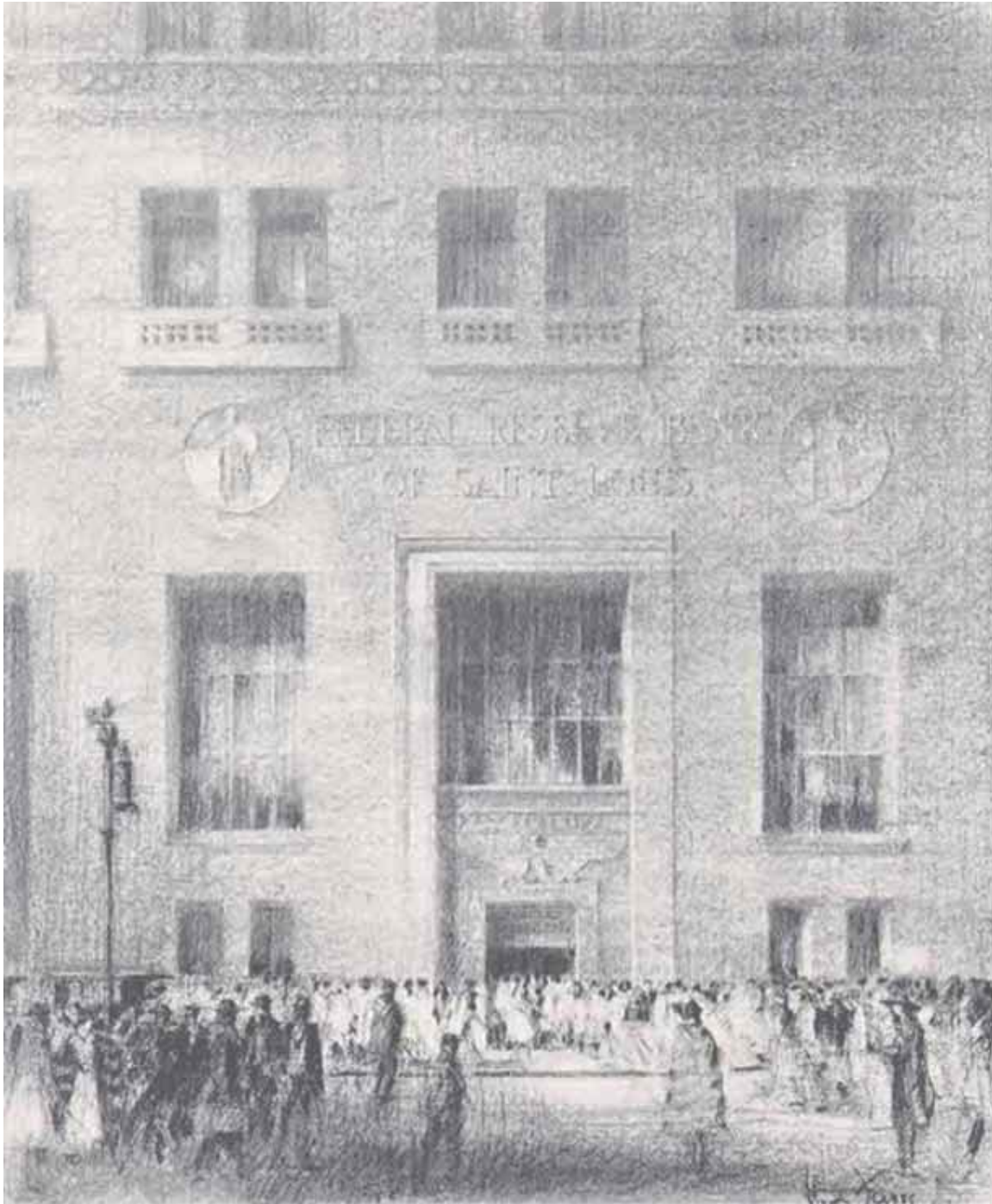


A Foregone Conclusion

The Founding of the Federal Reserve Bank of St. Louis

James Neal Primm



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Born in Edina, Missouri, Professor Primm received his master's and doctoral degrees from the University of Missouri-Columbia. He became chairman of the history department at the newly founded University of Missouri-St. Louis in 1965. His many contributions to scholarship, UM-St. Louis, and the St. Louis community earned him the title of Curators' Professor of History in 1987.

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James Neal Primm
St. Louis, June 1989

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Julie L. Knoll
St. Louis MO
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Foreword

Seventy-five years ago, on May 18, 1914, the Federal Reserve Bank of St. Louis received its charter. A few months later, with a small staff and in rented quarters, the Bank opened for business. Both for those of us who are engaged in the present-day operations of the Bank and for the members of the public we serve, it is hard to picture the Bank as it was at its inception. It is also difficult to appreciate the problems that had to be resolved in transforming the concept of a regional central bank into a functioning, sound and responsible institution. In commemoration of our anniversary, we are pleased to present this history in which Dr. James Neal Primm, Curators' Professor of History Emeritus at the University of Missouri-St. Louis, recounts those opening days.

The founding of the Federal Reserve System was not only the beginning of our institutional history, it was also the conclusion of more than a century and a quarter of financial experimentation and conflict. It would be difficult, if not impossible, to understand the System without reference to its historical antecedents. Professor Primm examines the era of frontier financing which mixed banking and commerce, of "pet" banks and "wild cat" banks, of requirements for all payments to the federal government to be made in specie and of outcry against the "Cross of Gold," and, with increasing frequency, of financial panics, all as it was seen from and as it affected the central Mississippi Valley. We are reminded of our city's role as a major financial, as well as commercial, center around the turn of the century. St. Louis, prior to the creation of the Federal Reserve System, was the site of a United States sub-treasury for the collection and payment of federal funds, as well as one of only three central reserve cities in the country for the deposit of national bank reserves. This financial prominence, as Professor Primm describes, resulted in a number of local banking, political and business leaders figuring importantly in the legislation establishing the System.

Professor Primm also details the political considerations, proposals and compromises which led to the establishment of the Federal Reserve System. Today, concerns over an inelastic money supply may seem dated, and many of the restrictions placed on the Reserve Banks concerning discounts and investments may sound of issues long since resolved. However, the essential considerations of the draftsmen and legislators over how to design a system that would be responsive to the needs of the entire economy and would promote equitable access to the nation's financial resources are with us as much now as they were in the opening years of our century. The solution they came to, a somewhat unusual quasi-public, quasi-private institution, a decentralized central bank independent within the government, has proven to be a very durable one, indeed.

For our various outside constituencies, we hope that Primm's work will be of historical interest and helpful in understanding the origins of the Federal Reserve.

