Secretary of the Treasury William G. McAdoo and Secretary of Agriculture David F. Houston
Courtesy, Library of Congress

Chapter 3
Making the System Work

The passage of the bill, however, was only the first step in the process of creating the Federal Reserve System. Now that Congress had acted, the Wilson Administration had to take the bare bones of the new law and put the substance of a functioning institution upon them. The number of regional reserve banks needed to be determined; their location needed to be established; lines of the various Federal Reserve districts needed to be drawn; the banks thus created needed to be staffed and opened for business; and finally, a Federal Reserve Board needed to be appointed. In appointing the Federal Reserve Board, President Wilson was to have the primary responsibility, but in establishing the regional reserve banks, others in the Administration were to have the central role.

The Federal Reserve Act designated three federal officials—the Secretary of the Treasury, the Secretary of Agriculture, and the Comptroller of the Currency—to serve as the Reserve Bank Organization Committee. Their task was to designate not less than eight but not more than 12 cities to be the Federal Reserve cities, and to divide the nation into districts, each district to

contain only one Federal Reserve City. The only criteria given the committee by the law declared that the districts should be drawn, "with due regard to the convenience and customary course of business and shall not necessarily be coterminous with any State or States."

Wilson's nominee for Comptroller of the Currency—John Skelton Williams—would not be confirmed by the Senate for several weeks, so the main burden of the committee's work was carried on by the other two men. The Secretary of the Treasury, William G. McAdoo, had already played a major role in drafting the bill and securing its passage through Congress. McAdoo had been raised in Georgia but had become prominent as a very successful New York attorney. A widower in his late 40s, McAdoo married President Wilson's younger daughter in the spring of 1914. Hard-working and extremely able, McAdoo's mind was unencumbered by rigid theories, and he was probably the dominant member of the Wilson cabinet. He was also extremely ambitious, but his strong desire to be President (many thought McAdoo was obsessed by this objective) was never fulfilled, though he was to be a strong contender for the Democratic nomination in 1924. Secretary of Agriculture David F. Houston, a brilliant classical economist, had been president of Washington University in St. Louis when Wilson named him to the Cabinet in 1913. Together, McAdoo and Houston made the key decisions in choosing the Federal Reserve cities and drawing the district lines, with Williams joining in toward the end of the final deliberations.

DISTRICT LINE DILEMMAS

In deciding on the number of Federal Reserve banks and their locations, the Reserve Bank Organization Committee faced, in miniature, the same controversies that had deeply divided Congress on banking reform for several years. "On no point," Parker Willis has written, "had there been sharper controversy than as to the issue whether banks should be four, eight, 12, or some other number."[1]

The law provided that there would be at least eight regional banks, but those who had favored the Aldrich plan with one central bank believed that eight regional banks was far too many. Since the law was now on the statute books, they insisted that the eight should be the maximum number of regional reserve banks, and they tried to get around the spirit of the law by insisting that the Federal Reserve Bank of New York should be such a large institution as to dwarf the other seven regional reserve banks. In this way, the bank in New York would be a central bank in substance if not in form.

According to this scheme, the New York district would cover the entire Northeast, with the major financial centers of Philadelphia and Boston serving as branches. Smaller reserve banks would be established in Chicago and San Francisco, with even smaller banks to be located in five other cities, but these seven would largely serve as satellites of the giant institution in New York. By

"New York and all the other Feds"
by Adam Redjinski

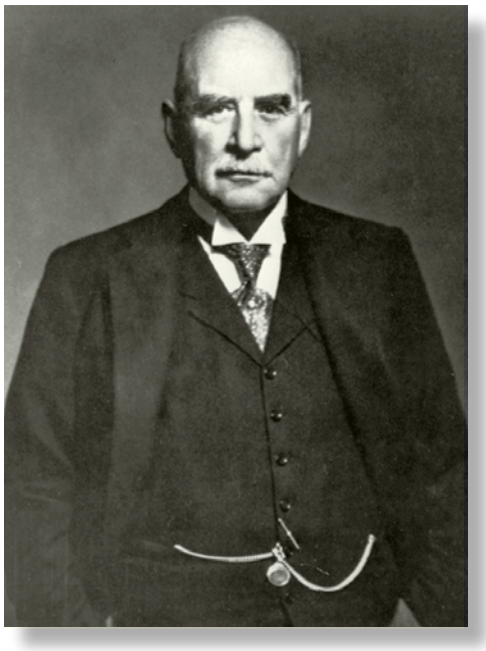
this approach those who had opposed – and still opposed – the regionalism of the Federal Reserve Act felt that they could get much of the form of a true central bank with a giant reserve bank in New York, while giving the advocates of a decentralized system the appearance of regionalism.

On the other hand, the rural and small town spokesmen, who had worked so hard to guarantee public control over the system, wanted to establish the maximum number of 12 regional reserve banks. Even 12, some of them believed, might not be enough. In any case, they also wanted all 12 of the regional reserve banks to be approximately the same size, with no one of them dominating the rest.

So, the controversies evident in the writing of the Federal Reserve Act were carried over into the selection of the Federal Reserve cities. Accordingly, McAdoo and Houston decided to focus initially on the determination of how many Federal Reserve banks there would be and where those banks would be located, and only after they had reached those decisions would they draw the district lines.

New York, then, became the early focal point in the controversy, for the size of the Federal Reserve bank to be established there (no one ever doubted that New York would receive a reserve bank) was a critical factor to both

sides in the dispute. In the first week of January, 1914, Secretaries McAdoo and Houston spent four days in New York, hearing the arguments of the city's financial leaders for a truly gigantic Federal Reserve bank there that would completely dwarf everything else in the system. J. P. Morgan, perhaps New York's best known financier, argued that the Federal Reserve Bank of New York should be of commanding importance so that it would receive due recognition from the central banks of Europe, a view echoed by *The New York Times*. Most of the New York spokesmen wanted their bank's territory to include New England and the states just to the south of New York, while some wanted the territory to extend as far as Ohio to the west and Washington, D.C. to the south. If the New York bank were to be as large as the city's financial leaders desired, it would have approximately half of the total capitalization of the entire system.



J.P. Morgan
Courtesy, Morgan Guaranty Trust Company

From the outset it was clear that McAdoo and Houston were not persuaded by the strong views of the New York bankers. "The present disposition of the organizers is to hobble New York," *The New York Times* lamented. The two Secretaries took the position that their purpose was not to hobble anyone but to construct a coordinated system, and that the central banks of Europe would deal with the system as a whole rather than with just one of its parts.

OPINION IN BOSTON

McAdoo and Houston then went to Boston for two days and heard a somewhat different tune. Many of the leading Boston bankers had championed the Aldrich plan with its single central bank, so ideologically they had strong reasons for favoring a large New York bank of which Boston would be a branch. Yet a combination of local pride and a belief that their own financial problems should be handled locally gave them strong reason for favoring a regional reserve bank for Boston. A director of one of Boston's major banks put the dilemma well in a private letter to Secretary Houston: "If Boston were in the New York District, we should have a larger and better bank to rely on in time of stress. On the other hand, a local bank, even if not so strong, would perhaps be better acquainted with local matters and local credits, and would be more interested in helping out the local difficulties, and so might be just as useful as a stronger bank not so intimately connected with Boston." He went on to point out that many Boston bankers were perplexed by this dilemma, with local pride and regional concerns mixed with their perception of broader national issues. "I don't think that any of us are quite sure," he confessed.[2]

These doubts, however, were generally expressed in private rather than in public, and in two days of open hearings in Boston, McAdoo and Houston heard many business and community leaders urge the establishment of a reserve bank in Boston. It was the business, political, and academic leadership rather than the Boston bankers who spoke out the most forcibly on behalf of Boston's claims; J. Randolph Coolidge, Jr., president of the Boston Chamber of Commerce, and Professor O. M. W. Sprague of Harvard were among the

