

BANKERS' PREFERENCES AND LOCATING FEDERAL RESERVE BANK LOCATIONS

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ABSTRACT

This essay examines the relationship between the locations bankers preferred to locate Federal Reserve banks and the locations selected by the committee charged with organizing the Federal Reserve System. Immediately following the decision locating the 12 Federal Reserve banks, citizens and organizations alleged that the responsible political committee behaved with partisanship and favoritism, criticisms repeated to the present time. I examine the committee's selections using a previously unreported February 1914 document prepared by the committee's secretary. This document records the National bankers' preferred reserve bank location for each county in each state. The April 1914 decisions reflect 11 of 12 cities recommended in Elliott's report. I conclude that the evidence suggests the committee selected Federal Reserve bank locations in the public interest rather than favoritism, politics or ignorance.

Congress directed the committee to organize the Federal Reserve System in the Federal Reserve Act of December 23, 1913 in Section Two, in which the committee could determine the limits of 8 to 12 Federal Reserve Districts and to select a Federal Reserve bank location within each. Congress did not specify the principles to locate reserve banks but required, "That the districts be apportioned with due regard to the convenience and customary course of business and shall not necessarily be coterminous with any State or States." To obtain information about banking, business and trade, and their "convenience and customary course," the committee held hearings in 18 cities across the country between January 5 and February 17, 1914, in which testimony was collected regarding the 37 cities that had requested consideration.¹

The committee's decisions, although lacking transparency, did not occur in a vacuum. Testimony on the preferred reserve locations and course of banking, trade and commerce had been noted during the cross-country hearings. In addition, the Office of the Comptroller of the Currency polled 7,471 National banks beginning in January 1914, to submit, first, each National bank's top three preferred locations to deposit reserve account balances, and, second, 8 to 12 suggested Federal Reserve bank locations.² M. C. Elliott, the committee's secretary, used the bankers' preferences location data collected in his report submitted on February 18, 1914, and he recommended selecting 12 locations.³ The committee hired H. Parker Willis as a consultant. During March 1914, Willis submitted his report on districting containing suggested principles to determine the boundaries for districts and the reserve bank locations. He utilized the evidence collected

during the hearings to recommend the organization of 12 reserve banks and their locations.⁴

During the early months of 1914, the selection process of the 12 Federal Reserve Bank locations by The Reserve Bank Organization Committee (hereinafter the "committee") was a contentious issue with alleged political influence, calculation, and favoritism that continues to taint the committee's decisions. Following the committee's announcement of the Federal Reserve bank locations on April 2, 1914, dissatisfied Congressmen questioned the validity of the committee's work.

On April 2, 1914, the committee decided to locate 12 reserve banks in Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco.⁵ Elliott had recommended the selection of Cincinnati rather than Cleveland, while Willis suggested reserve banks located at Cincinnati and Portland, Oregon, rather than Richmond and Dallas. The committee released an additional statement on April 10, 1914, to respond to Congressional and public complaints that its decision lacked explanation.⁶ The committee followed with additional statements in May and June 1914, summarizing the bankers' preferences information.⁷ Elliott's report contained more detailed information and was the basis of the committee's later statements. Using Elliott's report, I show that the committee likely determined the location of Federal Reserve banks based upon bankers' preferences.

Favoritism, Politics and the Economics of Locating Reserve Banks

Following the committee's announcement on April 2, 1914, several Congressmen alleged Wilson administration and Democratic politics, personal considerations, and favoritism influenced the decisions to locate several reserve banks. These allegations continue to taint the legitimacy of the committee's work and some reserve bank locations. If the public choice view of regulation is the basis for analysis, Congressional allegations of the committee's political behavior were reasonable as the committee was comprised of Wilson administration officers. Section 2 of the Federal Reserve Act created a committee comprised of three executive branch political officials: the Secretary of the Treasury, the Secretary of Agriculture and the Comptroller of the Currency—William Gibbs McAdoo, David Franklin Houston and John Skelton Williams, respectively. With no direct Congressional oversight for locating reserve banks, committee members could behave with self-interest without regard to the public interest or to economic bases to select the locations, so other factors including politics, personal or carelessness could affect the outcome. For instance, McAdoo was a candidate for the Democratic Party presidential nominee during the 1920 and 1924 primaries, while Williams was closely identified with Richmond, Virginia, commercial and financial interests.

In part, confusion continues regarding the criteria to locate Federal Reserve cities because the committee was vague when making its announcements. For each city, the committee stated that it considered the ability of its region to provide the minimum

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statutory capital to organize a Federal Reserve bank, the course of trade, credit conditions, financial experience, ease of travel between points within the region, lines of communication, distribution of reserve bank capital, population, area, growth, and past and prospective development.⁸ The committee emphasized that bankers' preferences supported selecting Atlanta and Dallas instead of New Orleans; Kansas City rather than Denver, Lincoln, or Omaha; and Richmond over Baltimore or Washington.⁹

In the first major history of the Federal Reserve System, Henry Parker Willis identified several selections that he alleged were the result of Wilson administration politics and favoritism.¹⁰ Later evaluations of the selection of the Federal Reserve bank locations rely on Willis' allegations.¹¹ For instance, Willis alleged Cleveland obtained a reserve bank to reward Mayor Baker for his political support during 1912 and to acquire his services for Wilson's cabinet.¹² Willis claimed that Williams' favoritism and Carter Glass' influence as the chairman of the House Banking and Currency Committee, and Democrat from Lynchburg, Virginia, resulted in Richmond's selection. Georgia Senator Hoke Smith, a Democrat, meddled to obtain the selection of Atlanta.¹³ Missouri obtained two reserve bank locations and was the home state of Champ Clark, Speaker of the House and a Democrat. Robert Craig West determines that the selections were subject to political influence, trade, population, manufacturing, and the trend of business. James Neal Primm lists a combination of relevant factors: city population, bankers' preferences, banking practice, and politics. Allan Meltzer observes that several unnamed locations were the result of favoritism and politics.¹⁴

In recent work by economic historians, an economic basis is evident for the selection decisions. Kerry Odell and David Weiman identify prospective metropolitan development as relevant in selecting new inland cities such as Atlanta and Dallas rather than older port locations such as Savannah, New Orleans, or Houston. Michael McAvoy determines that increased National banking capital, number of first choice bankers' preferences, and greater in-state rail density had significant impacts on a city's estimated probability for selection. David Hammes examines Willis' unpublished March 1914, report and determines inconsistencies with statements made in his 1923 history. However, Catherine Gilanshah concludes that the committee behaved in its own interests in selecting reserve bank locations.¹⁵

Similar to both Gilanshah and Hammes, I approach the selection decisions in the public interest framework. If the evidence suggests that the committee behaved differently from the public interest, then the committee behaved in its own bureaucratic interests, and an inefficient economic outcome resulted. The public interest is defined narrowly: The National banks were compelled to be initial customers of the Federal Reserve System. Therefore, a decision found to best serve the interests of the National banks may be construed to be one in the public interest rather than to solely maximize the committee members' interests. Bankers' preferences regarding Federal Reserve banks locations serve as the proxy for the public interest.

**Bankers' Preferences and the February 18, 1914,
"Report of Secretary"**

M. C. Elliott submitted a "Report of Secretary" to the committee on February 18, 1914, with additional memoranda afterwards. The report comprised of a five-page introduction and seven exhibits. The report's data were recorded from the ballots submitted to the committee by National banks intending to join the Federal Reserve System. Each National bank submitting a ballot stated its three preferred reserve balance locations, in order of preference.

In his own report, Willis urged the committee to give careful consideration to the bankers' preferences data which he evidently lacked, "If each bank has been asked to indicate its choice of a district or city with which to be associated these data should be considered in conjunction with the figures for reserves."¹⁶ Indeed, David F. Houston acknowledged using bankers' preferences data. He wrote, "[T]he tabulation of the votes or expressions aided us immensely, helping to confirm opinions which we had developed during our trip."¹⁷ Later, the committee submitted report to Congress summarizing these data. The committee reported bankers' preferences data for cities by each state and the total votes received for suggested reserve locations to the Senate in April 1914. The committee reported additional data to the House during June 1914, including votes for first-choice cities within each Federal Reserve District.¹⁸ Researchers have used the data in these reports to analyze whether the committee properly selected locations.¹⁹ I utilize more concise data from Elliott's report in which bankers' preferences are recorded by county rather than state or Federal Reserve District.

Elliott's report and some of the exhibits are available in the National Archives II, College Park, Maryland. Additional memoranda related to bankers' preferences and locations of Federal Reserve banks are contained in the collection, Records of the Federal Reserve System. The report's Exhibit #5 records within counties, on State maps, the preferred first-choice reserve balance locations. A brief statement introduces the maps contained in the exhibit.