Chapter One

The Nineteenth Century Background

On one point at least, most Republicans, Democrats and Progressives were agreed during the memorable 1912 presidential campaign: the country's financial structure needed fixing. As economist Edwin Kemmerer put it, foreigners envied Americans for everything but their banking system. Since the Civil War, Southern and Western farmers had clamored for currency reform, blaming the National Banking System and at times "an international banking conspiracy" for both seasonal and long-range deflation in farm prices. Periodic panics, especially the shocking "bankers' panic" of 1907, convinced many other Americans—bankers, politicians and the public generally—that some kind of reform was essential.

Banking and currency had been a central political issue since the first years of the Republic. Secretary of the Treasury Alexander Hamilton, believing that the nation would not survive without the confidence of foreign and domestic creditors, startled Congress in 1790 with a plan to fund the national debt at par, assume the debts of the states and provide a national money supply through the agency of a national bank of issue modelled on the Bank of England.

Noting that the first beneficiaries of these proposals would be the Northern commercial interests, which held most of the depreciated national and state securities, Southern agrarians exploded in angry opposition, seeing themselves as the ultimate payers of the bill. Ironically, that opposition was led in Congress by James Madison, the principal author of the federal constitution whom agrarians had distrusted as a small-scale Hamilton. The issues raised in the ensuing debate were at the heart of the struggle between commercial and agrarian interests, which led to the formation of the Federalist and Republican parties.

The Bank of the United States was to be a depository for government funds and the collecting and disbursing agent for the Treasury, and it would issue notes that would become the nation's principal circulating medium. The federal government was to own one-fifth and private investors four-fifths of the bank's stock, three-fourths of which they could pay for in government bonds. This would ensure a demand for the bonds, give the bank an incentive to support their price, and the holders of bank stock and government securities would ally themselves with the central government.

Agrarians were outraged by this "engine of corruption," which they believed would enrich speculators and commercial interests at the expense of farmers and planters. One congressman said he would as soon be seen entering a house of ill fame as a bank.¹ James Madison, Secretary of State Thomas Jefferson and Attorney General Edmund Randolph argued that the Constitution did not

¹ William McClay of Pennsylvania

authorize Congress to charter corporations. But the Federalist Congress passed the bill, and President Washington was persuaded by Hamilton's argument that the "necessary and proper" clause of the Constitution empowered Congress to carry out its enumerated functions as it saw fit. A national bank was the best instrument for collecting taxes and supporting the military.

When he became president in 1801, Thomas Jefferson, who had once characterized Federalists as rogues, surprised nearly everyone by leaving Hamilton's financial system intact. He still thought the Bank of the United States was a perversion of national power, but he wanted to win over moderate Federalists, and he thought the Bank too entrenched to be rooted out. This forbearance saddened the agrarian purist John Taylor of Caroline, a prominent Virginia planter who denounced the paper system as "artificial property" designed to rob owners of "natural property" (land and its produce). For the life of him, Taylor could not see the difference between a Federalist bank and a Republican bank.

When its charter came before Congress for renewal in 1811, the Bank of the United States (B.U.S.) could claim to be a success. For 20 years, there had been an orderly expansion of credit and a stable currency. Its notes had circulated throughout the country at par or close to par, and it had kept the pressure on state banks by presenting their notes for redemption in specie. But Jefferson, out of office but still powerful, had continued his anti-bank rhetoric, and constitutional objections were raised again. Speaker of the House Henry Clay struck the Anglophobic chord by pointing out that foreigners owned 70 percent of the Bank's stock. More important, except in New York and Philadelphia, a majority of state banks, restive under the federal bank's restraints and anticipating a share of its business, lined up in opposition. Even so, the Republican House of Representatives defeated the re-charter bill by only one vote.

After the central bank's demise, the state banks tripled in number, to nearly 250, and a stream of banknotes of varying quality flooded the country. The absence of a stable national currency proved to be a paralyzing weakness during the War of 1812, and in 1815 President Madison suggested that Congress should either charter a national bank or create a federal paper currency.² Inconclusive as the war had been, it had stirred strong nationalist feelings, and the "New Republicans" led by John C. Calhoun and Henry Clay chartered the Second Bank of the United States. Except for its larger capital, the new bank was virtually a carbon copy of its Hamiltonian model.³ Investors who had helped finance the

² Troops, the vast majority on 90-day or other short-term enlistments, would not re-enlist if not paid, nor if they were paid in the "rag-money" of many state banks. Supply was also a problem, for the same reasons.

³ The Second Bank's capital was \$35 million, four-fifths to be subscribed by individuals, states or businesses, one-fifth by the federal government. One-fourth of the private subscription was to be paid in gold or silver.

war, such as Stephen Guard and John Jacob Astor, were delighted that the government bonds they had purchased at large discounts would be accepted at par in payment for the Bank's stock.

In its early years, the Second Bank was hardly a national blessing. Its Baltimore branch went down in fraud and disgrace, and, despite its promise to furnish a safe money supply, the Bank fed a speculative frenzy by discounting recklessly. By July 1818, its demand liabilities were 10 times its specie reserve and its notes were at a 7 percent discount. Nearly 400 chartered state banks and a host of unchartered banks and counterfeiters added to the blizzard of paper. Niles Register lamented that all that was needed to start a bank was "plates, press, and paper." Even informed merchants were burned by highly discounted or worthless notes, and ordinary farmers or workers were the ultimate victims.

In January 1819, a discredited William Jones resigned as B.U.S. president. His successor, Langdon Cheves, immediately contracted credit, and in less than three months the Bank was on a sound footing. William Gouge, the leading apostle of hard money, summed it up: "the Bank was saved, and the People were ruined."⁴ The Bank's foreclosures prompted Missouri Senator Thomas Hart Benton's famous diatribe: "All the flourishing cities of the West are mortgaged to this money power . . . They are in the jaws of the Monster . . . one gulp, one swallow, and all is gone."⁵ Within two years, the B.U.S. had forfeited its original good will, and it had reinforced the popular hostility to banks. Having helped fuel the speculative fever, it was widely believed to have caused and then aggravated the financial panic, though the collapse was primarily attributable to a sharp decline in European demand for cotton and other American commodities. Certainly the B.U.S. had not functioned properly as a central bank. When restraint was called for, it discounted; when it should have expanded credit, it could not.

In Missouri, the territorial legislature had chartered two banks: the Bank of St. Louis in 1813 and the Bank of Missouri in 1817. Both of these were initiated by Auguste Chouteau, the co-founder of St. Louis who had made a fortune in the Osage Indian fur trade and St. Louis real estate. His associates in these ventures were the leading merchants, fur traders, lawyers, politicians and land speculators in the territory, including Manuel Lisa, Sylvestre Labbadie, Rufus Easton, J.B.C. Lucas, Moses Austin, and Bartholomew Berthold. A long delay in completing the

⁴William Gouge, *A Short History of Paper Money and Banking in the United States* (Philadelphia, 1833), II, 109.