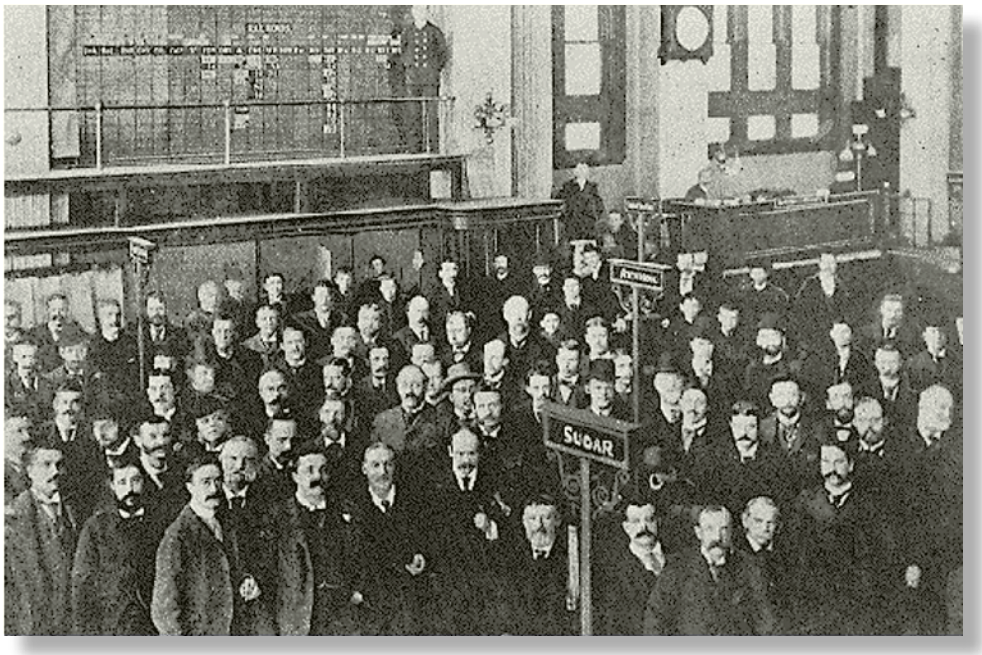
Boston's financial district in the early 1900s
Courtesy, Boston Public Library, Print Department

most persuasive witnesses to testify before McAdoo and Houston. William A. Gaston, president of the National Shawmut Bank, also strongly championed the Boston position in public testimony.

Connecticut banks and business groups, on the other hand, made clear their desire to be associated with a New York bank rather than with a bank in Boston. The Hartford Clearing House Association, for example, declined the invitation of the Boston Chamber of Commerce to visit Boston and testify in favor of the city's claims before the Reserve Bank Organization Committee.

McAdoo and Houston then returned to Washington and heard testimony from community and business leaders representing other major East Coast cities. The argument for a large New York bank usually included Philadelphia as a branch, but a delegation from the latter city traveled to Washington to press their own claims for a regional reserve bank.

CANVASSING THE NATION



Members of the Boston Stock Exchange
Courtesy, Boston Budget, Federal Reserve Bank of Boston Archives

On January 18, McAdoo and Houston left on a long cross-country trip that ultimately covered 10,000 miles. They visited and held public hearings in Chicago, St. Louis, Kansas City, Lincoln, Denver, Seattle, Portland, San Francisco, Los Angeles, El Paso, Austin, New Orleans, Atlanta, Cincinnati, and Cleveland. At each stop they invited local business and community leaders to testify, and they also invited spokesmen from nearby cities that they would not visit. This well-publicized trip fueled the already intense speculation in the press and among America's bankers as to what cities ultimately would be chosen. It was very clear that far more cities wanted the honor of

San Francisco's financial district, Bush Street
Courtesy, California Historical Society, San Francisco

receiving a reserve bank than the law would allow, and the Reserve Bank Organization Committee had to face the fact that no matter what it ultimately decided, many communities would be disappointed by their exclusion.

As the two men traveled across the country they heard the local, and often parochial, pleas of more than 40 cities, each claiming that it should be the home of a Federal Reserve bank. "Reserve Cities are springing up all over the United States," Houston lamented to President Wilson even before the committee formally began its work. "I think the Census experts are mistaken as to the number of cities in America. Certainly nobody could have imagined that so many had strategic locations."[3]

For most of the cities making claims, the key question was probably not national economic considerations but local pride. As *The New York Times* said editorially, "The hearings of the reserve bank organizers, generally speaking, have been more remarkable for the local jealousies they have disclosed than for the perception that there was anything of national significance in the new departure." One exception, however, appeared to be the West Coast, where Los Angeles, Seattle, and Portland deferred to San Francisco as the logical site for a Pacific Coast bank. McAdoo made several public statements suggesting that the selection of the Federal Reserve bank cities was not nearly so important to the particular cities named, or to their future economic development, as most people appeared to assume.

State Street, Chicago's financial district
Courtesy, Boston Budget, Chicago Historical Society

During their travels McAdoo and Houston learned that many bankers outside of New York were not very enthusiastic about a gigantic New York Federal Reserve bank. Many of these bankers had favored the Aldrich plan proposing one central bank, but the Federal Reserve Act's provision of at least eight reserve banks caused them to consider the factors of local pride and regional advantage.

Not surprisingly, bankers in Chicago and St. Louis were especially outspoken on this point. In 1914 there were three central reserve cities:

New York, Chicago, and St. Louis. Generally speaking, the bankers in the latter two cities opposed the idea of making the Federal Reserve Bank of New York such a truly gargantuan institution that it would dwarf all other reserve banks. Perhaps most bankers in Chicago and St. Louis believed that their status as a central reserve city entitled them to a Federal Reserve bank, and they wanted the bank located in their city to be somewhat comparable in size to the Federal Reserve Bank of New York, but considerably larger than the other Federal Reserve banks. Generally, the bankers in Chicago and St. Louis wanted only eight Federal Reserve banks.

Perhaps a majority of the bankers in other cities, as well as country bankers (especially those far removed from the New York area), and those members of Congress who had been the most ardent champions of the regional approach of the Federal Reserve Act favored the creation of twelve banks. They also wanted the New York bank to be one of twelve rather than the clearly dominant member. Some went so far as to suggest that the Federal Reserve Bank of New York should cover only the lower part of Manhattan Island, with the rest of New York City belonging to other districts.

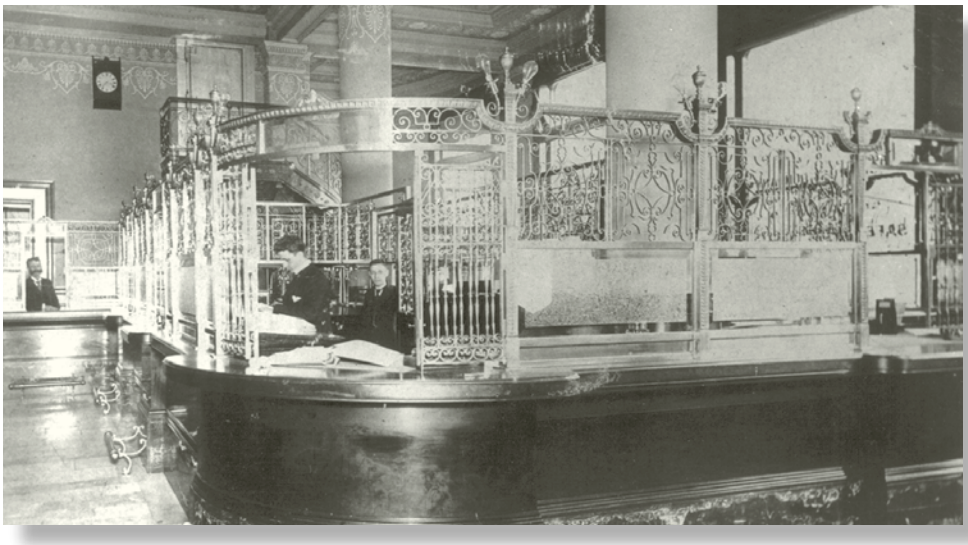
While the Reserve Bank Organization Committee was in the process of selecting reserve bank cities, it was very much concerned with the question of membership in the Federal Reserve System among the nation's commercial banks. The Federal Reserve Act required all national banks to join the system (or forfeit their national charter), and it allowed state banks to join the system if they wished and if they met certain requirements of liquidity and soundness. Yet fresh in the memory of McAdoo, Houston, and John Skelton Williams was the fact that a majority of the nation's bankers had opposed the Federal Reserve Act, many of them specifically opposing mandatory membership for the national banks. They had reason to fear that many of the national banks would surrender their charters rather than join the system.