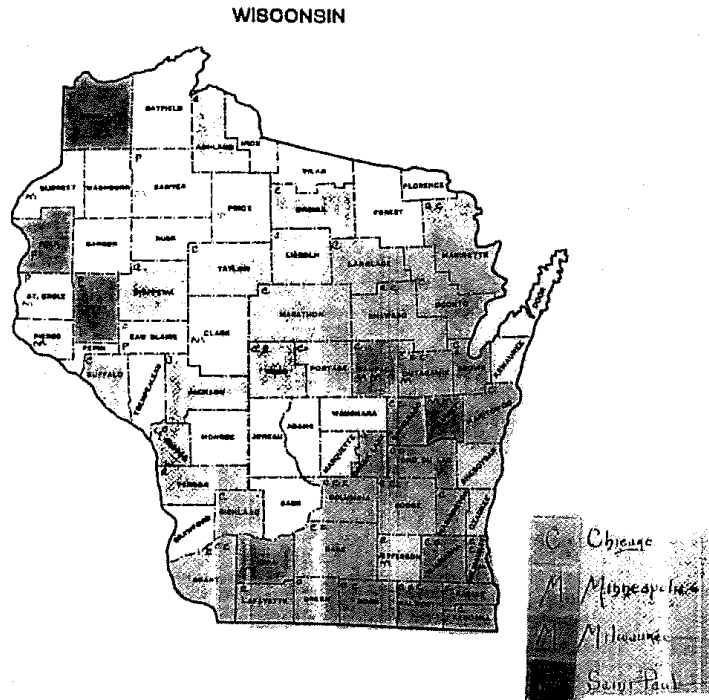
... showing the result of the official canvass of sentiment of banks which have signified their intention of becoming members of the Federal Reserve System as to the proper location of Federal Reserve Cities to serve the districts in which said banks will be located.

**NOTE:* It will be observed that these maps have been colored so as to indicate the preference of the banks located in the several counties in the matter of what city will best serve the interest of such banks as a Federal Reserve City. In determining this, counties have been awarded to those cities which received the largest number of votes by banks located in such counties. In case of a tie or where no vote is received, the counties are not colored.²⁰

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Figure 1 is an example of a state map in Exhibit #5. A map of Wisconsin counties records in each one the Wisconsin National banks' responding first choice Federal Reserve Bank location coded with colored letters for city name. The county was colored with the coded color of the city with the greatest amount of first-choice preference votes. For instance, Chicago votes are recorded within counties with red print, "C"; Minneapolis, a green "M"; Milwaukee, a purple "M"; and St. Paul, a pink "P". Counties that recorded greater numbers of first-choices for Chicago were colored purple; Minneapolis, yellow; Milwaukee, tan; and, St. Paul, brown.

Figure 1. Map of Wisconsin counties showing bankers' first choice reserve balance locations.



Source: Reserve Bank Organization Committee, "Exhibit #5 (Filed with the Secretary's Report)," Box 2664, Records of the Federal Reserve System, National Archives II, College Park, Maryland.

National banks in 1,923 counties were shown to have expressed preferences, about 65% of the nation's 2,941 counties. Table 1 shows the 45 cities recorded as preferred locations by banks located in the nation's counties. Of these 45 cities, 36 plus Wheeling, West Virginia, requested the committee to consider it for a reserve bank location.²¹ Except for the 4th Federal Reserve District, the in-district Federal Reserve location selected corresponds with the largest number of counties preferring that location. Cities not selected but preferred by more counties included Baltimore, Cincinnati, Denver, Houston, Louisville, Omaha, Pittsburgh, and St. Paul. Baltimore obtained support from fewer

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counties than either nearby Philadelphia or Richmond. Cincinnati, Cleveland, Louisville, and Pittsburgh are relatively close to one another so the committee might not have considered picking more than one of these. Similarly, St. Paul is across the Mississippi River from Minneapolis. Houston had less support than Dallas in Texas, while Denver obtained fewer counties than Kansas City in the Great Plains.

Table 1. Counties Recording Preferred Reserve Bank Locations.

City	Total counties	Rank	Federal Reserve District	City	Total counties	Rank	Federal Reserve District
Boston	45	15	1	Milwaukee	3	39	7
New York	93	5	2	Sioux City	1	44	7
Philadelphia	62	9	3	St. Louis	102	4	8
Cincinnati	84	7	4	Louisville	50	13	8
Pittsburgh	39	18	4	Memphis	8	32	8
Cleveland	30	20	4	Minneapolis	119	3	9
Columbus	3	39	4	St. Paul	55	12	9
Richmond	92	6	5	Kansas City	153	2	10
Baltimore	39	18	5	Omaha	61	11	10
Washington	6	34	5	Denver	45	15	10
Atlanta	62	9	6	Lincoln	4	37	10
New Orleans	25	21	6	Wichita	1	44	10
Birmingham	25	21	6	Dallas	69	8	11
Nashville	16	25	6	Houston	40	17	11
Columbia	14	27	6	Fort Worth	22	23	11
Savannah	10	29	6	Galveston	3	39	11
Charlotte	10	29	6	San Francisco	50	13	12
Jacksonville	7	33	6	Portland	22	23	12
Chattanooga	5	36	6	Seattle	15	26	12
Montgomery	2	43	6	Spokane	9	31	12
Chicago	270	1	7	Salt Lake	6	34	12
Detroit	14	27	7	Los Angeles	3	39	12
Indianapolis	4	37	7				

Source: Author's calculations. M. C. Elliott, *Exhibit #5, February 18, 1914* (unpublished, 1914), Box 2664, Records of the Federal Reserve System, National Archives II, College Park, Maryland. The committee selected the cities in bold for reserve bank locations.

Bankers' preferences were relevant in selecting reserve bank locations. 237 counties, about 12% of those expressing a preference and 8% of all counties, preferred one location but were placed into Federal Reserve Districts that did not include the recorded preferred location. Table 2 summarizes the numbers of the above counties. Some states had a large proportion of their counties placed away from their preferred locations. For instance, counties in western Vermont, Connecticut, and northern New Jersey preferred New York but were placed into either the Boston or Philadelphia districts. Northern Wisconsin and Michigan's northern peninsula preferred Chicago but were placed into the Minneapolis district. Counties in New Mexico, Oklahoma, and South Dakota favored the Kansas City or St. Louis districts but increased the capital base for the Dallas

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and Minneapolis districts. Southern Indiana preferred Chicago or Cincinnati although the committee placed this region into the St. Louis district to provide a connecting territory with eastern Kentucky. Western West Virginia preferred Pittsburgh or Cincinnati but was assigned to the Richmond district. Table 3 lists the number of counties placed away from preferred Federal Reserve Districts to actual districts where the committee located them. The committee could have provided larger territories to four districts, New York, Cleveland, Chicago, and Kansas City. The committee limited the size of these four districts to increase the size of five other districts, Boston, Dallas, Minneapolis, Philadelphia, and Richmond.

Table 2. Number of Counties in States Preferring a Location Placed in a Different Federal Reserve District.

State	Number counties	Total counties	Proportion
Arkansas	1	75	0.01
Connecticut	7	8	0.88
Idaho	1	23	0.04
Illinois	9	103	0.09
Indiana	22	92	0.24
Iowa	4	99	0.04
Kentucky	13	119	0.11
Louisiana	10	60	0.17
Michigan	12	83	0.14
Mississippi	1	78	0.01
Missouri	13	113	0.12
Montana	3	28	0.11
New Jersey	13	21	0.62
New Mexico	6	26	0.23
Oklahoma	24	76	0.32
Pennsylvania	5	76	0.07
South Dakota	15	66	0.23
Tennessee	17	93	0.18
Texas	8	240	0.03
Vermont	6	14	0.43
Virginia	2	100	0.02
West Virginia	21	55	0.38
Wisconsin	23	69	0.33
Wyoming	1	14	0.07
Total	237	1731	0.14
Counties in other states	0	192	
Total counties expressing preference	237	1923	0.12
Total U.S. counties	237	2941	0.08

Source: See Table 1. Ties are not recorded in *Exhibit #5* as favoring one location or another.

Table 3. Preferred and Actual Federal Reserve Districts for Counties Located in Districts without Their Preferred Reserve Location.

District (#)	Number of counties in other districts listing the district as preferred	Counties preferring other districts placed into district by committee	Number of counties placed into preferred district by Federal Reserve Board	Number of counties in other districts listing the district as preferred following redistricting, 1915-1919	Counties preferring other districts and remaining in district
Boston (1)	0	13	0	0	12
New York (2)	32	0	13	19	0
Philadelphia (3)	0	18	0	0	6
Cleveland (4)	42	13	2	40	13
Richmond (5)	3	23	0	3	21
Atlanta (6)	13	17	7	6	17
Chicago (7)	62.5	15	16	46.5	15
St. Louis (8)	32	34	0	32	34
Minneapolis (9)	1	53	0	1	37
Kansas City (10)	47.5	2	15	32.5	9
Dallas (11)	0	32	0	1	4
San Francisco (12)	4	17	0	4	17
Totals	237	237	53	185	185

Source: See Table 1. One-half county indicates a tie between locations.

The committee at least implicitly considered the preferences of the vast majority of counties, which supports the hypothesis that the committee behaved in the public interest. Comparing the recorded preferences with the initial Federal Reserve District boundaries reveals their importance. Bankers in some regions placed in a Federal Reserve District not preferred petitioned the Fed to change their district, and the Fed did do in many instances.