⁵William N. Chambers, *Old Bullion Benton, Senator from the New West* (Boston, 1956), 182.

capital subscriptions for the Bank of St. Louis and political wrangling among its founders prompted Chouteau to start the Bank of Missouri.⁶

The territorial banks fed the speculative rise in land prices that accompanied the rush of settlers to the area following the War of 1812, but the honeymoon was short. A combination of corrupt management and excessive loans secured by land purchased at inflated prices so weakened the Bank of St. Louis that it succumbed to the sharp deflation in July 1819. The Bank of Missouri, with better political connections, survived the 1819 debacle chiefly because it was a depository for federal funds. But it had permitted its directors, who bought most of its capital stock, to make downpayments for their subscriptions and then borrow the balance due from the bank itself using all of their stock as collateral (called hypothecation). In addition, the bank had made large loans to directors on other security. When an apparent insider revealed these dealings in the press, depositors began to worry. Business failures and a rapid population exodus further undermined confidence, and in the summer of 1821 depositors started a run on the bank. Its notes fell to a 12½ percent discount by July, and in August the Bank of Missouri closed. Two-thirds of its loans outstanding had been made to its nine directors, despite a charter limitation of \$3,000 each on borrowing by directors. A legislative investigation committee found no dishonesty involved in the bank's failure, which had cost its creditors \$150,000.⁷ This finding persuaded a good many citizens that banks, honest or not, were inherently vicious. During the next 16 years, Missouri chartered no banks.

When Nicholas Biddle took over as president of the B.U.S in 1823, he set it on its proper course. He understood and used its power to affect the economy. Though state banks did not keep reserves in the B.U.S., Biddle's policy of keeping a large specie reserve enabled it to be a lender of last resort for state banks and at times for business firms. By presenting their notes for redemption regularly, Biddle kept state banks in line, thus providing a uniform national currency. But the B.U.S. had its shortcomings as a central bank. It could not restrain credit by raising interest rates because the statutory limit of 6 percent on its discounts was well below the usual market rate. Nor did it handle government debt as it should have: when recession threatened, Biddle sold government bonds to protect his specie reserve.

Nonetheless, when Andrew Jackson became president in 1829, the B.U.S. had proved its worth. It had transferred funds readily throughout the country, and it had facilitated the movement of commodities by providing a stable currency. The Bank had not been an issue in the presidential race, but Jackson shared the Old

⁶ Timothy W Hubbard and Lewis E. Davids, *Banking in Mid-America: A History of Missouri's Banks* (Washington, D.C., 1969), 20. The directors of the Bank of Missouri are listed in the Missouri Gazette, September 14, 1816. In 1819, the Bank of Missouri moved from its original quarters in Auguste Chouteau's basement to a building at 6 North Main Street. Frederic L. Billon, *Annals of St. Louis in the Territorial Days* (St. Louis, 1888), 88.

⁷ Hubbard and Davids, *Banking in Mid-America*, 36-37

Republican aversion to monopoly and he had bitter personal experience with defaulting and usurious banks. In his first annual message, he suggested that a truly national bank, with its notes obligations of the government, might be preferable to the B.U.S. Biddle tried several times to placate the president, but their relationship steadily deteriorated. As Jackson viewed it, the Bank was a great rival power, performing a major public function virtually free of public control.

With Biddle's consent, Henry Clay pushed a bill to re-charter the B.U.S. through Congress in 1832, four years early, in order to create an issue for his presidential race against Jackson. "The Bank is trying to kill me, but I will kill it," fumed the president, and he vetoed the bill as expected. Jackson's decisive victory over Clay in the election was widely regarded as a referendum on the B.U.S., but modern scholarship has shown that mass support for the president transcended the issues. Many Democratic B.U.S. supporters had voted for Jackson, hoping that eventually he would soften his views. But they miscalculated: Jackson was in for the kill. Since he could not close the bank until its charter expired, he ordered the Secretary of the Treasury to deny it further federal deposits. After two Secretaries were fired for refusing, a third, Roger B. Taney, directed all deposits to state banks while continuing to write checks on the B.U.S. Biddle fought back by contracting credit to embarrass the administration, but an inflow of British capital nullified his effort. Thomas Hart Benton of Missouri had led the fight against the Bank in the Senate, and when the mid-term elections in 1834 produced a like-minded majority in both Houses, the bank was doomed.

The economy expanded rapidly between 1834 and 1837 and crashed in the latter year. Democrats and Whigs took credit and assigned blame for the boom and crash as it suited them, but there is little evidence that either Jackson or Biddle had much to do with either event. But they had fought mightily, and between them they had destroyed the central bank.⁸

During the depression that followed the Panic of 1837, President Martin Van Buren orchestrated the government's removal from the banking system altogether. The Independent Treasury, or "divorce" bill, which finally passed in 1840, provided that all federal funds would be collected and paid out at sub-treasuries in New York, Boston, Philadelphia, St. Louis, Washington, New Orleans and Charleston. After a brief hiatus during the Whig (Tyler) administration, the Independent Treasury was re-enacted in 1846, and it was the basis of the U.S. fiscal system until the passage of the Federal Reserve Act. The sub-treasuries were finally closed in 1920.

⁸ The traditional view that the "bank war" precipitated the Panic of 1837 was demolished by Peter B. Temin, in his *The Jacksonian Economy* (New York, 1969). See especially pages 20-27 and 49-58.

As it turned out, the divorce did not mean total separation. Treasury officials relied on banks to transfer funds from time to time, and in response to its large surpluses in the 1850s, the Treasury bought government bonds in the open market to replenish banks' specie reserves. Even without a central bank, a combination of gold discoveries, foreign investments (often encouraged by state government guarantees) and monetization of private debt by the banks provided sufficient funds for rapid economic expansion during the 1850s.⁹ Transportation, manufacturing and the wholesale and retail trade boomed, but there were heavy casualties. Treasury intervention was often too late to save overextended banks, and the lack of control over credit encouraged reckless plunging, especially in transportation securities, with painful results for investors, business and workers.