St. Louis' business district
Courtesey, Missouri Historical Society

Accordingly, the Reserve Bank Organization Committee was extremely solicitous of the opinion of the national banks. Early in 1914 the committee polled all the national banks in the country on their preference for a Federal Reserve city with which they would be affiliated, giving them the opportunity to make a first, second, and third choice. The banks, of course, had no idea what the final Federal Reserve district lines might be, so several of them

selected as their choice of location of a Federal Reserve bank city that was not in their final district. (Indeed, four banks in California listed New York City as their second choice.) There is strong reason to believe that this poll of national banks was the most important single factor in determining the cities that received Federal Reserve banks.

HELLO, BOSTON — GOODBYE, BALTIMORE



Teller windows at the Union Trust Company, San Francisco
Courtesy, Wells Fargo Bank, History Room, San Francisco

Many minor cities received only a scattering of votes (Sioux City, Iowa and Springfield, Massachusetts, for example). By weighing each national bank's preferences as to first, second, and third choice, the committee finally came up with a list of the 12 cities with the most substantial support: Atlanta, Boston, Chicago, Cincinnati, Dallas, Kansas City, Minneapolis, New York, Philadelphia, Richmond, St. Louis, and San Francisco.

On April 2, 1914, the Reserve Bank Organization Committee announced its decision. Eleven of the 12 cities attracting the greatest support in the national poll received Federal Reserve banks. The only city that did not was Cincinnati, which was included in the district belonging to the Federal Reserve Bank of Cleveland. Within each of the newly designated Federal Reserve districts, the Federal Reserve city had received the most support from the national banks within its district, again with the sole exception of Cleveland; within that district both Cincinnati and Pittsburgh had generated more support.

In an accompanying statement the Reserve Bank Organization Committee outlined the basic criteria with which it justified its selections:

- The ability of member banks within the district to provide the minimum capital—$4,000,000—required for each Federal Reserve bank by the law.
- The mercantile, industrial, and financial connections existing within each district.

Boston's Park Street from the steps of the State House
Courtesy, Boston Budget, Federal Reserve Bank of Boston Archives

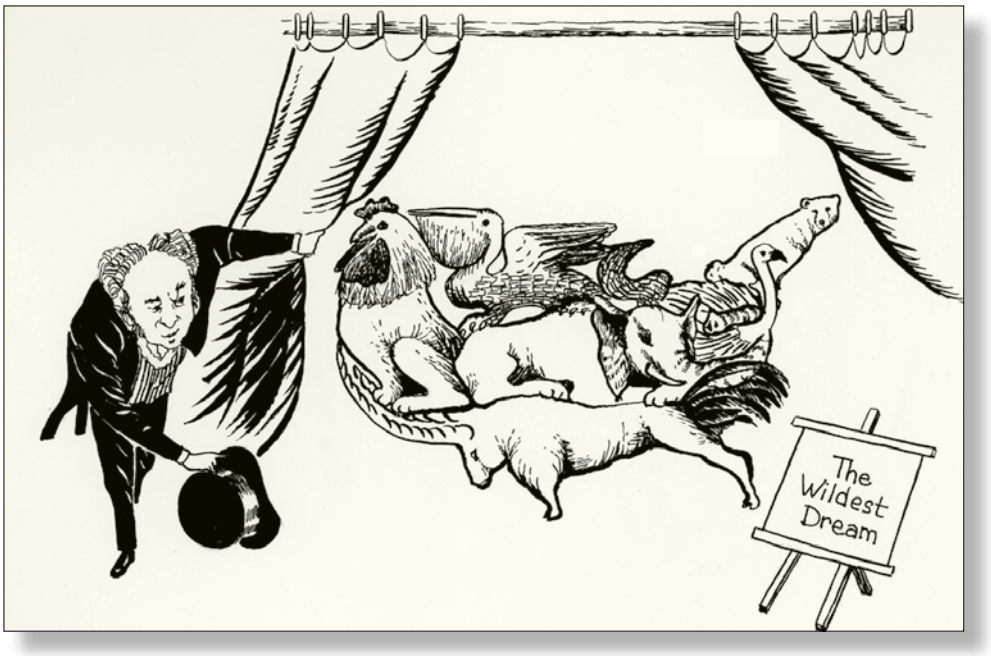
- The probable ability of the Federal Reserve bank in each district to meet the legitimate business demands placed upon it.
- The fair and equitable division of the available capital for the Federal Reserve banks among the districts.
- Geographical factors, and the existing network of transportation and communication.
- Population, area, and prevalent business activities of the districts.

The fourth listed consideration—the fair and equitable division of the available capital among the Federal Reserve districts—was another way of stating the committee's basic dilemma: the number of banks to be created and the size of the New York bank. The rural and agrarian spokesmen, as well as the smaller country banks and some big city institutions, had prevailed in their desire that 12 banks be created and that the size of the New York bank be somewhat limited. Even though the New York bank was limited to New York State alone (its district lines, and some others, were slightly modified in the following years), the New York bank with just over $20,000,000 in capital stock had nearly four times the capitalization of the smallest banks, Atlanta and Minneapolis with just under $5,000,000 in capital stock.

Under the law each of the member banks would subscribe to the capital of its district Federal Reserve bank an amount equal to 6 percent of its own capital and surplus, and each Federal Reserve bank was required to have a capitalization of at least $4,000,000. If the capital stock of each of the

Federal Reserve banks had been made approximately equal, however, the New York bank would have included only a small part of Manhattan Island, and the already enormous geographical size of the Atlanta and Minneapolis districts would have been considerably larger. In such a case, moreover, parts of New York City would have been included in other districts (probably Boston, Philadelphia, and Cleveland, at least), and the size and shape of the other districts would have probably been more grotesque than the wildest dream of the most enthusiastic gerrymanderer. Given the overwhelming size of New York's financial resources, it was quite impossible to prevent the New York bank from being the largest and most dominant bank in the system, but it was considerably smaller than the New York banking community had wanted.

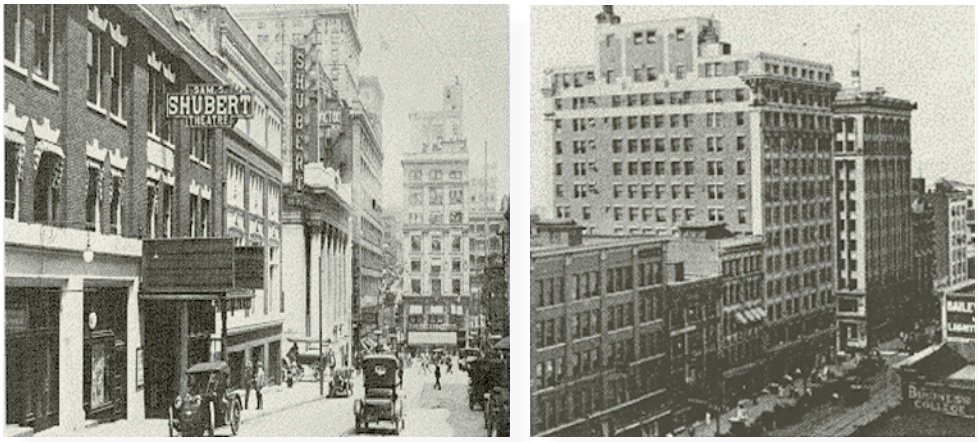
The Federal Reserve Bank Organization Committee's statement suggested that the district lines had been drawn first and the cities selected after that, but in reality the process had been just the reverse: the cities were selected and



"The wildest dream of the most enthusiastic gerrymanderer" by Adam Redjinski

then the district lines were drawn around them. There is also little indication that the committee had ever seriously considered choosing fewer than twelve cities. Given the inclination of McAdoo and Houston to disagree with the position of the New York bankers, such a result was not surprising. Moreover, with more than 40 cities making strong claims to be designated, the committee was able to satisfy more of them by choosing the maximum number of cities allowable. In following very closely the results of the poll among national banks, the committee was in a position to demonstrate that the new Federal Reserve System was anxious to work with bankers rather than to face them in angry confrontation.

