels for transmitting financial pressures. Such restrictions in turn had serious consequences for payments settlement and consequently for the level of economic activity.

5:30 Reception & Dinner for Faculty and Guests *Reynolda Hall, Magnolia*

7:00 Keynote Speaker *Reynolda Hall, Magnolia*
Introduction by Jill Tiefenthaler, Ph.D., Provost

Thomas Sargent, New York University
Keynote Address: "Drawing Lines in U.S. Monetary and Fiscal History"

"The Federal Reserve Was a Bad Idea"
Saturday, February 12, 2011

8:00 **Conference Registration and Refreshments** *Kirby Hall of Honor (1st Floor)*

8:30 **Jeffrey Miron, Harvard University** *Kirby Hall, G001*
"Bank Failures and Output"

The Treasury and the Fed justified a range of tools designed to prevent failures of large, complex financial institutions ("banks") by arguing that bank failures exacerbate output declines, rather than just reflecting output losses that have already occurred. This paper examines evidence on the relation between bank failures and output losses by re-considering the findings in Bernanke (1983) on the relation between bank failures and output during the Great Depression.

10:00 **Refreshments** *Kirby Hall of Honor (1st Floor)*

10:30 **George Selgin, University of Georgia** *Kirby Hall, G001*
Lawrence H. White, George Mason University
"Has the Fed Been a Failure?"

As the one-hundredth anniversary of the 1913 Federal Reserve Act approaches, we assess whether the nation's experiment with the Federal Reserve has been a success or a failure. Drawing on a wide range of recent empirical research, we conclude that the need for a systematic exploration of alternatives to the established monetary system is as pressing today as it was a century ago.

12:00 **Lunch for Registered Faculty and Guests** *Reynolda Hall, Magnolia*

1:30 **Richard Sylla, New York University** *Kirby Hall, G001*
"U.S. Growth and Stability With and Without a Central Bank"

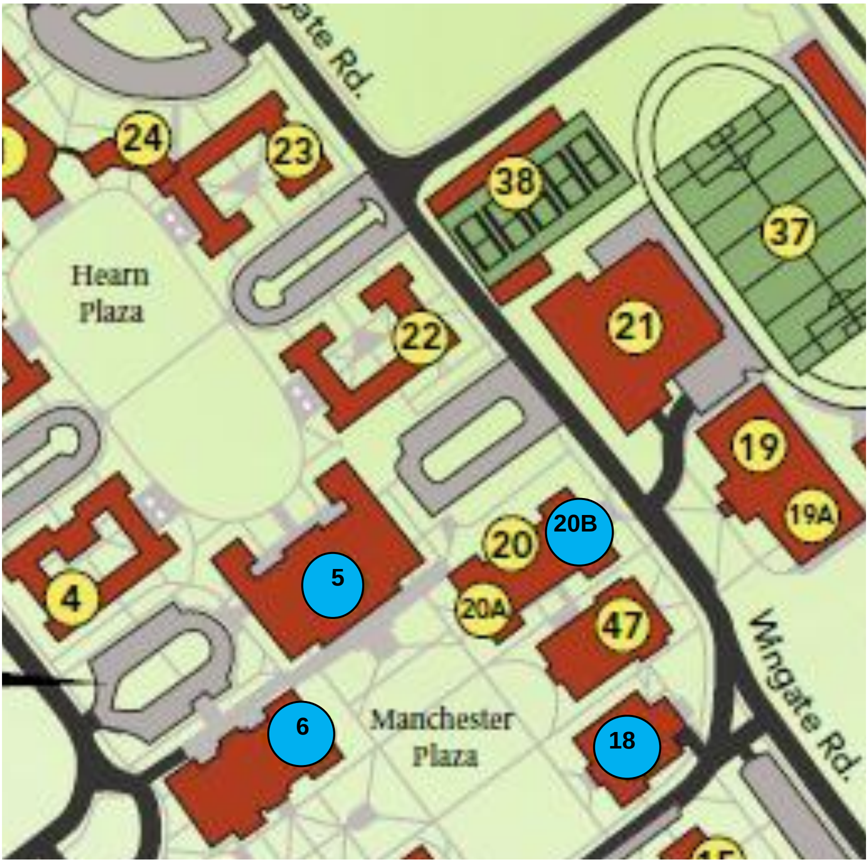
US history provides an interesting case study of a country that had a central bank in its early decades, then abandoned the institution for eight decades, and then brought the central bank back in 1914. The historiography of early US central banking is mostly political; here there is an attempt to make it more economic and financial, and to relate it to the later Federal Reserve history. The paper is also an initial foray into the issue of what difference the presence of a central bank made for US economic growth and financial stability.

3:00 **Refreshments** *Kirby Hall of Honor (1st Floor)*

3:30 **John H. Wood, Wake Forest University** *Kirby Hall, G001*
"A Comparison of the Independent Treasury and the Federal Reserve System as Congress's Agents for the Regulation of the Currency'"

The principal monetary authority, or agent of Congress's money power, between 1846 and 1914, was the U.S. Treasury Department, closely monitored by Congress. It was succeeded in this role by the independent Federal Reserve. The Great Depression of 1929-33 may have been worsened by the increase in monetary policy's independence of Congress.

Wake Forest University
Campus Map Close Up



Carswell Hall – 18
Kirby Hall – 20B
Reynolda Hall – 5
Benson Center – 6

Shuttle pickup and drop-off in front of Kirby Hall.

BB&T Center for the Study of Capitalism
www.capitalism.wfu.edu