In 1837, the Missouri legislature chartered the Bank of the State of Missouri, at the time the only chartered bank permitted by the state constitution. It reflected the hard-money principles of the majority, slightly modified by the "soft" views of St. Louis merchants. Its authorized \$5 million in capital stock was to be shared equally by the state and private investors, and the legislature elected the president and six of the 12 directors. Its notes were limited to denominations of \$10 or more, and their circulation could not exceed twice the value of the paid-in capital stock. The state could issue bonds to pay for its stock; private subscribers had to pay in specie. The bank could not discount paper of more than 12 months maturity, and twice each year the bank had to submit a detailed statement of its accounts to the governor and at least two newspapers.¹⁰

As the depository for state and some federal funds, the state bank was profitable, and its conservative charter and management enabled it to survive the nationwide financial stringency of its early years. But the "Gibraltar of the West," as its friends called it, did little to meet the rapidly growing state's need for credit, either in good or hard times. Banks in neighboring states, Illinois and Kentucky especially, furnished most of Missouri's circulating medium. These bank notes, many of dubious quality, were handled in Missouri chiefly by note brokers, who dominated banking in the state in the 1840s and 1850s. By 1852, more than a dozen of these private banks together did 11 times the business of the chartered state bank.¹¹

In addition to discounting banknotes, private banks accepted deposits and made business loans. Page and Bacon and J.H. Lucas & Co., in the early 1850s the largest banks in the West, bet heavily on westward expansion, investing in railroads and mining operations, the latter chiefly through their branches in San

⁹ Issuing bank notes in exchange for individual promissory notes or bills of exchange.

¹⁰ *Laws of the State of Missouri (1836-1837)*, 11-24. For an extended discussion of the politics of bank-charter fight, see James N. Primm, *Economic Policy in the Development of a Western State: Missouri, 1820-1860* (Cambridge, Massachusetts, 1954), 18-31.

¹¹ Hubbard and Davids, *Banking in Mid-America*, 66.

Francisco. Page and Bacon failed in 1855 and Lucas and Co. closed (without losses to its creditors) in 1857, during brief but devastating financial panics. A third large St. Louis bank, L.A. Benoist & Co., survived these crises in good shape, primarily because it had avoided railroad securities. Private banks were important in Missouri until well after the Civil War, despite an amendment to the state constitution in 1857 which permitted the chartering of additional banks of issue. In 1866, the state got out of the banking business by selling its stock in the Bank of the State of Missouri to a consortium headed by James B. Eads.¹²

During the Civil War, Secretary of the Treasury Salmon P Chase initiated significant changes in the nation's financial structure. Instead of raising taxes, he relied on fiat money (greenbacks) and borrowing to finance the war. Rapid inflation followed this first issuance of paper money by the federal government and early Union military reverses weakened demand for government securities. Chase needed a way to strengthen the bond market and he favored a uniform paper currency, but neither he nor other former Jackson Democrats in the Republican party would consider a central bank. Instead he proposed a system of "national" banks which as finally perfected in 1864 provided that five or more persons could obtain a federal bank charter by filing articles of association with the Comptroller of the Currency. Capital stock required, which had to be fully paid-in before opening for business, ranged from \$50,000 (later reduced to \$25,000) for banks in towns of less than 6,000 population to \$200,000 for those in cities of 50,000 or more.

Each national bank had to buy U.S. bonds in an amount not less than one-third of its capital stock. These bonds were to be deposited with the Treasury as security for the bank's notes, which could be issued up to 90 percent of the value of the bonds so deposited but not in amounts exceeding the bank's capital stock. Reserves, which had to be at least 15 percent of deposits for the country banks and 25 percent for reserve city banks—at least 40 percent in vault for country banks (non-reserve city banks). The 15 reserve city banks had to keep 50 percent of their reserves (specie or greenbacks) in vault, the rest in New York banks. In 1887, Chicago and St. Louis joined New York as "central reserve cities."¹³

At first, state banks were slow to switch to national charters as the Treasury had expected, so in 1865, at the department's request, Congress imposed a 10 percent tax on state bank notes, thus eliminating them from circulation. Most state banks responded quickly to the spurs, reducing their number from nearly 1,000 to 247 by 1868—in Missouri from 42 to eight. National banks had

¹² *Ibid.*, 63-77; James N. Primm, *Lion of the Valley: St. Louis, 1976-1980* (Boulder, 1981), 207-211.

¹³ Banks in central reserve cities were required to keep all of their reserves in vault. St. Louis and Chicago had sought central reserve status in order to attract deposits from reserve city banks. New York continued to dominate, however, because the availability of the call money market enabled its banks to offer premium rates for such deposits.

increased to 1640 in number, including 18 in Missouri. But in the East, many larger banks kept their state charters, having already stopped issuing notes. Instead they credited the checking accounts of borrowers with the amounts of their loans, a more convenient and less expensive procedure. Checks had been in use in larger centers for decades, but they had not been practical over long distances. As improving communications expedited transfers and clearances, banknotes declined in importance.

By the 1870s, the trend toward national charters had reversed. Capital and reserve requirements were usually lower for state banks, supervision and examinations were less rigorous and national banking regulations and procedures virtually barred them from real estate and crop loans, both significant areas for state banks. The number of banks increased rapidly during the last quarter of the century, but a majority of the new ones were state-chartered. In 1898, state banks outnumbered national banks by a four to three ratio, and by 1913 there were nearly 17,000 state and 7,500 national banks including 1,308 and 133, respectively, in Missouri. Banks had kept pace in numbers with deposits and gross national product, which rose by 800 percent between 1865 to 1908.

During the half-century after the passage of the National Banking Act, the system it created repeatedly proved to be inadequate. Major crises in 1873, 1893 and 1907, which spread hardship throughout the country, illuminated the weakness of the financial structure. Bad economic news, whether caused by natural disasters, changes in foreign markets or investments, or other negatives, could start a run on banks that the system could not handle. Despite substantial reserve requirements, only excess cash in vaults was readily available on demand. Required reserves could not be reduced without violating the law and inviting disciplinary action by the Comptroller of the Currency. When distressed country banks asked reserve city banks to return their reserve deposits, the latter were usually under pressure from their own depositors. The same applied to the relationship between reserve city and central reserve city banks. Even a single large withdrawal, for whatever reason, could force a bank to curtail its loans and alarm its depositors.

The lack of unity and central control in the system was the critical weakness. There was relatively little communication between banks in an area; those temporarily embarrassed could seldom get help from their neighbors. Even after Chicago and St. Louis became central reserve cities, the bulk of bank reserves were held in New York because the New York call money market was the only significant outlet for surplus cash. When banks in the agricultural areas, for example, made unexpected demands for cash, the New York banks could not respond readily without seriously disrupting the stock market. At the root of the problem, there was no central agency that could strengthen bank reserves by open-market purchases of government securities or other means.

One charge brought frequently against the banking system during the prolonged deflation of the last quarter of the 19th century was that national bank notes had

"reverse elasticity" When increased business activity called for monetary expansion, both the Treasury, by lowering its debt, and the banks, by seeking higher returns elsewhere, could gain by reducing bank holdings of government bonds. Since bank note issues were tied to these bonds, their circulation dropped from \$350 million in 1883 to \$170 million in 1891. Having increased sevenfold between 1870 and 1900, bank deposits were a much larger element in the money supply than bank notes, greenbacks, gold and silver combined, but the increase in deposits was not sufficient to reverse the deflationary trend.