Naturally, the smaller cities which had been named were overjoyed by their selection. "I have always said you and Houston were great men," a

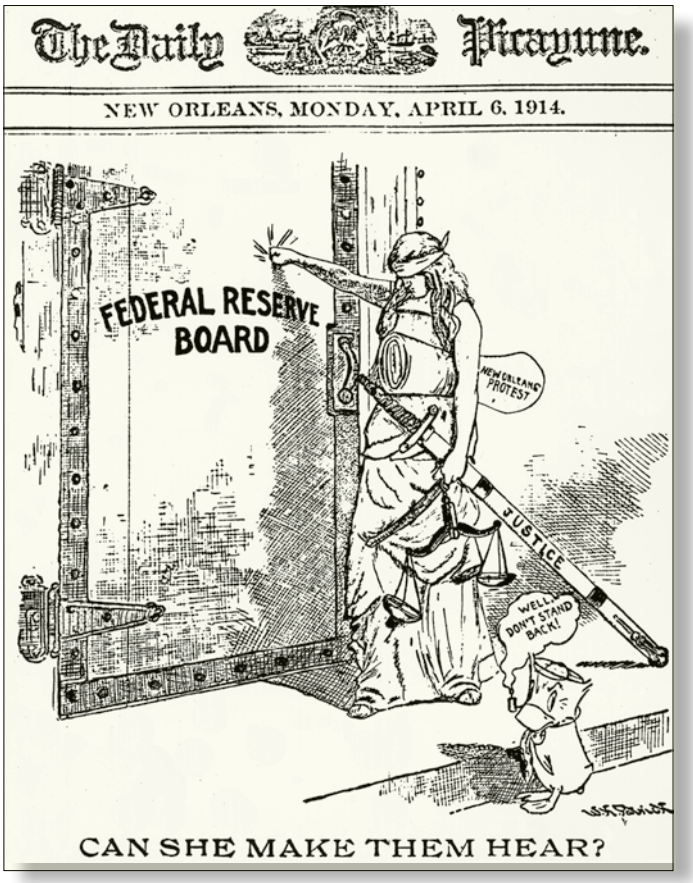


Downtown Kansas City
Courtesy, Kansas City Public Library, Missouri Room

prominent Kansas City business leader told McAdoo. "Now there isn't a man in Kansas City to dispute it."[4] Dallas and Richmond found their status in American banking greatly enhanced by their selection. Under the national banking system there were three central reserve cities and 47 reserve cities; theoretically, these 50 cities were the most important in American banking, but among them were, for example, Waco, Texas and Cedar Rapids, Iowa. Dallas and Richmond, however, had not been reserve cities, so their selection as sites for regional Federal Reserve banks increased their stature as regional financial centers.

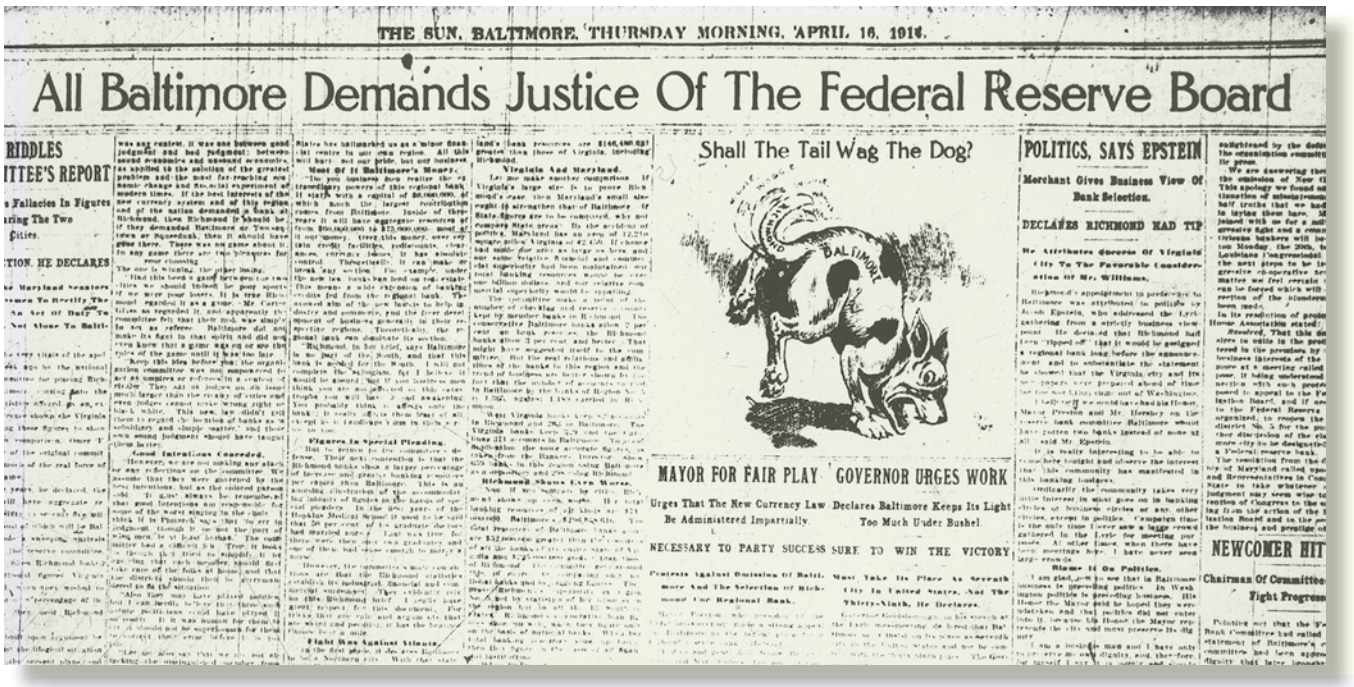
CROSSFIRE

Yet in the wake of the committee's announcement the voices that came through most loudly were not of gratification but of outrage. Lincoln, Nebraska protested its exclusion, but no one really paid much attention to that. Far more significant complaints came from two undeniably major cities, which had not been designated—New Orleans and Baltimore. Both were considerably larger than some of the smaller cities selected (Richmond, Dallas, Atlanta, Kansas City, and Minneapolis) and both responded to their exclusion with mass protest demonstrations. New Orleans, whose selec-



This cartoon of protest appeared in the New Orleans Daily Picayune
Courtesy, New Orleans Public Library

tion as a Federal Reserve city had been expected by bankers from all over the country, held a mass meeting on Sunday evening, April 5, protesting the committee's decision and demanding that it be reconsidered so that New Orleans could get a bank. Baltimore's protest was perhaps even more spectacular. On April 15 the financial, business, and civic leadership of the city, along with hundreds of others, crowded the Lyric Theatre and heard the Mayor of Baltimore and the Governor of Maryland vigorously denounce the committee's decision to pass over their city and name Richmond instead.



THE SUN, BALTIMORE, THURSDAY MORNING, APRIL 16, 1914.

All Baltimore Demands Justice Of The Federal Reserve Board

RIDDLES
ITTEE'S REPORT
Fallacies In Figures
ring The Two
Cities.
TION. HE DECLARES

Shall The Tail Wag The Dog?

MAYOR FOR FAIR PLAY
Urges That The New Currency Law Be Administered Impartially

GOVERNOR URGES WORK
Declares Baltimore Keeps Its Light Too Much Under Bushel

NECESSARY TO PARTY SUCCESS
SURE TO WIN THE VICTORY

POLITICS, SAYS EPSTEIN
Merchant Gives Business View Of Bank Selection.