District #1 included the states of Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut, and the Federal Reserve bank is located in Boston. The preferences are summarized in Table 4. Boston is the obvious preference in the district. Though western Vermont and Connecticut preferred New York, the committee likely included those regions in the Boston district to limit the capitalization of the Federal Reserve Bank of New York. Banker preferences and reserve practices were not unknown to the committee. During the committee hearings, the New Jersey Commissioner of Banking and Insurance believed that Connecticut banks located south of the Connecticut River should be placed into the New York district.²²

District #2 consisted of New York State with headquarters at New York City. 61 of the 62 New York State counties preferred New York City. Only Hamilton County recorded no preference.

District #3 consisted of New Jersey, Delaware, and 42 Pennsylvania counties east of the western borders of McKean, Elk, Clearfield, Cambria, and Bedford counties. The preferences of responding bankers are summarized in Table 5. In New Jersey, eight

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southern counties preferred Philadelphia, and 13 northern counties were for New York City. Bankers in northern New Jersey preferred their reserve balances to be at New York City; however, the committee included those territories in the Philadelphia reserve district even though the New Jersey State Commissioner of Banking and Insurance testified that the southern portion only of New Jersey would prefer to be placed with Philadelphia.²³

Table 4. Counties Located in District #1 in Which Banks Preferred a Location.

State	Boston	New York City	Split between Boston and New York City
Connecticut	0	7	1
Maine	14	1	0
Massachusetts	11	2	0
New Hampshire	10	0	0
Rhode Island	3	0	0
Vermont	6	6	0
Total	51	9	1

Source: See table 1.

Table 5. Counties Located in District #3 in Which Banks Preferred a Location.

State	New York	Philadelphia	Split between New York and Pittsburgh
Delaware	0	3	0
New Jersey	13	8	0
Eastern Pennsylvania	5	36	1
Total	18	47	1

Source: See Table 1.

District #4 consisted of Ohio, the portion of western Pennsylvania not in District #3, the counties of Marshall, Ohio, Brooke and Hancock in West Virginia, and Kentucky east of the western borders of the counties of Boone, Grant, Scott, Woodford, Jessamine, Garrard, Lincoln, Pulaski, and McCreary counties. Cleveland is the location of the Federal Reserve bank. The preferences of responding bankers are summarized in Table 6. In Kentucky, 16 counties preferred Cincinnati, and 13, Louisville. In Ohio, 30 counties preferred Cincinnati, 35 counties went to Cleveland, and six preferred Pittsburgh. In western Pennsylvania, 19 counties went to Pittsburgh. In West Virginia, the counties of Marshall and Hancock went to Pittsburgh, while Brooke County had no preference, and Ohio County split between New York and Pittsburgh.

Clearly, in this region, no single location was predominately preferred, yet the committee's experts thought an Ohio district as one necessary to be placed between the banking centers of Chicago and New York City. Elliott recommended that the committee locate the reserve bank at Cincinnati in a district that included Kentucky, Ohio, and Tennessee; while Willis recommended that if the committee chose among Buffalo, Cincinnati, Cleveland, Louisville, and Pittsburgh, then Cleveland had transportation and

communication advantages. Willis recommended that the committee place one reserve bank at Cleveland for an eastern Great Lakes district and another one at Cincinnati for an Ohio Valley district.²⁴ Choosing one city only for the region, the committee might have constructed this district by incorporating Cincinnati and Pittsburgh's banking hinterlands. Yet, the committee split a section of southwestern Indiana, favoring Cincinnati, between the Chicago and St. Louis districts, and it assigned to Richmond portions of West Virginia favoring Cincinnati and Pittsburgh.²⁵ Furthermore, while sections of eastern Kentucky favoring Cincinnati were included in the Ohio district, sections of central Tennessee, favoring Cincinnati, were placed into the southern Atlanta district. Cincinnati representatives may have sold their city out when they informed the committee that Cincinnati would be well-served with a branch of the Federal Reserve Bank of Cleveland.²⁶

Table 6. Counties located in District #4 in Which Banks Preferred a Location.

State	Cincinnati	Cleveland	Louisville	Pittsburgh
Eastern Kentucky	13	0	16	0
Ohio	30	35	0	6
Western Pennsylvania	0	0	0	19
Northeastern West Virginia	0	0	0	2
Total	43	35	16	27

Source: See Table 1.

District #5 consisted of the District of Columbia, and the states of Maryland, North Carolina, South Carolina, Virginia, and West Virginia counties not in District #4. The preferences of responding bankers are summarized in Table 7. The District of Columbia preferred Washington. In Maryland, all counties, except two, preferred Baltimore. In North Carolina, 10 counties preferred Charlotte, one preferred Washington, and 26 preferred Richmond. In South Carolina, one county preferred Baltimore, 14 preferred Columbia, five preferred Richmond, and one preferred Washington. The committee placed the Carolinas in a district with the headquarters to the north, because, the committee learned that the Carolina's banking business tended north to Richmond, Baltimore, and New York, and not south to Atlanta.²⁷ In Virginia, six counties preferred Baltimore, 41 counties preferred Richmond, and three chose Washington. In West Virginia, 11 counties preferred Baltimore, nine selected Cincinnati, 12 picked Pittsburgh, and four selected Richmond.

Willis later criticized the Richmond district, but Elliott had given the matter some consideration and urged the committee to place the southern boundary at the South Carolina and Georgia border, where the boundary is today. Baltimore and Washington lacked regional support from bankers, so those cities were not selected as the headquarters city. West Virginia appeared to not prefer locating reserve balances in Richmond but in other reserve locations—Baltimore, Cincinnati and Pittsburgh—however none of those locations were selected as locations for a Federal Reserve Bank. The testimony and as

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provided to the committee by West Virginia bankers further suggested that the committee did not heed West Virginia bankers' preferences. Banks in northern West Virginia were best served by reserve banks located in one of Baltimore, Philadelphia, Pittsburgh, or Washington, while southern West Virginia banks were best served by one of Cincinnati, Richmond, or Washington. Favoring Richmond, however, was the information the committee learned that many West Virginia bankers had banking business there, so Richmond was an acceptable to the state's bankers, and Richmond was typically the second-choice of West Virginia's bankers' preferences.²⁸ Although the committee generally avoided creating large reserve territories and selected headquarter locations tending to be east and north within the districts, Richmond had greater regional support than Baltimore, the more northern and eastern location within the district.

Table 7. Counties located in District #5 in Which Banks Preferred a Location.

State	Baltimore	Cincinnati	Pittsburgh	Richmond	Washington
District of Columbia	0	0	0	0	1
Maryland	20	0	0	0	0
North Carolina	0	0	0	26	1
South Carolina	1	0	0	5	1
Virginia	6	0	0	41	3
West Virginia	11	9	12	4	0
Total	38	9	12	76	6

Source: See Table 1.

District #6 consisted of the entire states of Alabama, Florida, Georgia. District #6 includes Tennessee east of the western border of the counties of Stewart, Houston, Wayne, Humphreys, and Perry; Mississippi south of the northern boundary of the counties of Issaquena, Sharkey, Yazoo, Kemper, Madison, Lake, and Neshoba; and, southeastern Louisiana east of the western boundary of the parishes of Pointe Coupee, Iberville, Assumption, and Terrebonne. Atlanta is the headquarters city. The preferences of the responding bankers are summarized in Table 8. In Alabama, 24 counties preferred Birmingham; two, New Orleans, and two, Atlanta. In Georgia, 49 counties preferred Atlanta. In Florida, six preferred Atlanta, seven, Jacksonville, three, New Orleans. In Louisiana, three of 22 parishes preferred New Orleans. In Mississippi, eight counties preferred New Orleans. In Tennessee, 16 counties preferred Nashville, six preferred Cincinnati, three preferred Memphis, four preferred St. Louis, one preferred Washington, and five preferred Atlanta.

Covering a large territory, Atlanta was generally the preferred location for future reserve balances. While Birmingham (a banking center today) and New Orleans had local support, both locations lacked regional support. The committee had evidence which convinced it that the bankers in the New Orleans promoted southeastern region did not desire their reserve balances to be placed at New Orleans. Florida representatives favored Atlanta. Georgia and eastern Florida trade did not relate to New Orleans, and Alabama railroad trunk lines went to Atlanta rather than New Orleans. Mississippi bankers lo-

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cated at Canton, Greenville, Jackson and Meridian preferred New Orleans, first; Memphis, second; and, St. Louis, third. However, given a choice between Atlanta and St. Louis, at least one Mississippi bankers preferred Atlanta, while another Mississippi banker agreed readily that a reserve branch rather than a reserve bank located at New Orleans would be acceptable. The New Orleans representative stated that St. Louis would be an acceptable reserve bank location, but not Atlanta. Although Nashville bankers preferred to be located in a Cincinnati district, Chattanooga bankers preferred an Atlanta district, so the committee attached to Atlanta the central and eastern portions of Tennessee.²⁹

Table 8. Counties located in District #6 in Which Banks Preferred a Location.

State	Atlanta	Birmingham	Nashville	New Orleans
Alabama	2	24	0	2
Florida	6	0	0	3
Georgia	49	0	0	0
Eastern Louisiana	0	0	0	3
Southern Mississippi	0	0	0	8
Western Tennessee	5	0	16	0
Total	62	24	16	16

Source: See Table 1.