Deflation was both a political and economic problem. Every presidential administration after 1869, bankers, industrialists and "respectable" citizens shared the deflationary bias. "Sound money," meaning the gold standard after 1879, was an article of faith with decision-makers, and this faith fastened a punishing price deflation on the country. In the present context, this bias is hard to understand, but the recent experience with greenbacks, which had fallen as low as 35 cents against the gold or silver dollar during the Civil War, and memories of "rag money" antebellum bank notes no doubt affected post-war attitudes. In addition, Radical Republicans during Reconstruction had identified "reflationists" with disloyalty. In the election campaign of 1868, Radicals wrapped the Union Flag around redemption of greenbacks in gold. Agrarians responded with charges that the gold standard was a British scheme to keep the world subservient to London, or that creditors were united in a conspiracy against debtors. Why creditors should have preferred deflation to expansion was not explained, since many of them had equity in businesses or real estate and stood to gain from expansion. Even those without equity interests were at risk when tight money led to business failures or debt repudiation.

Southern and Western cotton and wheat farmers were the chief victims of deflation and the most vigorous in their protests. Merchants and bankers in those regions shared the farmers' plight and views, as did some urban and railroad workers who took pay cuts or lost their jobs during the depressions of the 1870s and 1890s. There were reasons for farmers' difficulties unrelated to the financial system, such as the protective tariff, discriminatory railroad rates, and overproduction caused by increasing productivity (technological advances), expansion into the high plains and the opening of vast new growing areas in western Canada, Australia and Argentina, but the agrarian protest was focused on the money question.

As the farmers saw it, they had responded to wartime needs in good faith by borrowing to buy land at greenback-demoninated prices. These legal-tender notes were not redeemable in specie and were heavily discounted against gold during the war and immediate post-war years. Deflating prices by bringing greenbacks to par with gold or by any other means was a betrayal of trust, forcing producers to pay debts in hard dollars that they had acquired in cheap dollars. In the agrarian view, not the workings of a free economy, but a deliberate government policy was ruining them. After sporadic attempts to reduce greenback circulation, Congress passed the Gold Resumption Act in 1874,

making greenbacks convertible into gold at par after January 1, 1879. From 1879 to 1900, when the gold standard became law, the United States was on a de facto gold standard, because the Treasury in both Republican and Democratic administrations elected to redeem all forms of currency in gold

Before 1873, the United States had been on the bimetallic standard, with silver and gold interconvertible at a 16 to one ratio (since 1837). Gold strikes in the mountain West in the forties and fifties elevated the market price of silver to well above the mint price, and little silver was coined thereafter. In 1873, though silver prices were easing as European nations abandoned bimetallism, Congress omitted the silver dollar from the Coinage Act. Huge silver strikes in the Sierras and Rockies soon brought a clamor from miners and farmers for the re-monetization of silver at 16 to one. Congress compromised, agreeing in the Bland-Allison Act (1878) and the Sherman Silver Purchase Act (1890) to purchase limited amounts of silver. This legislation did not affect prices because the Treasury redeemed the silver produced by it in gold on demand.

In 1893, a negative foreign trade balance and a steady flow of Treasury notes (issued in return for silver) back to the Treasury for redemption in gold so depleted the government's gold stock that it threatened the de facto gold standard. But President Grover Cleveland first persuaded Congress to repeal the Silver Purchase Act and then repeatedly borrowed gold from J.P Morgan and other New York bankers to meet the gold drain. To "goldbugs," as the silverites called them, Cleveland was a hero, to a majority of his fellow Democrats, a villain.

By 1896, wholesale prices had fallen nearly 50 percent since 1870, farm prices somewhat more. Wheat prices declined from \$1.06 to 63 cents a bushel in the December eastern markets and cotton fell from 15 to six cents a pound. Harvest-time prices at the farm averaged half or less of these amounts. Foreclosures had turned tens of thousands of owners into tenant farmers; in western Kansas, loan companies owned 90 percent of the land in 1893.

The agrarian protest climaxed in 1896, when William Jennings Bryan was nominated for president by the Democratic, Populist and Silver Republican parties. The reformers called for abolition of the national banking system, but Bryan's rallying cry was the free and unlimited coinage of silver at the ratio of 16 to one. His opponents charged that unlimited silver coinage would drive gold out of circulation and lead to runaway inflation. With the market ratio at 30 to one, this argument was persuasive, but it should be noted that the demonetization of silver was itself a major reason for its low price and the high price of gold.

Gold Democrats bolted the party to form their own ticket, but Bryan conducted a vigorous and nearly successful campaign, carrying the former Confederate states, Missouri and the Western states except California and North Dakota. With the press and pulpit denouncing Bryan as a radical revolutionary and his program as immoral, Republican nominee William McKinley carried the East, the upper

Midwest and the election. Neither labor nor corn and hog farmers had rallied to the silver standard. In St. Louis, the Democratic leadership, led by former governor David R. Francis and Rolla Wells, supported the Gold Democratic ticket.

Ironically, the long deflation had run its course. The nation's gold supply, though not the Treasury's, had been rising for a number of years before 1893 with little effect on prices, but after 1897 it rose spectacularly. Advances in mining technology and gold recovery from ore and huge gold strikes in South Africa, the Klondike and Australia did what the agrarians had tried to do: end deflation and bring prosperity. These fortuitous events were hailed by sound-money advocates as verification of their wisdom. Between 1897 and 1914, the nation's gold stock more than tripled, and wholesale prices rose on the average 2.5 percent a year. Farm prices nearly doubled during the same period, still remembered as agriculture's golden age.

Chapter 2

Banking Reform 1907 – 1913

The gold-driven prosperity of the early 1900s did not validate the nation's hapless financial structure. European banking experts had long been appalled by its irrationality and lack of central control. Unlike other industrial nations, the United States had no central bank to ease the effect of economic shocks or to prevent them, by creating or depleting bank reserves. In 1907, the point was driven home with frightening clarity.

For several years, leading bankers such as Jacob Schiff had predicted disaster and some had proposed reforms, such as assigning central banking functions to the Treasury or creating an asset-based currency, but neither Congress nor President Theodore Roosevelt had taken action. In 1906, with some financial constriction already under way, a committee of the New York Chamber of Commerce recommended creating a central bank patterned after the Reichsbank. The Aldrich Bill, passed in 1907, authorized but did not mandate central banking activity by the Treasury.

