Homer Jones: “Propensity, capacity, and opportunity”

Homer Jones (1906-1986) was a professor and mentor of Milton Friedman at Rutgers University before joining the Federal Reserve System, first the Board of Governors and later the St. Louis Fed. As director of research at the St. Louis Fed from 1958 to 1971, Jones strongly promoted the collection of data and its use in economic analysis. What was even more innovative and forward-thinking was his presentation and distribution of these data—at first to policymakers and subsequently to the public. This effort placed the St. Louis Fed at the forefront of the regional Reserve Banks in contributing to national-level economic analysis, beyond the traditional focus on their respective regional economies. St. Louis Fed leaders, including Jones, followed their research wherever it led them and, in turn, challenged conventional wisdom and practices. This inclination to push the boundaries of research and policymaking earned the Bank the label of “maverick in the Fed System,” as noted in a Business Week article published November 18, 1967 (reprinted in the next section of this issue).

In 1976, Milton Friedman published a tribute to Homer Jones in the Journal of Monetary Economics; in it, he described Jones’s abilities and inclinations, the state of policymaking at the time, and the role and impact of the St. Louis Fed, where “propensity, capacity, and opportunity coalesced.” Friedman’s remarks capture a remarkable period during which the St. Louis Fed contributed substantially to the discussion and implementation of monetary policy.

A noteworthy tribute to Jones’s leadership at the St. Louis Fed has been the Homer Jones Lecture Series, which continues the tradition of serious, open discussion about the conduct of policy. Over the years, the invited speakers have included renowned economists, financial analysts, and central bank policymakers worldwide. The first lecture was delivered in March 1987 by Beryl M. Sprinkel, the chairman of the Council of Economic Advisers at the time. His inaugural lecture, “Confronting Monetary Policy Dilemmas: The Legacy of Homer Jones,” reminds policymakers that, among other things, policymakers must always be humble and consider the possibility that their model may be flawed. Also included is the 2009 lecture delivered by Raghuram Rajan, formerly the Eric J. Gleacher Distinguished Service Professor of Finance, University of Chicago Booth School of Business, and now the governor of the Reserve Bank of India. In his lecture, “The Credit Crisis and Cycle-Proof Regulation,” he reminds regulators of the need to design polices that will survive cycles of euphoria. During good times, both the market and the regulators become overly confident, ignoring risk and relaxing credit limits. This leads to financial crisis and bad times, which cause regulators and loan officers to become overly cautious, adopting draconian measures to tighten credit limits.

The wide array of lectures over the years are compiled and available for reading on our website: http://research.stlouisfed.org/conferences/homer/.
May 13, 1958, memo from St. Louis Fed president Delos C. Johns on the appointment of Homer Jones as vice president and director of the Bank’s Research Department.
Dr. Arthur F. Burns, Chairman
Board of Governors of the
Federal Reserve System
Washington, D. C. 20551

Dear Arthur:

Enclosed is our "Weekly Financial Data." We get this into the mail about 6:00 p.m. each Thursday. If you do not let us know differently, we shall send it to you regularly as this one is addressed. If you wished, we might try sending it to you at home, possibly special delivery, so that you might get it before Monday.

Our chief, original idea in putting out this release was simply to put new weekly data in some perspective. The original idea of the writing on the first page was to indicate to the public that it is possible to make something out of data; it is not intended that these paragraphs present the only reasonable presentation or interpretation of the data.

You will note that we mention the rate of increase of the money supply from the four weeks ending March 4, 1970. Some have objected that this is a "low base." We have not been able to see anything abnormal about the figures for the period January 28 - March 25, whereas those for late December, early January, late March and early April were biased upward. Further, the period from late January to late March appears a logical base in view of what the FOMC directives and releases show about time of change of policy.

Nevertheless, we have indicated a rate of increase from the average for the first quarter. I hate to do this because I feel it gives too low a rate in view of the abnormalities of early January and late March.

It was a tremendous pleasure to have you here and I thank you for the kind things you said about research at this Bank.

Sincerely,

Homer Jones

Encl.
Air Mail
The money stock has increased at a 6.7 per cent annual rate since the four weeks ending March 4 (page 2). The rate of increase from the first quarter to the three months ending September 2 was 4.8 per cent. By comparison, this magnitude changed little on balance in the eight months from June 1969 to February 1970 and rose at a 3.1 per cent trend rate from 1957 to 1969. Since the four weeks ending March 4, the demand deposit component of the money stock has increased at a 6.4 per cent rate and the currency component at a 7.8 per cent rate.

Federal Reserve credit and member bank reserves, which underlie the money stock, have increased substantially over the past six months, rising at annual rates of 8.1 per cent and 9.1 per cent, respectively (pages 2 and 3).

Time deposits at commercial banks have increased at about a 21 per cent annual rate since February, in sharp contrast to a decline at a 5.4 per cent rate from December 1968 to February (page 6). Growth of time deposits from February to June was at a 14 per cent rate compared to a 33 per cent rate since June. This rechanneling of funds through banks, often called 'intermediation,' reflects lower short-term market interest rates and relaxation of Regulation Q ceiling rates.

Regulation Q has been changed twice since the beginning of 1970. The first change, effective January 21, permitted banks to pay 4.5 per cent on passbook savings deposits, up from the previous 4 per cent ceiling, and ceiling rates on most other time deposits were raised either 1/2 or 3/4 of one percentage point. The second change in Regulation Q, effective June 24, suspended the ceiling for CU's of $100,000 and over maturing in 30 to 89 days. The rates on these CD's rose about 1-1/2 percentage points immediately after the ceiling suspension but have fallen about 1/2 percentage point in recent weeks.

Certificates of deposit in denomination of $100,000 or more have increased from $10.3 billion outstanding on February 4 to $20.6 billion on September 2 (page 8). Approximately $7 billion of this increase has occurred since the June 24 change in Regulation Q. The growth in CD’s since February contrasts with a substantial $14 billion decline from December 1968 to February 1970.

Short-term interest rates in general have fallen about 1-1/2 percentage points since early this year, but are still higher than at any other period since the early 1920's (pages 10 and 11). Yields on 4- to 6-month commercial paper have declined from 9 per cent in January to 7-1/2 per cent. The current yield of 6.38 per cent on three-month Treasury bills compares with about an 8 per cent rate early in January. Bill rates declined mainly in the first quarter and have changed little on balance over the past 5 months.

Prepared by Federal Reserve Bank of St. Louis
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An early issue of the St. Louis Fed’s data publication, *U.S. Financial Data*. 
Top: L-R, Leonall Andersen, Dale Lewis, Darryl Francis, and Homer Jones.

Bottom: Darryl Francis and Homer Jones.