Chicago is District #7's headquarters city. District #7 consisted of Iowa, Illinois north of the southern boundaries of the counties of Hancock, Schuyler, Cass, Sangamon, Christian, Shelby, Cumberland, and Clark; northern Indiana counties north of the southern boundaries of the counties of Vigo, Clay, Owen, Monroe, Brown, Bartholomew, Jennings, Ripley, and Ohio; Wisconsin counties south of the northern boundaries of the counties of Vernon, Sauk, Columbia, Dodge, Washington, and Ozaukee; and, Michigan's southern peninsula.

Most counties assigned to District #7 preferred Chicago. Sangamon County, containing Illinois' capitol city, Springfield, was recorded as favoring St. Louis; however, a banking representative from Springfield favored Chicago in testimony submitted to the committee, so the committee placed Sangamon County into the Chicago district. In northern Indiana, 38 counties preferred Chicago, 16 counties preferred Cincinnati, and three counties preferred Indianapolis. Although the committee reduced much of Chicago's banking hinterland in forming Districts #8 and #9, a section of southeastern Indiana that preferred an Ohio district was placed into the Chicago district: the Indiana Bankers' Association testified that there was little reserve business with Cincinnati, and the best locations were Chicago, Cincinnati or St. Louis.³⁰

District #8 consisted of the state of Arkansas, the counties in Kentucky not in District #4, the counties in both Mississippi and Tennessee not in District #6, the counties in both Illinois and Indiana not in District #7, and Missouri counties east of the western boundaries of Harrison, Daviess, Caldwell, Ray, Lafayette, Johnson, Henry, St. Clair, Cedar, Dade, Lawrence, and Barry. The city of St. Louis is the location of the reserve

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bank. The preferences of responding bankers are summarized in Table 9. Within District #8, in Arkansas, one county preferred Kansas City, and 26 preferred St. Louis. In southern Illinois, 28 counties preferred St. Louis, and eight preferred Chicago. In southern Indiana, five counties preferred Chicago, three picked Cincinnati, and five preferred Louisville. In eastern Kentucky, 28 counties preferred Louisville. In northern Mississippi, five counties preferred Memphis, and three preferred St. Louis. In eastern Missouri, 12 counties preferred Kansas City, and 23 preferred St. Louis. In western Tennessee, three preferred Nashville, two preferred Memphis, and three preferred St. Louis. If the committee were to determine a Federal Reserve district such as District #8, St. Louis was the preferred reserve location; however, this district appeared to be practically cobbled together to create a district for St. Louis.

While acknowledging that St. Louis was a pre-determined Federal Reserve bank selection, Willis criticized this district with for its poor in-district transportation and telecommunication links, all the while recommending St. Louis as the headquarters of a large southern Mississippi Valley-eastern Texas district linked south to New Orleans along the Mississippi River.³¹ In fact, St. Louis recommended that it could be the location of a district that included New Orleans, Memphis, Little Rock and Nashville. The committee placed Nashville into an Atlanta district but included nearby Louisville in the St. Louis district, even though Louisville's trade went north and south, not west to St. Louis. The committee likely included southern Indiana to provide a contiguous district into Louisville, since southern Indiana bankers expressed clearly their preference for Cincinnati first and Chicago second, and Indiana trade tended north and east, rather than west; however, one Indiana banker acknowledged that the rail links to St. Louis were superior to those that went to Cincinnati.³² In terms of bankers' preferences, large portions of Missouri preferred Kansas City to St. Louis, so the placement of those counties in the St. Louis headquartered district is consistent with a view that this district was cobbled together to provide a St. Louis headquarters bank with enough statutory banking capital and to limit the size of Chicago's district.

Table 9. Counties located in District #8 in Which Banks Preferred a Location.

State	Chicago	Cincinnati	Kansas City	Louisville	St. Louis
Arkansas	0	0	1	0	26
Southern Illinois	8	0	0	0	26
Southern Indiana	5	3	0	5	0
Western Kentucky	0	0	0	28	0
Northern Mississippi	0	0	0	0	3
Eastern Missouri	0	0	12	0	23
Western Tennessee	0	0	0	0	3
Total	13	3	13	33	81

Source: See Table 1.

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District #9 included the states of Minnesota, Montana, North Dakota, South Dakota, and the Michigan and Wisconsin counties not in District #7. The district headquarters is located at Minneapolis. The preferences of responding bankers are summarized in Table 10. Except for northern Wisconsin and the upper peninsula of Michigan, the territory's bankers preferred the Twin Cities of Minneapolis and St. Paul. In Michigan's northern peninsula, 11 counties preferred Chicago. In Minnesota, 59 counties preferred Minneapolis, 12 counties preferred St. Paul, and eight had preferences for the "Twin Cities". In Montana, three counties preferred Spokane, 10 preferred Minneapolis, and three preferred St. Paul. North Dakota preferred Minneapolis/St. Paul. In South Dakota, nine counties preferred Chicago, and five preferred Omaha. In northern Wisconsin, 21 counties preferred Chicago; four, Minneapolis; three, St. Paul; and, two, the Twin Cities.

The Twin Cities of Minneapolis and St. Paul are the dominant recorded reserve locations preferred by bankers within the given region. The committee clearly sought to reduce the size of Chicago's banking hinterland and opposed some bankers' preferences by placing most of Wisconsin and the entire northern peninsula of Michigan westward into a district headquartered at Minneapolis. Minneapolis representatives proposed a region that did not include northern Wisconsin, and a St. Paul representative acknowledged that Minneapolis, not St. Paul, was the banking center of the proposed district.³³

Table 10. Counties located in District #9 in Which Banks Preferred a Location.

State	Chicago	Minneapolis	Omaha	Spokane	St. Paul	Twin Cities
Upper peninsula Michigan	11	0	0	0	0	0
Minnesota	0	59	0	0	12	8
Montana	0	10	0	3	3	1
North Dakota	0	29	0	0	3	5
South Dakota	9	0	5	0	0	2
Northern Wisconsin	21	4	0	0	3	2
Total	41	102	5	3	21	18

Source: See Table 1.

District #10 included the states of Colorado, Kansas, Nebraska, and Wyoming, Missouri counties not in District #8. In addition, District #10 included Oklahoma counties north of the southern boundaries of the counties of Ellis, Dewey, Blaine, Canadian, Cleveland, Pottawatomie, Seminole, Okfuskee, McIntosh, Muskogee, and Sequoyah; and, New Mexico north of the southern boundary lines for the counties of McKinley, Sandoval, Santa Fe, San Miguel, and Union, and Wyoming. Kansas City is the district's headquarters city. The preferences of responding bankers are summarized in Table 11. Colorado mostly preferred Denver—36 counties. In Kansas, 73 counties preferred Kansas City. In western Missouri, 12 counties preferred Kansas City, and one, St. Louis. Nebraska mostly went to Omaha—51 counties—while four counties preferred Lincoln and three Kansas City. In northern New Mexico, five counties preferred Denver. In

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northern Oklahoma, 29 counties preferred Kansas City. In Wyoming, five counties preferred Denver, two, Omaha, and one, Salt Lake.

Both Denver and Omaha had state support but lacked the regional support of Kansas City. When pressed by the committee, the Denver representative stated that Colorado should be placed wholly in a reserve district and that if not Denver then Chicago and then Kansas City, an opinion confirmed by a Pueblo banker and others, as its trade tended eastward. Since the committee limited the size of the Chicago district Colorado was placed into the Kansas City district with its banking hinterland Wyoming, as preferred by bankers there. New Mexico representatives also stated a preference for Denver, Kansas City, and Chicago, in that order, and informed that its trade went east, not west. The committee limited the size of the Chicago district, again, by placing Nebraska in the 10th district. Kansas City representatives testified that Nebraska trade went to Chicago, while Omaha representatives testified that Secretary of State W. J. Bryan allegedly interfered with the Omaha bid by favoring Denver for the region's reserve bank location.³⁴

Table 11. Counties located in District #10 in Which Banks Preferred a Location.

State	Kansas					
	Denver	City, Mo.	Lincoln	Omaha	Salt Lake	St. Louis
Colorado	36	0	0	0	0	0
Kansas	0	73	0	0	0	0
Western Missouri		12	0	0	0	1
Nebraska	0	5	3	51	0	0
Northern New Mexico	5	0	0	0	0	0
Northern Oklahoma	0	29	0	0	0	0
Wyoming	5	0	0	2	1	0
Total	46	119	3	53	1	1

Source: See Table 1.

District #11 included the state of Texas, the Louisiana counties not in District #6, counties of the states of both New Mexico and Oklahoma not in District #10, and the Arizona counties of Pima, Graham, Greenlee, Cochise, and Santa Cruz. The location of the district's headquarters is Dallas. The preferences of responding bankers are summarized in Table 12. In Arizona, one county preferred San Francisco, and one preferred Kansas City. In Louisiana, nine parishes preferred New Orleans, and one preferred St. Louis. In southern New Mexico, one each of 16 counties preferred Dallas, Denver, and El Paso, and five counties preferred Kansas City. In southern Oklahoma, four counties preferred Dallas; one, Fort Worth; 15, Kansas City; and, eight, St. Louis. In Texas, counties almost wholly preferred Texas points: Dallas, Fort Worth, Galveston, Houston, San Antonio, and Waco.