Between 1903 and 1906, with their vaults full of gold, banks had extended credit freely; business growth had surged, and visions of boundless prosperity had beckoned. Finally, production had caught up with demand, inventories began to accumulate and business slowed down. The Bank of England and the Reichsbank raised their discount rates late in 1906, and at first the gold flow to the United States was reduced, and then reversed. As money tightened, the stock market declined, with a sharp break in March 1907. The boom was over; in May, a deeper business slump was under way which dragged on during the summer. In early October, nervous depositors began a run on New York banks, which dried up call money and caused a further decline in the stock market. An uneasiness spread over the country, banks withdrew reserves from reserve city banks, which in turn called back reserves from New York and the other central reserve cities. As Frank A. Vanderlip put it, the public was suspicious of banks and withdrew its deposits to hoard cash, and banks were suspicious of each other and hoarded their reserves, all with a paralyzing effect on the economy. Eventually banks throughout the country suspended payments, refusing to pay out cash on demand. This was hard on depositors and business, but it saved all but the weakest banks.¹

In 1895, J.P. Morgan had acted as a lender of last resort, and the banks looked to him for help in 1907. Either he could not stop the panic or he chose not to.

¹ Frank A. Vanderlip, "The Modern Bank" in *The Currency Problem, and the Present Financial Situation* (New York, 1908), 3, cited in Robert A. Degan, *The American Monetary System* (Lexington, Massachusetts, 1987), 15-16. See also Gabriel Kolko, *The Triumph of Conservatism* (New York, 1963), 152; and Robert H. Wiebe, *Businessmen and Reform* (Cambridge, Massachusetts, 1962), 63-65.

After sitting on the sidelines until mid-October, he stepped in with some allies to aid some banks, after he had refused to help the Knickerbocker Trust, which closed its doors on October 22. Morgan did not like trust companies, which he believed were promoters of speculation, and he may have believed Knickerbocker deserved to fail. He did rescue New York City by purchasing an emergency \$30 million bond issue, and he persuaded other strong banks to resume lending to brokers to prevent the stock exchange from closing.

The Treasury was more active than Morgan, though partly at his instigation. For several years, it had placed some of its funds in national banks instead of the sub-treasuries, and in the spring of 1907 it increased deposits and reduced withdrawals. In early September, Secretary George Cortelyou began depositing \$5 million a week in banks, and with two more giant trusts about to go under, he loaned \$25 million interest-free and without restriction to New York banks on October 23. He poured in another \$10 million in the next eight days, but the banks restricted payments to depositors anyway and turned to another time-tested expedient to reduce suspensions.

In 1873 and again in 1893, clearing-house associations in New York, St. Louis, Philadelphia and other major cities had issued clearing-house loan certificates when money dried up. Banks who were members could pledge illiquid securities in return for certificates that could be used to settle imbalances with other banks. Weak banks with a lot of bad paper could not qualify, but sound banks top-heavy with long-term loans were saved from short-term starvation. In 1907, the New York Clearing House issued \$101 million in certificates and \$256 million was the national total. The St. Louis Association made \$11 million in certificates available to its members, and none of them failed. Nationally, bank failures barely exceeded the figures for "normal" years and did not outnumber new banks created.

After the breathing spell afforded by payment restrictions, banks furnished cash on demand to depositors in January 1908, and within a few weeks, depositors regained confidence. In February, they began to return currency to the banks. Contemporaries viewed the events of 1907 as a relatively mild contraction that became severe because of the bankers' panic and the restriction of payments. Later scholars have questioned this description, but it was widely agreed at the time that changes in the financial system were urgently needed to prevent a recurrence.² Many bankers hoped that the corrections would not be too drastic. Some favored creating a central currency reserve to meet emergencies, which would not be touched in ordinary times. During the panic, Cortelyou had used Treasury funds in this way, but he had too little cash available to stave off the restriction of payments.

² Milton Friedman and Anna Jacobson Schwartz, in *A Monetary History of the United States* (New York, 1963), 165-167, suggest that the restriction of payments was "therapeutic," giving time for the panic to "wear off."

Another proposal would have empowered national banks to supplement their government bond-backed notes with notes backed by cash in vault and deposits in reserve (or central reserve) city banks. This requirement, using the same assets employed to back deposits, would have solved the inelasticity problem. There was also support among bankers for a banker-controlled central bank such as that advocated by Frank A. Vanderlip of the National City Bank of New York. Vanderlip had gathered support from several leading New York businessmen for his plan, but few congressmen liked it. Agrarians and most Midwestern bankers saw too much Wall Street in the scheme.³

William Jennings Bryan, waging his third presidential campaign in 1908, made an issue of federally guaranteed bank deposits. This idea, which he had first advocated in 1894, was popular not only with farmers but with country bankers in the Midwest. Worried supporters of Republican nominee William Howard Taft reported in August that country bankers thought a federal guarantee would free them from the dictation of the East and New York in currency matters. Larger bankers, in the East especially, hated the idea because it would involve the government in banking, a dangerous precedent which carried the potential of taxing all banks to finance the guarantees.

After considering its options, Congress in 1908 enacted the Aldrich-Vreeland bill, which had two major features. The first, a stopgap measure, authorized emergency currency which could be issued by any group of 10 national banks, individually sound and with a combined capital and surplus of at least \$5 million. This currency was available to any member of the association in amounts up to 75 percent of its commercial paper held by the association or up to 90 percent of the value of its holdings of approved state and federal bonds. The act's second provision, largely a device to avoid decisive action, established a National Monetary Commission composed of nine senators and nine representatives.

Senator Nelson W. Aldrich of Rhode Island was named chairman of the commission, which guaranteed the hostility of Democrats and insurgent Republicans such as Robert W. La Follette of Wisconsin to anything it might recommend. Aldrich, a former banker, was allied with the House of Morgan; he had written the Gold Standard Act of 1900, and he was the Senate's leading protectionist. He was as obnoxious to Democrats and insurgents as Bryan was to conservatives.

After touring Europe to study its banking systems and techniques, Aldrich and the other commissioners returned convinced that the United States should have a central bank controlled by bankers and issuing notes based on commercial paper. This was a surprising reversal for Aldrich, who previously had opposed any significant changes in the existing system, believing that only bond-related

³ Kolko, *Triumph of Conservatism*, 152; Wiebe, *Businessmen and Reform*, 65.

notes should be issued. The commission made no immediate proposal for legislation, knowing that an extensive campaign would be required to educate bankers and the public, especially after the Democrats gained control of the House of Representatives in 1910.

