

Places and People Under Heterogeneous Federal Reserve Policy

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Abstract. I study the *places* (local labor markets) and *people* (workers) consequences of the Federal Reserve's heterogeneous policy response to the bank failures that occurred in Mississippi at the onset of the Great Depression. During this period, the St. Louis district contracted its credit supply while the Atlanta district did the opposite—a rare natural experiment in monetary policy implementation. By using a Regression Discontinuity design and randomization inference, I show that (1) The bank failure rate was significantly smaller in the Atlanta district relative to the St. Louis district. (2) There were economically and statistically significant long-term differences in labor market outcomes and migration. Ten years after the initial shock, residents of the Atlanta district side of Mississippi (place) were less likely to be unemployed, less likely to be in work relief, less likely to be in the labor force, and had higher weekly income relative to their St. Louis counterparts. (3) By tracking individuals who were originally near the boundary in 1930, I find that ten years later, individuals originally on the St. Louis side were more likely to migrate. Importantly, for these individuals (people), most of the differences relative to their Atlanta-side counterparts were mitigated, suggesting that migration served as a channel through which individuals could counteract the negative shock faced by places on the St. Louis-side.

Keywords: Monetary Policy, Labor Markets, Places versus People, Internal Migration, Great Depression, Bank Failures