Texas, then the largest state, contained almost enough National Banking capital to finance its own reserve bank location, and Texas bankers testified that they preferred a Texas point for their reserve balances. The committee may have created a Texas district to satisfy the desires of Texas bankers for an in-state location. For instance, although

Arizona and New Mexico bankers expressed preferences for other locations, the committee placed these sections into the Dallas district following testimony by El Paso representatives requesting that their banking hinterland of southern New Mexico and southern Arizona be included with it.³⁵ The committee appeared to have included additional territory to guarantee a satisfactory, capitalized Texas district.

Table 12. Counties located in District #11 in Which Banks Preferred a Location.

State	Dallas	Fort Worth	Houston	Kansas City	New Orleans	St. Louis
Arizona	0	0	0	1	0	0
Northern Louisiana	0	0	0	0	9	1
Southern New Mexico	1	0	0	5	0	0
Southern Oklahoma	4	1	0	15	0	8
Texas	64	21	40	4	0	4
Total	69	22	40	25	9	13

Source: See Table 1.

District #12 included the states of California, Idaho, Nevada, Oregon, Utah, and Washington, and the Arizona counties not in District #11. San Francisco is the headquarters city. In Arizona, one county preferred Los Angeles, and two preferred San Francisco. California counties preferred San Francisco, Los Angeles, and Fresno. Of Idaho counties, one preferred Chicago; one, Portland; four, Salt Lake; two, San Francisco; and, two, Spokane. In Nevada, bankers in two counties preferred San Francisco, and one county preferred Salt Lake. In Oregon, 18 counties preferred Portland, and three preferred San Francisco. In Utah, five counties preferred Salt Lake. In Washington, three counties preferred Portland; one, San Francisco; four, Spokane; and, 15, Seattle.

By far, the largest reserve district in terms of land area, San Francisco was the one city within the region that received support throughout the region. Utah bankers stated to the committee that after Salt Lake, they preferred San Francisco, first, and Denver, second, and Utah should not be divided between two districts. The committee provided Utah with its second-choice preference, San Francisco. Due to the lack of National Banking capital in the Northwest, the committee was unable to provide a reserve territory that financed a headquarters located there and generated interstate banking support. During the hearings held in the Northwest, the committee pressed representatives to provide alternative locations and impressed that representative's locations might obtain branch bank locations that provided similar services as the regional Federal Reserve banks. Seattle representatives preferred Seattle, first, and San Francisco, second, and Portland representatives agreed that a headquarters located in San Francisco, with a branch located in Portland, was acceptable.³⁶

The committee limited the size of both the New York and Chicago districts and expanded the size of the Texas and Minneapolis district, actions which ran counter to bankers' preferences. Otherwise, the committee placed most regions with their preferred

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reserve locations and appeared to maintain banking hinterlands of cities not selected as the Federal Reserve Bank location.

Bankers' Preferences and Elliott's Recommendations for Locating Federal Reserve Banks

Elliott used the bankers' preferences information only to recommend reserve bank locations. Based upon first-choice votes, Elliott recommended that the committee consider further 23 cities: Atlanta, Baltimore, Boston, Chicago, Cincinnati, Cleveland, Dallas, Denver, Fort Worth, Houston, Kansas City, Minneapolis, New Orleans, New York, Omaha, Philadelphia, Pittsburgh, Portland, Richmond, San Francisco, St. Louis, Seattle, and Washington. Elliott suggested that the following 26 cities lacked sufficient bankers' preferences to warrant further consideration: Albany, Birmingham, Buffalo, Charlotte, Chattanooga, Columbia, South Carolina, Columbus, Ohio, Des Moines, Detroit, Fresno, Galveston, Indianapolis, Jacksonville, Lincoln, Los Angeles, Louisville, Memphis, Milwaukee, Montgomery, Nashville, Salt Lake City, San Antonio, Savannah, St. Paul, Sioux City, and Spokane.³⁷

Elliott made some tough decisions based solely upon bankers' preferences. Elliott recommended Dallas over Fort Worth and Houston, because Dallas obtained 208 first-choice votes to 55 and 82, respectively. Elliott suggested eliminating Cleveland since it "received but 103 votes in northeastern Ohio, and 3 in Pennsylvania." After eliminating all cities except Atlanta in the Southeast, Elliott recorded the second-choice preferences of the affected southeastern bankers as first choice votes. In the Middle Atlantic and Southern states, Elliott calculated votes received by cities as follows: Atlanta, 178; Baltimore, 130; Philadelphia, 472; Richmond, 196; and, Washington, 24. Consequently, Elliott recommended locating Federal Reserve banks in Atlanta, Richmond, and Philadelphia. Elliott compared the first, second, and third choice votes received by Cincinnati, Cleveland and Pittsburgh. Cincinnati received 277 first-choice votes, and 609 total votes; Cleveland, 111, and 319; and, Pittsburgh, 354, and 566. Although not stated, Elliott implied that Cincinnati was the preferred location for a Federal Reserve Bank in the Ohio region by recommending that a reserve bank be located in Cincinnati.

In addition to summarizing the data and coloring maps, Elliott produced a memorandum for 18 cities, listed in Table 13, remaining under his consideration for the location of a Federal Reserve bank. Unfortunately, no discussion was evident when Elliott eliminated the northwestern cities, Portland and Seattle. Elliott recorded total first-choice votes, or the second-choice votes, or, if necessary, the third-choice votes, of the various locations for bankers that preferred a location that Elliott had eliminated from selection consideration, such that Elliott recorded the preferences of all banks submitting a preference ballot for the 18 cities he continued to consider. Although there was no discussion, again, New Orleans had been eliminated in considering locations in the South and Texas. Further, without discussion, Elliott eliminated Baltimore, Cleveland, and Pittsburgh. Of the remaining 15 cities, Louisville received fewer votes than St. Louis,

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and both Denver and Omaha received fewer votes than Kansas City. Elliott made a final elimination to 12 cities, presented also in Table 13, and concluded his work with a recommendation for 12 Federal Reserve bank locations: Atlanta, Boston, Chicago, Cincinnati, Dallas, Kansas City, Minneapolis, New York, Philadelphia, Richmond, San Francisco, and St. Louis. The committee selected 11 of these 12, choosing Cleveland rather than Cincinnati.³⁸

Table 13. Total Votes Recorded for Preferred Federal Reserve Bank Locations after Elimination to 18 then 12 Cities.

Elimination to 18 Cities	Votes	Elimination to 12 Cities	Votes
Atlanta	233	Atlanta	239
Baltimore	159	Boston	292
Boston	288	Chicago	1240
Chicago	994	Cincinnati	522
Cincinnati	338	Dallas	395
Cleveland	135	Kansas City	626
Dallas	387	Minneapolis	513
Denver	142	New York	911
Kansas City	506	Philadelphia	660
Louisville	127	Richmond	240
Minneapolis	503	San Francisco	400
New York	702	St. Louis	412
Omaha	239		
Philadelphia	504		
Pittsburgh	364		
Richmond	219		
San Francisco	389		
St. Louis	357		

Source: Box 2663, Records of the Federal Reserve System, National Archives II, College Park Maryland.

Changes to Federal Reserve Districts Decided upon by the Federal Reserve Board

The committee's decisions were subject to review by the Federal Reserve Board under section 2 of the Federal Reserve Act. To address bankers' concerns about their assigned districts, on August 28, 1914, the Board issued Regulation No. 1, "Procedure in Appeals from Decision of the Reserve Bank Organization Committee," to provide guidelines under which the Fed would change district boundaries. Under part 1, the majority of member banks from a city could petition the Fed to review the selection of a city as a location of a Federal Reserve bank. Under part 2, two-thirds of member banks in a territory could petition the Fed to review their request to be moved from one Federal Reserve District to another.³⁹

Under Part 1, the majority of member banks at two locations petitioned the Fed. Pittsburgh bankers requested the review of the selection of Cleveland in the 5th district

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on August 12, 1914, and Baltimore bankers requested the review of the Richmond selection in the 4th district on September 11, 1914.⁴⁰ The Fed did not immediately act upon these decisions, and it ceased consideration of these petitions following the Attorney General of the United States opinion of April 4, 1916. The opinion held that the Fed lacked the statutory authority to either change the locations of the Federal Reserve banks or to eliminate locations of Federal Reserve banks.⁴¹ The Fed has authority to open Federal Reserve Bank branches under the Federal Reserve Act's Section Two. Within five years, the Fed established numerous branches and agencies, listed in Table 14. The opening of branches likely reduced the political pressure on Congress to increase the statutory number of reserve banks. Each branch administered its own territory under the supervision of its Federal Reserve bank, and the branch provided reserve bank services including collections and currency transfers. Also, many branches had the authority to rediscount notes for member banks similar to the Federal Reserve banks.⁴²

Table 14. Federal Reserve Bank Branches Authorized and Established, 1915-1919.