Various proposals for reform were under discussion by banking groups in 1909. The American Bankers' Association in 1906 had endorsed a system of regional clearing houses through which banks could issue notes secured by bonds and guaranteed by a fund derived from a tax on the notes when issued. This plan had been drafted by a currency commission of the ABA headed by A. Barton Hepburn of the Chase National Bank but dominated by Midwestern bankers who resented New York's financial hegemony. Western growth and the proliferation of banks had eroded some of Wall Street's dominance, and Chicago and St. Louis bankers liked the trend.⁴

Charles H. Huttig, president of the Third National Bank, and Festus J. Wade, president of the Mercantile Trust Company, represented St. Louis on the currency commission. They were prominent members of the banker and businessmen's group, conservative Democrats and some Republicans, who united politically behind the "good-government" Democratic Mayor Rolla Wells (1901-1909). Their detractors called them the "Big Cinch," a testament to their economic and political domination of the city. Huttig was a director of the Mercantile Trust, the St. Louis and Suburban Railroad, and the Laclede Gaslight Company. For years a leader in the ABA, he became its president in 1912 (the ABA itself had been organized in 1876 at the suggestion of St. Louis banker James T. Howenstein).⁵

Festus J. Wade, a brilliant, driving achiever, had an unusual background for a St. Louis banker. His family had come from Ireland to St. Louis in 1860, when he was a year old. Wade began working when he was 11 years old and had a dozen jobs from waterboy on a construction crew to driver for John Scullin and James Campbell's Northwestern horsecar line before he was 23, when he became secretary of the St. Louis Agricultural and Mechanical Fair Association. After studying part-time at a business college for four years, he entered a real estate partnership in 1893, where he was an immediate success. In 1899, he founded the Mercantile Trust Company, with considerable help from Scullin, the president of Scullin Steel, and Campbell, the organizer and principal stockholder of the four-city North American Utilities Company. Almost immediately the Mercantile Trust was second only to Julius Walsh's Mississippi Valley Trust Company among Missouri's banking houses. Wade took it from there, and by 1907

⁴ Kolko, *Triumph of Conservatism*, 149.

⁵ Hubbard and Davids, *Banking in Mid-America*, 122.

Mercantile had absorbed three of its competitors, including the large Missouri Lincoln Trust Company, and soon it had outdistanced all of its Missouri rivals.⁶

Wades formidable reputation was enhanced by such feats as forcing the St. Louis Terminal Railway monopoly to admit the Rock Island Railroad to its ranks, and blocking for several years, with Mayor Wells and on behalf of the railroads, the construction of a municipal free bridge across the Mississippi. His directorships included the Big Four Railroad Company, the Metropolitan Life Insurance Company, the St. Louis and San Francisco Railroad, and not surprisingly, the Scullin Steel Company and North American Utilities. During the formative period of the Federal Reserve legislation, Wade was in frequent contact with the other leading bankers and politicians involved.⁷

Banking reform acquired a regional look in 1909. Maurice Muehleman and Theodore Gilman of New York both published regional plans, but Victor Morawetz, a noted railroad attorney with ties to the House of Morgan, made the greatest impact in an address to the American Political Science Association. He suggested that since a European-style central bank was politically impossible and perhaps inappropriate in the American federal system, properly distributed sectional banks under a central board would serve as well. Morawetz did not care whether the board was private, governmental or mixed.⁸

In December 1909, the Banking Law Journal published the results of a poll conducted by Paul M. Warburg revealing that nearly 60 percent of the banker respondents favored a central bank-as long as it was not dominated by Wall Street.⁹ Warburg, a member of a powerful Hamburg banking family, had come to New York in 1902 to work for Kuhn, Loeb and Company, which was headed by his father-in-law, Jacob Schiff. Shortly after he joined the firm, he wrote a critique of the American banking system for his senior partners, giving them the benefit of his expert knowledge of international banking and the Reichsbank. Schiff advised him not to circulate his memorandum further; warning that advocacy of central banking would damage his standing among bankers. Warburg complied, but after the Panic of 1907 had shattered the complacency of his fellows, he emerged as a major spokesman for reform.¹⁰

⁶ W B. Stevens, *A Centennial History of Missouri* (St. Louis, 1922), III, 56-60; Hubbard and Davids, *Banking in Mid-America*, 86.

⁷ Stevens, *A Centennial History of Missouri*, III, 56-60; Primm, *Lion of the valley*, 423.

⁸ Kolko, *Triumph of Conservatism*, 183-184.

⁹ *Ibid.*, 184; Wiebe, *Businessmen and Reform*, 76.

¹⁰ Degen, *American Monetary System*, 26-27.

Warburg met Nelson Aldrich in 1907 and was not impressed by the senator's knowledge of banking, but they became a team after Warburg proposed his "United Reserve System" at a meeting of the Academy of Political Science in 1910. With Aldrich in the audience, he outlined this plan for a central bank with a regional flavor. Twenty well-distributed banking associations, controlled by a central bank in Washington with a capital stock of \$100 million, would stabilize the American economy. The central board would be elected by the associations, its bank and public stockholders, and the government. It would set discount rates for the associations and issue notes against commercial paper purchased from them. Only paper representing actual transactions (real bills) would qualify for rediscount.¹¹

The real bills doctrine, long dominant in Europe, was advocated by J. Laurence Laughlin, the distinguished economist who had drawn up the asset currency plan of the Indianapolis Monetary Commission in the late 1890s, and it was popular with many Midwestern bankers. Currency based on real bills was supposed to be elastic and self-regulating, expanding and contracting as business activity rose and fell. Warburg favored it, but he knew it was not self-regulating. There was no guarantee against over-expansion of credit, and at the other end of the scale, there was always a chance that demand for commercial paper would dry up, making a central reservoir with the means and power to intervene essential.¹²

Aldrich was so impressed with Warburg's formulation that he invited him; along with Frank A. Vanderlip of the National City Bank, Morgan partner Henry Davison, and A. Piatt Andrew of Harvard University to join him for a secret conference on Jekyll Island, Georgia, an exclusive resort owned by John D. Rockefeller and J. P. Morgan. Since the Monetary Commission had not yet produced a recommendation, the three Wall Street bankers, the academic economist, and Aldrich were ready to rectify the omission. To guard against revelations of their identity and their purpose, they took elaborate precautions, traveling separately to Hoboken, where they boarded a private railroad car for Savannah, using only their first names in front of the train crew.¹³

Warburg's United Reserve System was the point of departure for the week-long session, and the document that emerged did not stray far from his ideas. The draft was written by Vanderlip, who had developed a popular style while he was a baseball reporter in Chicago. Senator Aldrich, choosing pride of authorship over good judgment, brought the proposal to the National Monetary Commission as

¹¹ *Ibid.*, 27; Kolko, *Triumph of Conservatism*, 184.

¹² Degen, *American Monetary System*, 25; Robert Craig West, *Banking Reform and the Federal Reserve* (Ithaca, 1977), 76-77, 82, 84-85; Paul Warburg, *The Federal Reserve System; Its Origin and Growth* (New York, 1930), II, 201-214.