DECLARES RICHMOND HAD TIP

NEWCOMER HIT

Baltimore protests the choice of Federal Reserve cities
Courtesy, Baltimore Public Library

Not only did the Reserve Bank Organization Committee receive much criticism for the cities it did not name, but it also heard loud complaints about some of the cities it did select. H. Parker Willis, who had assisted the committee in its work, believed that Richmond was the selection most difficult to justify. It was one of the smaller cities so designated, and many doubted the need for two Federal Reserve districts (Atlanta and Richmond) in the Southeast. Moreover, Richmond's selection lay open to the charge that it was a case of political favoritism, for Carter Glass was a Virginian and John Skelton Williams, Comptroller of the Currency and one of the three committee members, was from Richmond itself. Cleveland's selection was questioned because Cincinnati and Pittsburgh had received more support from the national banks within the district, and because it was the home of Secretary of War Newton D. Baker, an unusually prominent member of the Wilson Cabinet. There was some criticism of the selection of both St. Louis and Kansas City because both are in Missouri, a state with enormous political influence in the Wilson

Administration. The Speaker of the House, Champ Clark, was from Missouri (he had nearly beaten Wilson for the Democratic nomination in 1912); Senator James Reed, from Kansas City, was one of the most prominent men in the upper house; and Secretary of Agriculture David F. Houston, one of the three members of the Reserve Bank Organization Committee, came to his cabinet position from St. Louis.

This "Bank Street" is really the ll00 Block of East Main Street, Richmond
Courtesy, Cook Collection, Valentine Museum, Richmond, Virginia

These questions of political favoritism in the selection of Federal Reserve cities (especially Richmond and the two in Missouri) led to several days of debate in the House of Representatives. After hearing much intense criticism, Carter Glass sprang to the defense of the committee and its selections, and he suggested that the importance of Federal Reserve banks to the cities in which they would be located had been overemphasized. He also denied playing any role in the selection of Richmond. President Wilson also came to the committee's defense while stoutly maintaining that he had offered the committee no suggestions.

Stung by this criticism from around the country and within Congress, the Reserve Bank Organization Committee made public the poll of national banks, hoping to demonstrate that any favoritism shown had not been to politicians but to banking opinion. A few days later, on April 10, the committee issued a lengthy statement defending its choices. Attempting to mollify the disappointed cities, the committee argued that designation or the failure to designate any particular city would not be important to that city's future, and that the normal patterns of business and banking would not be affected by the creation of the twelve Federal Reserve districts. "Every city which has the

foundations for prosperity and progress will continue to grow and expand, whether it has such a reserve bank or not, and well-informed bankers, especially, are aware of this," the committee said.

Moving on to defend its most controversial selections, the committee suggested that it chose the 12 cities that it did because they were the most important in terms of banking resources, central location, and communication and transportation facilities. Though Dallas, Atlanta, and New Orleans had comparably sized bank business, the committee thought it especially noteworthy that the banking business of both Atlanta and Dallas had more than doubled in the past decade while the banking business of New Orleans had remained stable. In addition, Dallas and Atlanta were the overwhelming choice of the banks in their regions, while it was generally only the Louisiana banks that favored New Orleans. As for Richmond, the committee pointed out that banks in the district preferred it over Baltimore, and that it was more centrally located while Baltimore was at the northern edge of the district and very close to Philadelphia. While Baltimore's banking resources were clearly greater than those of Richmond, the latter's had grown five times more rapidly during the past decade. As for Kansas City, the committee again pointed out that it, far more than any other city in the district, had been the choice of the national banks. None of the other major cities in the district—Denver, Omaha, or Lincoln—even came close to the banking resources of Kansas City.

The committee's statement contained some inconsistencies. On the one hand it argued that failure to receive a Federal Reserve bank did not mean that a particular city lacked importance or that its future growth would suffer; on the other hand, the committee justified its most controversial choices by arguing that the cities selected were, in fact, more important in terms of location, banking resources, and future potential than their disappointed rivals.

Controversies about the cities selected and some of the district lines would persist for several years. From time to time the Federal Reserve Board has slightly modified some of the district lines, but none of these changes were major. Perhaps the most noteworthy occurred in 1916, when the Board moved Fairfield County, Connecticut from the Boston district to the New York

An overall view of Dallas
Courtesy, Dallas Historical Society

district, and the northern New Jersey counties from the Philadelphia district to the New York district. This change was made at the request of the local bankers, who had been very unhappy about their exclusion from the district of the Federal Reserve Bank of New York. More important, however, the twelve cities originally named by the committee have retained their Federal Reserve banks, and after the System had been in operation for only a few years no serious challenge arose against any of them. In short, despite the outcry from many quarters, the decision announced by the Reserve Bank Organization Committee on April 2, 1914, has not been changed.

GETTING IT TOGETHER

After choosing the twelve Federal Reserve cities and drawing the district lines, the Reserve Bank Organization Committee had to bring the more than 7,000 national banks into formal membership in the new system, and it had to provide for the organization of the 12 Federal Reserve banks. Also, the President had to nominate five members to the Federal Reserve Board who would be acceptable to the Senate. Until these major actions were taken, America's new experiment in central banking could not begin.

During the debate over the Federal Reserve Act in Congress, and soon after its passage, there had been many fears that the vocal opposition of most of the banking community would mean that large numbers of national banks would give up their charters rather than join the Federal Reserve System. Yet these fears never materialized. In fact, only a very few national banks took this step. Following the passage of the Federal Reserve Act many bankers either reconciled themselves to the new system, with the determination to make it work well, or came to accept that the Federal Reserve Act contained many benefits and improvements that they had not fully appreciated before.

A few days after final congressional passage of the bill, a director for a major Boston bank expressed his own change of opinion in a letter to David Houston: "I hardly need to tell you that the attitude of our Directors—and I presume this has been the experience in every bank—has changed completely in regard to the currency bill. They started out with a strong prejudice against it, and a feeling that it would almost be necessary to keep out of the system, even if that meant reorganization [that is, replacing the national charter with a state charter]; but the very great improvement which the bill cannot help effecting in our currency situation has gradually impressed itself upon us, and, in addition, the progressive changes which have been made in the bill have created a very favorable impression. I don't meet anybody now who, whatever his views as to possible dangers, does not feel that the advantages outweigh the dangers."[5]

BOSTON FEDERAL RESERVE BANK IS TO BE OPENED WITHIN SIXTY DAYS

1914

May 18

EPRESENTATIVES OF THE FIVE NEW ENGLAND BANKS WHO EXECUTED THE CERTIFICATE OF INCORPORATION OF THE FEDERAL RESERVE BANK OF BOSTON YESTERDAY AFTERNOON.

hey are, seated, left to right—W. H. Chase, vice-president of the First National Bank of Concord, N. H.; F. N. Dow, president of the Casco Bank of Portland, Me.; W. A. Gaston, National Shawmut Bank (chairman); C. D Sanford, president of the First Bridgeport National Bank of Bridgeport, Conn.; C. P. Knight, president of the Providence, R. I., Bank of Commerce. Standing, left to right—Cashiers C. W. Brewster of Concord, N. H.; W. H. Davis of Portland, Me.; W. F. Thayer of Concord, N. H.; H. L. Wilcox of Providence, R. I.; O. H. Brothwell of Bridgeport, Conn.; Man-

News clipping announces the opening of the Boston Fed
Courtesy, Federal Reserve Bank of Boston Archives

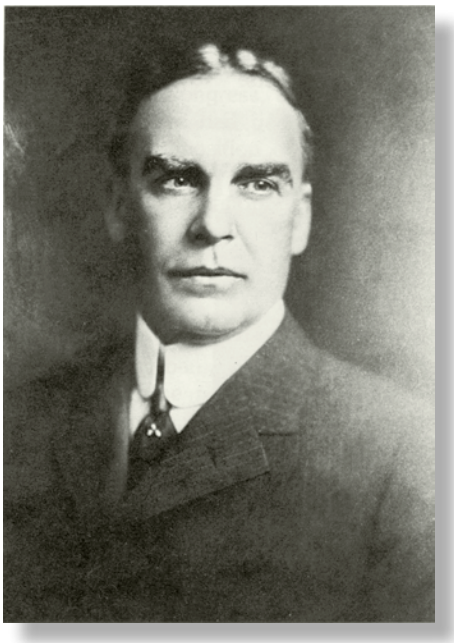
The Federal Reserve Act had specified that the national banks had 60 days after the passage of the law to indicate their acceptance of it, and within a month more than two-thirds of them had done so. By the end of February, 1914, just after the expiration of the 60-day period, it was clear that more than 99 percent of the national banks had accepted the new law and had joined the System in order to retain their national charters. The Federal Reserve Act also allowed state chartered banks to apply for membership, but in 1914 the Organization Committee gave very little attention to this issue. By April, only 73 state chartered banks in the nation applied for membership. It was not until after the System actually began functioning that the Federal Reserve Board gave any serious consideration to this question. In New England, there were no state chartered members until August, 1915.