Branch Location	District	Year
New Orleans	Atlanta (6)	1915
Memphis (agency)	St. Louis (8)	1915
Louisville	St. Louis (8)	1916-17
Omaha	Kansas City (10)	1916-17
Seattle	San Francisco (12)	1916-17
Spokane	San Francisco (12)	1916-17
Baltimore	Richmond (5)	1917-18
Cincinnati	Cleveland (4)	1917-18
Denver	Kansas City (10)	1917-18
Detroit	Chicago (7)	1917-18
Pittsburgh	Cleveland (4)	1917-18
Birmingham	Atlanta (6)	1918
El Paso	Dallas (11)	1918
Jacksonville	Atlanta (6)	1918
Memphis (branch)	St. Louis (8)	1918
Salt Lake	San Francisco (12)	1918
Little Rock	St. Louis (8)	1918-19
Buffalo	New York (2)	1919
Houston	Dallas (11)	1919
Los Angeles	San Francisco	1919
Nashville	Atlanta (6)	1919
Savannah (agency)	Atlanta (6)	1919
Helena (authorized)	Minneapolis (9)	1919
Oklahoma City (authorized)	Kansas City (10)	1919

Sources: *Annual Report of the Federal Reserve Board for the Period Ending December 31, 1916*, (Washington: Government Printing Office, 1917), 16, *Annual Report ... 1917*, 24, *Annual Report ... 1918*, 73, *Annual Report ... 1919*, 38-39.

During its early history, the Fed corrected the committee's errors for several counties as expressed bankers' preferences. Under Part 2, the Fed considered and acted upon a large number of petitions changing several district boundaries between 1915 and 1917. In the Boston district, the Fed shifted Fairfield County to the New York district.⁴³ In the Philadelphia district, the Fed moved 12 northern New Jersey counties into the New York district. Those New Jersey counties had preferred locating in a New York district according to Elliott's report. Into the Cleveland district, the Fed shifted Tyler and Wetzel counties, located in West Virginia, from the Richmond district. These West Virginia counties preferred Pittsburgh, located in Cleveland's district, in Elliott's report.⁴⁴ Seven Louisiana parishes that preferred New Orleans in Elliott's report were shifted into Atlanta's 6th Federal Reserve District from Dallas' 11th district.⁴⁵ From Minneapolis' 9th district, the Fed moved a portion of southern Wisconsin to Chicago's 7th district. The area included 16 counties that preferred either Milwaukee or Chicago in Elliott's report.⁴⁶ In Kansas City's 10th district, the Fed rejected the petitions of both Nebraska and Wyoming bankers that requested to become part of Chicago's 7th district. Much of southern Oklahoma included in Dallas' 11th district was transferred to the Kansas City's 10th district, just as their preferences had been recorded by Elliott. After that change, eight Oklahoma counties remained in the Dallas district, although Elliott recorded five of those counties as preferring Dallas.⁴⁷ The committee assigned an additional 168 counties to Federal Reserve cities not preferred by the bankers located there, but those same bankers did not petition the Fed to change the location of their districts. Either the bankers accepted the committee's decision, or they determined that the expected benefit from changing Federal Reserve districts failed to exceed the expected costs of petitioning the Fed.⁴⁸

Politics Reconsidered

Politics, influences, and favoritism were alleged to affect the selection of Atlanta, Cleveland, Dallas, Kansas City, and Richmond, for Federal Reserve bank locations, and they prevented other locations from selection including Baltimore, Denver, New Orleans, Omaha, and Pittsburgh. Based on the evidence presented here, the committee is determined to have carefully considered bankers' preferences when selecting Federal Reserve bank locations. However, could some locations have benefited either the Wilson administration or the Democratic Party?⁴⁹ Given the public attention the selections received, a selected location that provided political benefits might have given the Democratic Party electoral benefits in the 1914 elections. The administration pushed the committee to have the Federal Reserve System organized and open as soon as possible, and did so shortly following the 1914 elections, November 16, 1914.

At the electoral margin, an area that voted overwhelmingly for Democrats might not provide as much of a gain as an area that voted in more equal numbers for the parties. Further, the 1914 elections were an off-year election, so Democrats should have expected to lose seats. Therefore, the best locations for Democratic politics, given Congressional elections, may have been those states with equal amounts of political representation.

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Two states had relatively equal representation between the dominant political parties: Nebraska and West Virginia. The committee failed to locate a Federal Reserve bank in either state—neither Lincoln or Omaha in Nebraska nor Wheeling in West Virginia were selected—and the committee may have not considered those bankers primary preferences, yet the cost to the Democrats was a single House seat in West Virginia from three of six in 1912 to two in 1914.⁵⁰ Locations that favored the Democratic Party but were minorities in states that were otherwise inclined to vote for the Republican Party were not rewarded by the committee. For instance, St. Paul was the seat of the Federal Government in the region, yet the committee selected Republican Minneapolis as the location of a reserve bank in Minnesota, a Republican voting state.⁵¹

In fact, Democratic control from the 63rd to the 64th Congress declined in the House from 66.9% to 62.9% but rose in the Senate from 53.1% to 58.3%.⁵² Democrats lost many House races in the Northeast with several states removing nearly all from office.⁵³

Democratic strength was strongest in the South, yet many southern districts with strong Democratic tendencies were established including the 5th (Richmond), 6th (Atlanta), 8th (St. Louis) and 11th (Dallas). As both Louisiana and Maryland were firmly Democratic, the placement of banks at those southern locations may be seen as either the result of bankers' preferences, as shown here, or the more difficult to quantify results of alleged favoritism or influence including that of Williams and Glass for Richmond, Senator Hoke Smith's influence with McAdoo for Atlanta and Colonel House's influence with President Wilson for Texas.

The selections of Cleveland and Kansas City on the other hand came in regions with much different political tendencies—Republican in Pennsylvania but Democratic in Ohio, and split in Nebraska and Kansas but Democratic in Colorado and Missouri. Following the 1914 elections, Republicans increased their representation in Pennsylvania, became the majority in Ohio, and remained stable in the other states.⁵⁴ Perhaps the committee should have provided New York and Chicago with far larger districts and provided reserve banks to other locations in the West and Northwest!

What evidence is there for influence other than that summarized previously, in particular, by H. Parker Willis? On the House Banking and Currency Committee chaired by Democrat Carter Glass of Virginia, Democrat Robert J. Bulkley from Ohio's 21st House district represented the Cleveland area, while Republican James F. Burke from Pennsylvania's 31st district represented Pittsburgh.⁵⁵ No histories mention either man for his interference. In Williams' papers, there is a letter to Woodrow Wilson from a Mr. R. L. McKenney, editor and president of *The Macon News* requesting that a reserve bank be located in Georgia, so too, Mr. Arnold E. Waters, a "friend," requested Williams to use his influence to locate a reserve bank at Baltimore.⁵⁶ Perhaps the committee knew whether Wilson expressed interest for particular locations, perhaps Wilson did not care. In McAdoo's papers, Colorado Senator Charles S. Thomas desired a reserve bank at Denver, Alabama governor, Emmet O'Neal requested one located at Birmingham, Texas Senator Morris Sheppard for one located within Texas, Texas Representative, House Banking and Currency Committee member and Democrat Joseph Eagle pushed for Houston and

Secretary of the Navy, Josephus Daniels, for one at Charlotte, North Carolina.⁵⁷ The committee located a reserve bank in Texas but not at one of the other places.

In the committee's papers, voluminous letters and telegrams were received promoting the various locations. Among the more relevant correspondence, Josephus Daniels informed that North Carolina bankers had changed their support to being placed in a district with Richmond. New Mexico Senator Thomas B. Catron informed the committee that New Mexico bankers desired to be placed into a district with Denver, first and El Paso, second. The committee placed much of New Mexico with Denver in the Kansas City district, and a southwestern portion with El Paso in the Dallas district.⁵⁸ A couple of dozen letters from Kansas and Oklahoma Congressmen urged the committee to both select Kansas City and include those states in the Kansas City district.⁵⁹ Democratic Senator Robert L. Owen of Oklahoma, the chair of the Senate Banking and Currency Committee, urged the committee to consider Kansas City and to place the entire state of Oklahoma into that district.⁶⁰ However, the committee placed most of Oklahoma in the Dallas district counter to the information contained in the bankers' preferences and political correspondences. Nebraskan W. J. Bryan, Secretary of State, and Nebraska Representative John A. Maguire, a Democrat, both lobbied the committee to locate a reserve bank at Lincoln.⁶¹ Urged by Wilson to compromise, Glass gained Bryan's endorsement for the Federal Reserve Act. The committee did not compromise on behalf of Bryan and placed Nebraska into a Kansas City district, although Nebraska's course of trade went east, and its railroad trunk lines went to Chicago, not Kansas City.

By placing a Federal Reserve bank in Texas, a Democratic, southern state, the committee likely failed to benefit Democrats at the margin. The committee observed that the National banks located in Texas alone could subscribe enough statutory capital to open in a Federal Reserve bank. Further, the committee carefully considered Texas cities attributes for their appropriateness as a reserve bank location, including population, manufactures, number of mail trains per day, and times of rail travel between points.⁶² The committee considered the desires of the region's bankers and politicians favoring Texas: Senator Albert B. Fall from New Mexico, a Republican, requested that the committee include New Mexico in the district that included El Paso, Texas.⁶³

Conclusion

The Reserve Bank Organization Committee carefully considered the bankers' preferences recorded from the Comptroller's ballots in locating both Federal Reserve District boundaries and Federal Reserve banks. If the public interest is narrowly construed to be the direct customers and shareholders of the Federal Reserve banks, the National banks, the committee located Federal Reserve banks in the public interest rather than maximize the benefits to either themselves or to their Democratic Party.⁶⁴ In making their decisions, the committee evidently did not display systematic favoritism, incompetence or ignorance when making its decisions.

The committee had the benefit of hearing from hundreds of witnesses in 18 cities, M. C. Elliott's *Report of Secretary, February 18, 1914*, his various memorandum, and the

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Report on Districting by H. Parker Willis, its expert consultant from Carter Glass' House Banking and Currency Committee. The committee's selections largely concur with the recommendations made within these reports.

The committee selected the reserve locations the National bankers desired and attempted to create districts sufficiently capitalized in order to organize Federal Reserve banks that satisfied the legal requirements set by Congress in the Federal Reserve Act. To perform this task, the committee may have limited the capitalization of some regions to increase others. For instance, the committee clearly limited the size of both the Federal Reserve districts of New York and Chicago, if bankers' preferences were a primary factor when determining district boundary lines. In a similar vein, Boston, Kansas City, Minneapolis, Philadelphia, St. Louis and Cleveland benefited by obtaining counties that preferred other locations for the Federal Reserve bank headquarters. The committee made trade-offs to provide contiguous regions that were sufficiently capitalized. As a result, Nebraska and Wyoming went into the Kansas City district rather than the Chicago district, while much of Oklahoma went into the Dallas district rather than Kansas City. Similarly, Louisville went into the St. Louis district rather than the Cleveland district, and New Orleans went into the Atlanta district rather than the St. Louis district. The evidence suggests that the committee preserved the banking hinterlands of most locations not selected for reserve bank locations, as given by bankers' preferences. The exception appeared to be Cincinnati. Rather than placement into the Cleveland district, much of Cincinnati's banking hinterland was split between the Atlanta, Chicago, Richmond, and St. Louis districts.⁶⁵

Notes

1. The recorded testimony is available at the Federal Reserve Board Library, Washington, D.C. Reserve Bank Organization Committee (hereinafter in the notes RBOC), *Hearings before the Reserve Bank Organization Committee* (Unpublished, 1914).

2. RBOC, "Decision of the Reserve Bank Organization Committee Determining the Federal Reserve Districts and Location of Federal Reserve Banks. April 2, 1914" in *1914 Office of the Comptroller of the Currency Annual Report 1* (Washington, D. C.: GPO, 1915), 135-146.

3. M. C. Elliott, *Report of Secretary, February 18, 1914* (Unpublished, 1914) in Box 262, Records of the Federal Reserve System, Record Group 82, National Archives II, College Park, Maryland. A native of Virginia, Elliott became Counsel to the Insolvent Division of the Comptroller's Office in 1913. In the summer and fall of 1913, he assisted those working on passage of the Federal Reserve Act. Elliott became the Secretary of the Reserve Board Organization Committee, and, during the summer of 1914, Elliott was appointed the Board's first counsel, serving until February 28, 1919 (J. S. Williams (Comptroller of the Currency) to Elliott, March 1, 1919, Box 33, Cooke-Elliott Family Papers, Accession #2433 -ad & -ae, Special Collections, University of Virginia Library, Charlottesville, Va.).

4. Henry Parker Willis, *Report on Districting* (Unpublished, 1914), Box 262, Records of the Federal Reserve System. Willis long worked on banking reform including the 1898 Indianapolis Monetary Commission and as executive director of the National Monetary Commission, 1908-1912. Willis served as financial expert to the House Banking and Currency Committee under Carter Glass, and he was editor of the *Journal of Commerce* in Manhattan. Following his RBOC consulting work, Willis became the Federal Reserve Board's first Secretary. Later, Willis joined the Columbia University faculty remaining there until his death in 1937. Willis maintained a lifelong correspondence with Carter Glass. See the Papers of Henry Parker Willis, Colum-

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bia University, New York, and Papers of Carter Glass, Accession #2913, Special Collections, University of Virginia Library, Charlottesville, Va.

5. RBOC, "Decision . . .," 135.

6. RBOC, "Statement of the Reserve Board Organization Committee Relating to the Decision of April 2, 1914" in *1914 Office of the Comptroller of the Currency Annual Report* 1, 147-153.

7. U.S. Congress. House. RBOC. *First-Choice Vote for Reserve-Bank Cities*. 63 Cong. 2 sess., 1914. H. Doc. 1134. U.S. Congress. Senate. RBOC. *Letter from the Reserve Board Organization Committee Transmitting the Briefs and Arguments Presented to the Organization Committee of the Federal Reserve Board Relative to the Location of Reserve Districts in the United States*. 63 Cong. 2 sess., 1914. S. Doc. 485.

8. RBOC, "Decision," 135.

9. RBOC, "Statement," 147-153.

10. H. Parker Willis, *The Federal Reserve System, Legislation, Organization and Operation* (New York: Ronald Press, 1923), 549-551, 557-558, 561-563, 565, 578-580, 584-589.

11. For reference, summary or analysis of the Willis interpretation, see Wilber C. Bothwell, "The Federal Reserve Bank of St. Louis" (Unpublished Ph.D. dissertation, Washington University, St. Louis, 1941), 66, Robert Craig West, *Banking Reform and the Federal Reserve, 1863-1923* (Ithaca: Cornell University Press, 1977), 211-213, Catherine E. Gilanshah, "The Federal Reserve Banks: On Location" (Unpublished Ph.D. dissertation, George Mason University, 2001), 52-66, David Hammes, "Locating Federal Reserve Districts and Headquarters Cities," *Federal Reserve Bank of Minneapolis The Region* 15, no. 3 (September 2001): 24-27, 55-65, Roger T. Johnson, *Historical Beginnings . . . The Federal Reserve*, revised (Boston: Federal Reserve Bank of Boston, 1999), 47-51, and James Neal Primm, *A Foregone Conclusion: The Founding of the Federal Reserve Bank of St. Louis* (St. Louis: Federal Reserve Bank of St. Louis, 1989).

12. In his history of the Cleveland Fed, Blaser acknowledged that Pittsburgh had greater importance to Cleveland in many economic categories. Further, Cleveland was a Democratic city, while Pittsburgh was Republican and dominated by Mellon interests. Cleveland demonstrated rapid growth in many economic and banking categories. Arthur F. Blaser, Jr., *The Federal Reserve Bank of Cleveland* (New York: Columbia University Press, 1942), 151-152. Cleveland did have procedural advantages over Pittsburgh: Cleveland presented a well-prepared case on the last date of hearings held in Cleveland on February 17, 1914, while the committee directed Pittsburgh to appear in Washington, D.C., on January 15, 1914. See RBOC, *Hearings*, and Box 2647, Records of the Federal Reserve System. Houston was directly responsible for selecting Cleveland rather than Cincinnati. David F. Houston, *Eight Years with Wilson's Cabinet: 1913-1920, With a Personal Estimate of the President* 1 (Garden City, New York: Double Day and Page Company, 1926), 108. Baker became Secretary of War in 1916.

13. Senator Smith's role in obtaining a reserve bank for Atlanta rather than at Birmingham or New Orleans is discussed in Dewey W. Grantham, Jr., *Hoke Smith and the Politics of the New South* (Baton Rouge: Louisiana State University Press, 1958), 251-252.

14. West, 211-213, Allan H. Meltzer, *A History of the Federal Reserve. Volume 1: 1913-1951* (Chicago: University of Chicago Press, 2003), 73.

15. Michael R. McAvoy, "Country Banking in the Cornfields: Case Studies of the First National Bank of Bloomington (Illinois)," (Unpublished Ph.D. dissertation, University of Illinois at Champaign – Urbana, 2001), 183-184, and note 11.

16. Willis, *Report on Districting*, 115.

17. Houston, *Eight Years with Wilson's Cabinet*, 108.

18. See note 7.

19. For instance, Coit observed that banks located in the Fifth Federal Reserve District preferred Richmond to Baltimore or Washington, D. C in Charles G. Coit, *The Federal Reserve Bank of Richmond* (New York: Columbia University Press, 1941), 35-38). Bothwell shows that banks located in the Eighth Federal Reserve District preferred St. Louis to Chicago, Cincinnati, Kansas City, and Louisville (1941, 60). Nelson shows banks located in northern Wisconsin and Upper Peninsula Michigan counties preferred Chicago rather than their assigned district, headquartered at Minneapolis. Soon after, banks located in 34 northeastern Wisconsin counties petitioned the Federal Reserve Board to be placed into the Chicago district, from the Minneapolis district. The Federal Reserve Board later changed the boundary lines, so 25 of the petitioning counties were included in the Chicago reserve district. Clarence W. Nelson, *Reflections from History: First Half-Century*

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of the Minneapolis Federal Reserve Bank (Minneapolis: Minneapolis Federal Reserve Bank, 1964), 18-26. Odell and Weiman show that of cities located in Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee, Atlanta was the preferred district location of voting banks located in the Sixth Federal Reserve District rather than Birmingham, Nashville, New Orleans, or Savannah. Similarly, in the 11th Federal Reserve District, Dallas was preferred to Fort Worth, Houston, Kansas City, New Orleans, and St. Louis (119-121). Kerry A. Odell, and David F. Weiman, "Metropolitan Development, Regional Financial Centers, and the Founding of the Fed in the Lower South," *The Journal of Economic History* 58, no. 1 (March 1998): 103-125.