Under the Federal Reserve Act all member banks had to subscribe to an amount of stock in their own regional Federal Reserve bank equal to 6 percent

of their capital and surplus. By May, five national banks had subscribed the minimum required capitalization of $4 million in each of the 12 districts, so the committee formally selected five national banks in each district to organize the regional reserve bank and expressed the hope that the 12 banks would be able to open for business by August 1. In New England the five selected were: First National Bank, Bridgeport, Connecticut; Casco National Bank, Portland, Maine; National Shawmut Bank, Boston; First National Bank, Concord, New Hampshire; and the National Bank of Commerce, Providence, Rhode Island. It was up to the five banks in each of the 12 districts to execute the formal certificate of incorporation, and this was done on or just after May 18 in all 12 districts.

ELECTING LOCAL DIRECTORS

The next step was for the member banks to elect six of the nine members of the Board of Directors for each Federal Reserve bank. Following the specific provisions of the law, the Reserve Bank Organization Committee divided the member banks within each district according to capitalization: the largest one-third in one grouping, the middle one-third in a second grouping, and the smallest one-third in a third grouping. Of the six directors elected by the member banks, three were to represent the banks themselves (Class A Directors) while the other three were to represent the commerce, agriculture, or industry of the district while having no connection with a commercial bank (Class B Directors). Each of the three groupings of member banks would elect one Class A Director and one Class B Director. In other words, each member bank would have a vote in the selection of only two of the nine members of the Board of Directors. The final three directors (Class C Directors) for each Federal Reserve bank were to be appointed by the Federal Reserve Board, one of the Class C directors being designated chairman and another Class C director being designated vice chairman. Under the Federal Reserve Act the Secretary of the Treasury and the Comptroller of the Currency were "ex-officio" members of the Federal Reserve Board, while the other five members were to be appointed by the President and confirmed by the Senate for 10-year terms. (The Banking Act of 1935 changed the composition of the Board, which was officially renamed the Board of Governors of the Federal Reserve System. Under this new law the Board was to consist of seven members, each of whom would be appointed by the President and confirmed by the



Governor Alfred L. Aiken, Federal Reserve Bank of Boston
Courtesy, Federal Reserve Bank of Boston

Senate for fourteen-year terms; the Secretary of the Treasury and the Comptroller of the Currency no longer served on the Board.)

WILSON'S CHOICES: THE FEDERAL RESERVE BOARD

President Wilson waited until the Organization Committee had selected the cities and had drawn the district lines before he announced his choices for the Federal Reserve Board. For one thing, only one of the appointed members of the Board could come from any one Federal Reserve district, so clearly the lines had to be drawn before the appointments could be made. Moreover, Wilson's five appointments were among the most important he had been called upon to make in his presidency, and it took some time for him to make his choices.

Richard Olney
Courtesy, Library of Congress

On May 4 the President sent his five nominations to the Senate. They were: Richard Olney, conservative Boston lawyer and Secretary of State under Grover Cleveland 20 years earlier; Harry A. Wheeler, Chicago businessman and former president of the United States Chamber of Commerce; Paul M. Warburg, partner in the Wall Street investment firm of Kuhn, Loeb & Company, and an opponent of the Federal Reserve bill while it was before Congress; Adolph C. Miller, a former professor of economics at the University of California; and William P. G. Harding, president of the First National

OLNEY TO HEAD RESERVE BOARD

Former Secretary of State, Selected as Governor, May Accept, Despite His Age.

4 OTHER MEMBERS CHOSEN

They Are P. M. Warburg, A. C. Miller, W. P. G. Harding, and H. A. Wheeler.

SALARIES $12,000 A YEAR

Secretary McAdoo to be Chairman ex-Officio and Controller Williams an ex-Officio Member.

Special to The New York Times.

WASHINGTON, May 4. — President Wilson has asked the following to accept membership on the Federal Reserve Board:

GOVERNOR.

RICHARD OLNEY of Boston, lawyer, former Secretary of State.

MEMBERS.

ADOLPH CASPAR MILLER of Berkeley, Cal., educator and economist, now assistant to the Secretary of the Interior.

PAUL M. WARBURG of New York, banker, member of the firm of Kuhn, Loeb & Co.

W. P. G. HARDING of Birmingham, Ala., banker, President of the First National Bank of that city.

HARRY A. WHEELER of Chicago, banker, former President of the Chamber of Commerce of the United States and former President of the Chicago Association of Commerce.

Should these five accept the Federal Reserve Board will be composed in addition of the following:

MEMBERS EX-OFFICIO.

WILLIAM G. McADOO of New York, Secretary of the Treasury and Chairman ex-officio of the board.

JOHN SKELTON WILLIAMS of Richmond, Va., Controller of the Currency and member ex-officio of the board.

Mr. Warburg and Mr. Miller have accepted the tender, and it is understood that Mr Wheeler has accepted or will accept. Some doubt is expressed among Alabama men here as to whether Mr. Harding will accept. Mr. Olney, at first disinclined to take the position, is understood to be more disposed to view it favorably. He is 78 years old, and had indicated previously that he did not care for public office. He declined President Wilson's tender of the office of Ambassador to the Court of St. James's.

Terms of Service of Board Members.

The Federal Reserve Board, which will be the supreme governing body in the new banking and currency reserve system provided for by the Glass-Owen currency law, is to consist of the Secretary of the Treasury, the Controller of the Currency, and five members, one of whom is to be named as Governor and another as Vice Governor. The five members are to hold office for two, four, six, eight, and ten years, respectively, under the original appointments, and afterward the terms are to be for ten years in each case, with one member appointed every two years. The salary of all the members, including the Secretary of the Treasury and the Controller of the Currency, will be $12,000 a year.

Officials of the Administration, according to Senators and Representatives who are in their confidence, are greatly pleased over the acceptance of Mr.

The New York Times
Courtesy, Library of Congress

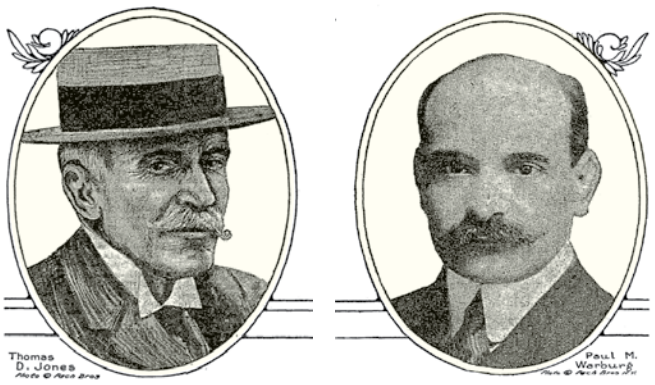
Colonel Edward M. House
Courtesy, Library of Congress

Bank of Birmingham, Alabama, and a champion of his own city as the site for a Federal Reserve bank.

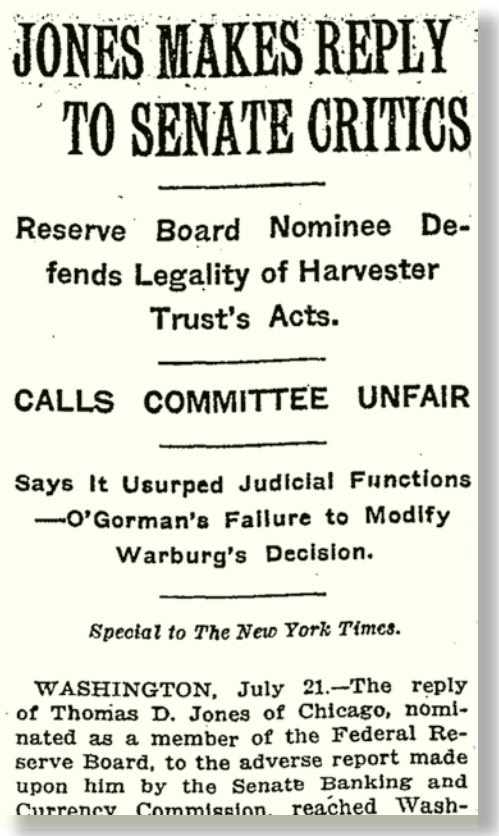
Almost as soon as Wilson named his choices he faced embarrassment. Olney was probably the most prominent of the nominees, but his stewardship of the State Department had been filled with controversy, and, citing his advanced age as the reason, he declined the appointment. Wheeler also turned down the offer.

The President's embarrassment soon turned into a nasty political confrontation with the Senate. While Wilson's selections proved very popular among America's banking leaders, the President's natural political allies—the progressives—were deeply and bitterly disappointed. Within Wilson's official family Secretary McAdoo strongly advocated the appointment of a Board that would work with him to break what he considered to be Wall Street's control over the nation's credit. The President rejected McAdoo's argument in favor of the position of Colonel Edward M. House, Wilson's most important adviser. House advocated the selection of men who would win the confidence and cooperation of the banking community, and the President gave him a free hand to consult widely among conservatives and among the banking leadership for suggestions.

The progressives were appalled by the nominations, and the pleasure expressed by bankers and conservatives only deepened their suspicions. After Olney and Wheeler declined appointment, Wilson, on June 15, named in their place Charles S. Hamlin, a Democrat from Boston, and Thomas D. Jones, a businessman from Chicago. These replacements, particularly Jones, only angered the progressives further. Led by Senator James Reed of Missouri, the progressives directed more of their fire at Warburg and Jones. Warburg was suspect because he represented a prominent Wall Street investment house and because he had been a strong champion of



Thomas D. Jones and Paul M. Warburg
Courtesy, The New York Times*, August 2, 1914*



JONES MAKES REPLY TO SENATE CRITICS

Reserve Board Nominee Defends Legality of Harvester Trust's Acts.

CALLS COMMITTEE UNFAIR

Says It Usurped Judicial Functions —O'Gorman's Failure to Modify Warburg's Decision.

Special to The New York Times.

WASHINGTON, July 21.—The reply of Thomas D. Jones of Chicago, nominated as a member of the Federal Reserve Board, to the adverse report made upon him by the Senate Banking and Currency Commission, reached Wash-

Courtesy, The New York Times, *July 22, 1914*

that bete noir of the progressives, the Aldrich plan. Jones was suspect because he was a director of the International Harvester Company, a trust that was universally hated by the middle western farmers and progressives, and which was under both state and federal indictment in 1914 as an illegal business combination in restraint of trade. Wilson was particularly embarrassed and embittered by the opposition to Jones, for the latter was an old friend who had sided with him during his controversies as president of Princeton University and who had contributed large sums of money to his presidential campaign of 1912. Moreover, Jones had reluctantly accepted the appointment only after Wilson had appealed to him on the basis of their friendship.

President Wilson decided to fight vigorously for the Senate confirmation of his five choices, and he came out with particular force for his old friend Jones. He argued that Jones, as a director of International Harvester, had been working to end the activities which had brought that company under indictment. In July, Jones testified before the Senate Banking Committee, which was holding hearings on the President's five nominations, and he weakened his own case by showing more sympathy with the policies of International Harvester than Wilson had suggested was the case. A few days later the committee voted, seven to four, to disapprove Jones's nomination. Infuriated, Wilson determined to carry his fight for his friend's confirmation to the Senate floor. Despite very heavy Administration pressure, a number of Democratic senators normally aligned with Wilson refused to accept Jones. The President, seeing that his friend could not prevail in a Senate vote, asked him to withdraw his nomination. Jones, who had not been eager to serve on the Federal Reserve Board in the first place, gladly complied. This was Wilson's first defeat at the hands of either house of Congress.

As a replacement for Jones, the President nominated Frederic A. Delano, president of the Monon Railroad, and he was easily confirmed by the Senate.

Meanwhile the Senate Banking Committee had also requested Warburg to appear before it. Warburg's pride was so wounded by this request—he seemed to feel that he was being asked to appear at an inquisition—that he requested the President to withdraw his nomination. Wilson refused to do so

Members, Federal Reserve Board. Clockwise: W.G. McAdoo, John Skelton Williams, A.G. Miller, F.O. Delano, H. Parker Willis, W.P.G. Harding, P.M. Warburg, and C.S. Hamlin
Courtesy, Federal Reserve Board of Governors, Washington, D.C.

and pleaded with Warburg to appear before the committee as Jones had done. Senator Hitchcock assured Warburg that he would be treated kindly. In early August, Warburg finally consented to testify, and he was promptly approved by the committee and confirmed by the Senate. Apparently the defeat of Jones, and Warburg's ultimate appearance before the committee, was victory enough for the progressives, for they made no serious attempt to block confirmation of Wilson's three other selections. Perhaps most significantly, Wilson's appointments to the Federal Reserve Board were very welcome to the banking community, and they indicated that the President wished to inaugurate the Federal Reserve System in cooperation with the financial community of the nation.

On August 10, 1914, the Federal Reserve Board was officially sworn into office, with Charles S. Hamlin designated Governor (i.e., Chairman), and Frederic A. Delano, Vice Governor, and it took over the work that had been started by the Reserve Bank Organization Committee. Two factors, however, were to delay the opening of the new Federal Reserve Banks. One was the slowness of the member banks in electing the six Class A and Class B directors. The other was the beginning of World War I in Europe; the outbreak of war had such a profound impact upon American business and banking that it made it even more difficult to open the reserve banks, yet far more essential that they be opened as soon as possible.

The newly appointed Board had to appoint the three Class C directors for each of the 12 banks. It also worked on drafting by-laws for the 12 banks, so that the banks could be as uniform as possible. Many other details and technical considerations occupied the Board's attention: the staffing of each of the banks, with the selection of officers; the provision of office space; precise guidelines for the kind of commercial paper that member banks could rediscount, and a workable mechanism for the rediscount of such paper; the design and printing of the new currency, Federal Reserve notes; and finally, provision for the transfer of reserves from the central reserve and reserve city banks to the new Federal Reserve banks.

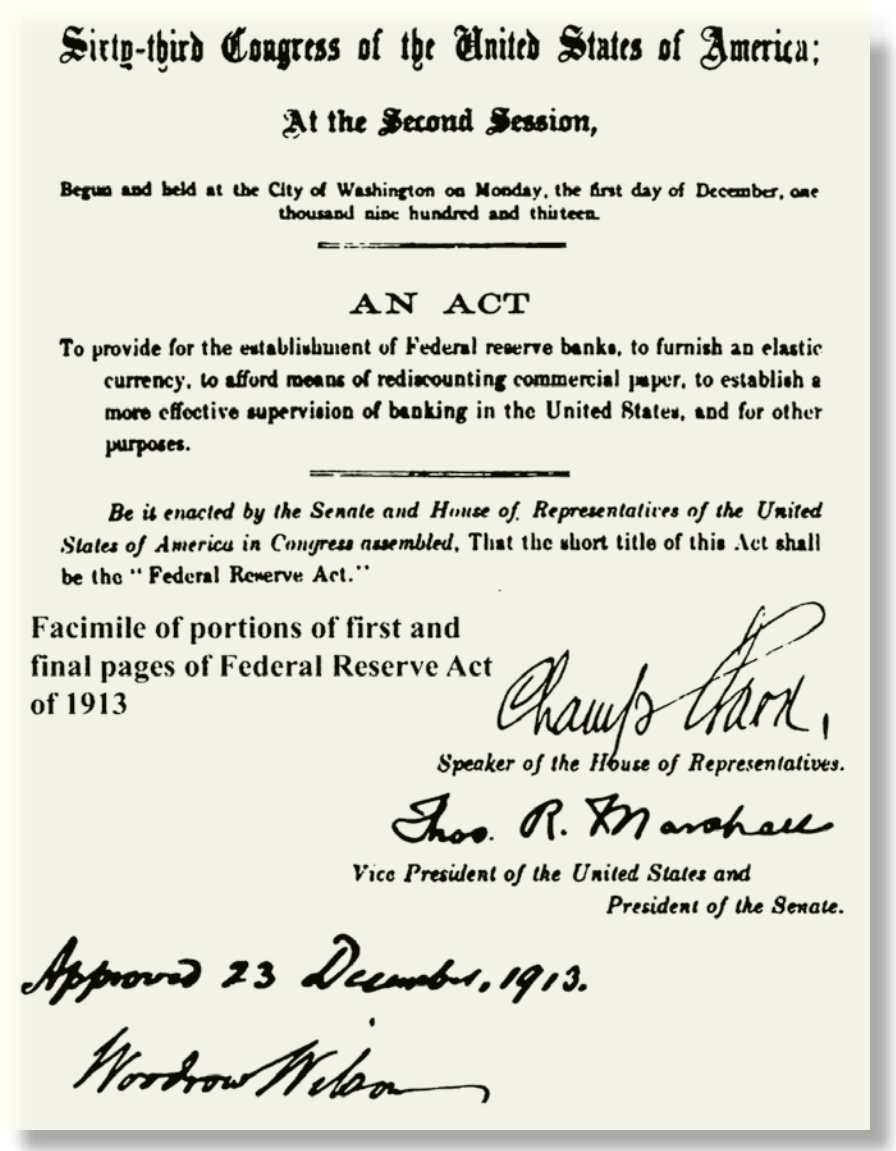
Some of the Federal Reserve Banks were moving ahead more rapidly than others, and the Board seemed willing to open each bank as it became ready. However, Treasury Secretary McAdoo decided that the banks should all open for business at the same time. McAdoo's determination put pressure on the Federal Reserve Board to name all of the Class C directors speedily and on the slower banks to prepare for an early opening.