20. RBOC, *Exhibit #5 (Filed with the Secretary's Report)*, Box 2664, Records of the Federal Reserve System.

21. Detroit, Indianapolis, Jacksonville, Los Angeles, Milwaukee, Nashville, Sioux City, and Wichita obtained county's first-choice preferences, but those cities did not request consideration.

22. RBOC, *Hearings*, 80.

23. *Ibid.*

24. Willis, *Report on Districting*, 35, 111, 126. Apparently, McAdoo would have placed the Federal Reserve bank at Cincinnati rather than Cleveland, as Elliott recommended, but Houston insisted that Cleveland be selected, because Pittsburgh could go to Cleveland, but Pittsburgh could not go to Cincinnati. McAdoo agreed to go along with Houston. See Houston, *Eight Years*, 1: 108.

25. Those sections of West Virginia testified their preferences for Pittsburgh and Cincinnati, but they admitted that Richmond was equally acceptable. RBOC, *Hearings*, 956-957, 4447-4451.

26. Cincinnati representatives also accepted a branch if the Federal Reserve bank was located at either Columbus, Ohio, Indianapolis, or Nashville, but not at Pittsburgh. *Ibid.*, 4372.

27. *Ibid.*, 4004-4005, 4058-4059, 4174.

28. *Ibid.*, 948-951, 956-957, 4174, 4403, 4448-4451.

29. *Ibid.*, 3584, 3773, 3781, 3786-3792, 3795, 3911, 4060, 4116-4117, 4146-4147, 4420, 4427.

30. *Ibid.*, 1528-1529, 1545-1546, 1556.

31. Willis, *Report on Districting*, 73, 77, 84, 111, *The Federal Reserve System*, 574.

32. RBOC, *Hearings*, 1602, 3827, 4452-4453, 4464-4466, 4469-4470.

33. *Ibid.*, 1453, 1471, 1474.

34. *Ibid.*, 1599-1601, 2133, 2273, 2277-2280, 2297-2298, 2300-2311.

35. *Ibid.*, 3101-3102.

36. *Ibid.*, 2288, 2385-86, 2632-34, 2695, 2792, 3093.

37. M. C. Elliott, "Alphabetical List of Cities of First Choice with Vote and Suggested Eliminations," (no date), Box 2663, Records of the Federal Reserve System.

38. M. C. Elliott, "Memorandum of Vote Received for Reserve Bank Cities after Elimination to Twelve," (no date), Box 2663, Records of the Federal Reserve System.

39. *Annual Report of the Federal Reserve Board for the period ending December 31, 1914* (Washington: GPO, 1915), 58-59.

40. *Ibid.*, 192.

41. *Annual Report of the Federal Reserve Board for the period ending December 31, 1915* (Washington: GPO, 1916), 18-19. *Annual Report of the Federal Reserve Board for the period ending December 31, 1916* (Washington: GPO, 1917), 22.

42. *Annual Report of the Federal Reserve Board for the period ending December 31, 1919* (Washington: GPO, 1920), 39.

43. *Annual Report ... 1915*, 114, *Annual Report ... 1916*, 22, 125-126.

44. *Annual Report ... 1914*, 192-193, *Annual Report ... 1915*, 115.

45. *Annual Report ... 1915*, 19, *Annual Report ... 1916*, 22, 124.

46. *Annual Report ... 1915*, 114, *Annual Report ... 1916*, 22, 126-127. Houston wanted to place most of northern Wisconsin and a portion of Michigan's northern peninsula within the Chicago district, but McAdoo wanted to enlarge the Minneapolis district. Houston compromised. See Houston, *Eight Years*, 1: 108.

47. *Annual Report ... 1914*, 193, *Annual Report ... 1915*, 115.

48. Author's calculation.

49. Another possibility, which I do not address in this essay, is that the districts were politically predetermined, leaving the selection of some or all cities predetermined. The author thanks an anonymous reviewer

bringing this possibility to his attention. Indeed, this possibility is mentioned in several papers on the selection issue, and it arises on occasion when the topic is presented. If the number of districts was predetermined, or not, to be 12, what if there was no Richmond district? What other district could there be? Some possibilities include Willis' recommendation of a northwest district, an eastern Great Lakes district, or a true Ohio Valley district. One difficulty with any of these districts was the lack of enough statutory National Banking capital to open a Federal Reserve bank. Further, the committee would have to shift counties that preferred other locations into the region to determine the boundaries of one of these other districts. In this essay, I find evidence that the committee could not have systematically created random districts, if considering bankers' preferences, except to limit the size of the New York and Chicago districts. Willis observed the capitalization problem when recommending a Northwest district headquartered at Portland. Willis, *Report on Districting*, 68, 111, *The Federal Reserve System*, 587.

50. West Virginia's bankers favored Pittsburgh and Cincinnati more than Richmond, while Nebraska's bankers preferred Omaha overwhelmingly.

51. Minnesota elected one Democrat among of 10 Representatives in both 1912 and 1914, and had no Democratic Senators in either the 63rd or 64th Congress. See Kenneth C. Martis, *The Historical Atlas of Political Parties in the United States Congress, 1789-1989*, Ruth Anderson Rowles, cartographer, Gyula Pauer, production cartographer, (New York: Macmillan Publishing Company), 166-169.

52. *Ibid.*, 166-169.

53. Connecticut elected five of five representatives Democratic in 1912, but none in 1914; in Massachusetts, nine of 16 in 1912, to four of 16 in 1914; in New Jersey, 11 of 12, to four of 12; in New Hampshire, two of two, to one; in New York, 32 of 43, to 18 of 43; and, in Pennsylvania, 12 of 36, to six of 36. In the Great Lakes, Illinois went from 20 of 27, in 1912, to 10 of 27, in 1914; Indiana, from 13 of 13, to 12 (and lost one Democratic Senator from two, in 1912); and, in Ohio, 19 of 22, to nine of 22. *Ibid.*, 166-169.

54. Colorado elected four Democrats of four representatives in 1912, and three, in 1914; Kansas, five of eight, in 1912, and six, in 1914; Missouri, 15 of 16, in 1912, and 14, in 1914; and, in Nebraska, three of six, in 1912, and three, again, in 1914. *Ibid.*, 166-169. Given the off-year, the Democratic Party still controlled the House, and it increased its power in the Senate. Locating a reserve bank located at Cleveland, in Ohio, would appear a wasted political opportunity for the Democrats, but there was little cost incurred by not locating a reserve bank in Omaha.

55. *Ibid.*, 166.

56. R. L. McKenney (President, editor, *The Macon News*, Macon, Georgia) to Woodrow Wilson (U.S. President), January 10, 1914, Arnold E. Waters to Williams, January 14, 1914, Box 40, Papers of John Skelton Williams, Accession #10724, Special Collections, University of Virginia Library, Charlottesville, Va.

57. William Gibbs McAdoo (Secretary of the Treasury) to Charles S. Thomas (Senator – Colorado), February 14, 1914, Emmet O'Neal (Governor – Alabama) to McAdoo, February 24, 1914, Morris Sheppard (Senator – Texas) to McAdoo, March 3, 1914, McAdoo to Sheppard, March 4, 1914, McAdoo to Joe H. Eagle (Representative – Texas), March 7, 1914, John T. Scott (President, Houston Clearing House) to Eagle, March 7, 1914, Container 113, McAdoo to Josephus Daniels (Secretary of the Navy), January 14, 1914, and January 15, 1914, Container 480-3, volume 9, Papers of William Gibbs McAdoo, Library of Congress, Washington, D.C.

58. Daniels to McAdoo, March 14, 1914, Box 2648, Thomas B. Catron (Senator – New Mexico) to McAdoo, January 7, 1914, Box 2656, Records of the Federal Reserve System.

59. Box 2657, Records of the Federal Reserve System.

60. Robert Latham Owen (Senator – Oklahoma) to McAdoo, December 31, 1913, March 10, 1914, Box 2657, Records of the Federal Reserve System.

61. William J. Bryan (Secretary of State) to McAdoo, December 30, 1913, January 6, 1913, John A. Maguire (Representative – Nebraska) to McAdoo, February 28, 1914, March 6, 1914, Victor E. Wilson (Stromsburg, Nebraska) to Bryan, February 26, 1914, Box 2657, Records of the Federal Reserve System. Victor E. Wilson urged Bryan to use his influence to obtain a reserve bank location within Nebraska thus "eliminating Kansas City."

62. A. S. Burlison (Postmaster General) to Williams, March 28, 1914, George B. Dealey (Dallas, Texas) to Praeger (Washington, D.C.), March 25, 1914, Dealey to A. S. Burlison, March 25, 1914, Sheppard to McAdoo, December 27, 1913, December 28-29, 1913, December 29, 1913, December 20, 1913, January

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12, 1914, January 12, 1914, January 15, 1914, March 2, 1914, to Wilson (President), March 3, 1914, to Williams, March 3, 1913, Box 2658, Records of the Federal Reserve System.

63. Albert G. Fall (Senator – New Mexico) to McAdoo, January 19, 1914, Box 2659, Records of the Federal Reserve System.

64. The National Banks were compelled to either become members of the Federal Reserve System, or forfeit their charters.

65. In theory, country bankers in those regions could have maintained correspondent relationships with their Cincinnati bankers; however, in practice, member banks would eventually submit their clearings to their Federal Reserve bank or branch and rely upon the Federal Reserve bank for rediscounts.