On October 20, after all of the Class C directors had been named, all nine directors from all twelve banks met in Washington to prepare for the opening of the banks. By this time the Federal Reserve Board had come to accept McAdoo's determination that all 12 banks open at the same date. The various directors, however, could not agree what the specific date ought to be.

Directors from the 12 Federal Reserve banks meeting in Washington, D.C.
Courtesy, Federal Reserve Bank of Boston Archives

A few days after the Washington meeting McAdoo himself publicly announced that the Federal Reserve banks would all open on Monday, November 16. He also said that as soon as the 12 banks were opened, the federal government would transfer as much of its government funds as possible to the various reserve banks.

On November 16, the 12 Federal Reserve banks started operations with little fanfare and, in some cases, with less business. In no case had permanent quarters been arranged, and in many quarters there was a very large question of how long the Federal Reserve System would last. In most of the banks a clerk or two oversaw the small trickle of business, and their work was often seen somewhat as a novelty. The Federal Reserve Bank of Boston began operations in rented quarters at 101 Milk Street, approximately the location of the permanent building, with expansions, that the bank was to occupy from the early 1920s through the middle 1970s.



Sixty-third Congress of the United States of America;

At the Second Session,

Begun and held at the City of Washington on Monday, the first day of December, one thousand nine hundred and thirteen.

AN ACT

To provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this Act shall be the "Federal Reserve Act."

Champ Clark,
Speaker of the House of Representatives.

Thos. R. Marshall
Vice President of the United States and President of the Senate.

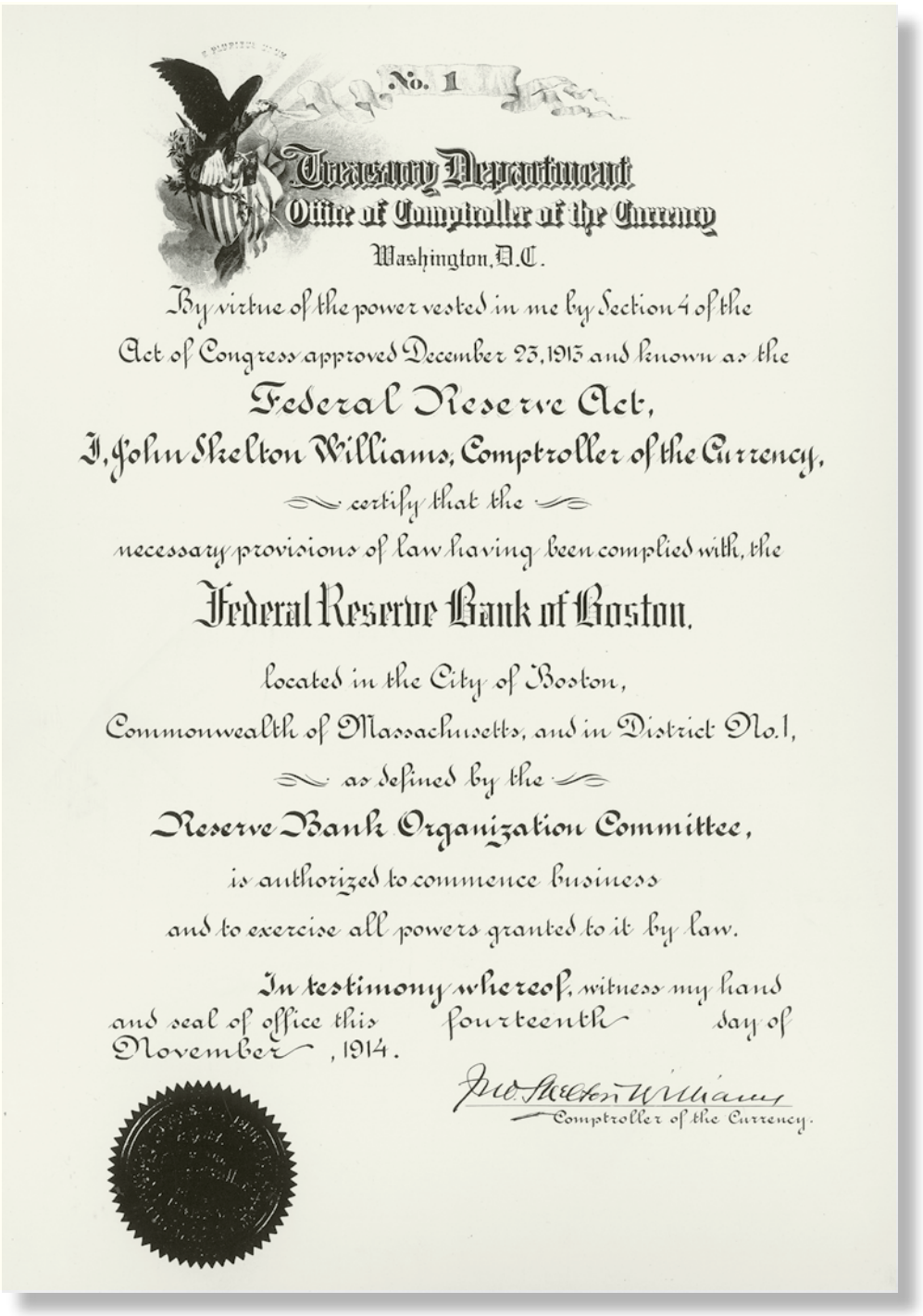
Approved 23 December, 1913.

Woodrow Wilson

Facsimile of portions of the first and final pages of the Federal Reserve Act of 1913

Inauspicious as it was, November 16, 1914—the opening of the Federal Reserve Banks—marks the end of this story. In the 60 years that have passed, those banks have remained in operation, and their activities and responsibilities have expanded enormously.

With the passage and implementation of the Federal Reserve Act, the United States had initiated the central banking system which persists today—to serve and add stability to the commercial banking system and to monitor and influence the American economy.



No. 1

Treasury Department
Office of Comptroller of the Currency
Washington, D.C.

By virtue of the power vested in me by Section 4 of the Act of Congress approved December 23, 1913 and known as the

Federal Reserve Act,

I, John Skelton Williams, Comptroller of the Currency,

certify that the

necessary provisions of law having been complied with, the

Federal Reserve Bank of Boston,

located in the City of Boston,
Commonwealth of Massachusetts, and in District No. 1,

as defined by the

Reserve Bank Organization Committee,

is authorized to commence business
and to exercise all powers granted to it by law.

In testimony whereof, witness my hand and seal of office this fourteenth day of November, 1914.

John Skelton Williams
Comptroller of the Currency.

Comptroller of the Currency, John Skelton Williams, authorizes the Federal Reserve Bank of Boston to commence business
Courtesy, Federal Reserve Bank of Boston Archives