¹³ Thibault de Saint Phalle, *The Federal Reserve, An International Mystery* (New York, 1985), 49; Nathaniel W Stephenson, Nelson W. Aldrich (New York, 1930), 340.

his own. The commission published it and recommended it on January 11, 1911, pointing out that the National Banking system was no system at all, that it was a breeder of panics, that it supplied an inelastic currency and that it did not provide for cooperation among banks. To remedy these weaknesses, the Aldrich plan set up a "National Reserve Association," which, according to the Monetary Commission, would provide an elastic currency without drawing down reserves, and extend credit based on cotton, grain and other commodities "without expensive shipments of cash:" In panics, it would provide loans to banks under pressure, "more important than currency circulation:" The commission stressed the point that the NRA would decentralize credit, freeing banks from reliance on New York banks.

The NRA was to be one bank with 15 branches. In each branch region, local associations of 10 banks or more with a combined capital and surplus of \$5 million or more would be components of the branches. Any national bank could join an association, as could state banks and trust companies if they met the standard for a national bank charter. Member banks were to choose the association and branch directors, with a minority of directors selected by banks in proportion to their stock ownership in the NRA.¹⁴ The central board would have 46 directors, with 39 chosen by the branches, a governor named by the president from a list presented by the elected board, two deputy governors elected by the board and subject to dismissal by the board, and the Secretaries of Commerce and Labor, Agriculture and the Treasury. Elected members would serve three-year terms. The Executive Committee, which would have done most of the work, was to have nine members; five elected by the board, the governors, the two deputy governors and the Comptroller of the Currency. Warburg reportedly had urged more government participation, but Aldrich and others overruled him. The bankers were to be in control.¹⁵

The NRA differed in important ways from European central banks. It would deal only with the government or its members, except in bond or specie purchases, and it could not pay interest on deposits. It would fix the discount rate, uniform in all regions, and change it when appropriate, and issue notes against bonds and rediscounted paper representing commercial and industrial transactions (real bills). Notes drawn to carry stocks, bonds or other investments were not eligible for rediscount. It would also replace national bank notes with its own notes, thus substituting an elastic for an inelastic currency. Though the branches chose their own boards, most important policy decisions were to be made by the central

¹⁴ In each branch district and in each association, three-fifths of the governing directors would be chosen by member banks, each having one vote. The remaining two-fifths were to be chosen with each member bank voting in proportion to its capital, See J. Laurence Laughlin, *Banking Reform* (Chicago, 1912), 13-14.

¹⁵ West, *Banking Reform*, 74-75; Warburg, *The Federal Reserve System* (New York, 1930), 1, 90-91.

board. The level discount rate mandated in the plan denied the regionalism the NRA's framers so frequently stressed. But in the election of the central board's directors by the branch boards and in the provision that no more than four directors could be elected from one region, the regional principle was observed.

In May 1911, the currency commission of the American Bankers' Association (including St. Louisans Huttig and Wade) endorsed the Aldrich plan after insisting that banks be allowed to count the NRA's notes as reserves.¹⁶ Paul Warburg had been busy all spring, orchestrating the formation of support groups to help make the case for the plan to Congress. On January 18, 1911, a "Businessman's Monetary Conference" adopted a resolution (written by Warburg) endorsing the Aldrich plan, and a few weeks later the "National Citizens' League for the Promotion of a Sound Banking System" opened for business. The League was as free of Wall Street appearance as possible. Professor Laughlin was its chairman, Chicago was its headquarters, merchants and manufacturers rather than bankers were on its board, and none of its officers were from New York. The league did not formally endorse the Aldrich Plan, but some of its members stumped the country for it, speaking to businessmen's groups. Wall Street bankers stayed out of the limelight, publishing no endorsements and making no speeches. Many local business groups and 29 of the 46 state banking associations announced their support. Speeches and promotional literature stressed decentralization and guaranteed that there would be no more panics.¹⁷

Reflecting skepticism among businessmen, the National Association of Manufacturers would not endorse the Aldrich plan. Daniel Tompkins, a former NAM president, who led the opposition, called it an invention of "Aldrich, the Standard Oil Company, and the Steel Trust."¹⁸ Theodore Roosevelt, who ordinarily avoided the subject of banking but who was ready to throw his hat in the presidential ring again, privately opposed it. President Taft pronounced it good, but he doubted that it would ever pass the Democratic Congress. Congressman E. B. Vreeland urged prompt action, warning that Progressive or Democratic "radicals" might beat Aldrich to the punch with a government-dominated banking system. Warburg shared his impatience; state banks were multiplying prodigiously and he hoped the reform would encourage large national banks with branches at the state banks' expense.¹⁹

Dissension struck the Citizens' League in 1911. Its president, J. Laurence Laughlin, had opposed the concession on reserves exacted by the ABA's

¹⁶ West, *Banking Reform*, 84.

¹⁷ Wiebe, *Businessmen and Reform*, 77; Laughlin, *Banking Reform*, 16-18.

¹⁸ Wiebe, *Businessmen and Reform*, 77-78.

¹⁹ Kolko, *Triumph of Conservatism*, 185-186.

currency commission, and in July, writing to Paul Warburg, he charged that no bill with Aldrich's name on it would ever get through Congress. Warburg immediately shut off the New York funds that supported the league, and Laughlin backed off, going so far as to persuade Roosevelt not to oppose the plan publicly. Then in November, the Aldrich Plan seemingly scored its biggest victory, the endorsement of the American Bankers' Association. But as its price, the ABA had required a fateful concession: the power to remove the governor of the NRA was transferred from the president to the system's board of directors, thus removing the last trace of government control from the Aldrich Plan.²⁰ William Jennings Bryan noted that "big financiers" were backing Aldrich's "currency scheme"; its passage would give them control of everything. President Taft drove another stake into the heart of the plan in his December message, protesting all the while that he favored it. After endorsing it, he added: "there must be some form of governmental supervision and ultimate control."²¹

In January 1912, the Aldrich bill was submitted to Congress. The Democrats did not like it; neither its principles nor its sponsorship passed muster. Since the rift between the "old guard" and the insurgent Republicans made a sweeping Democratic victory likely in the fall elections, why not have banking reform under Democratic auspices? According to Virginia Democratic congressman Carter Glass, "the bill was never considered by any committee of either House . . . it provided a central bank, for banks, and by banks."²²

In the exciting presidential campaign of 1912, the Republican organization supported Taft, enabling him to fend off a strong challenge from Theodore Roosevelt for the nomination. Frustrated there, Roosevelt charged into the newly formed Progressive Party and grabbed its presidential nomination from the hands of Robert M. LaFollette, by whose standards Roosevelt was not a progressive at all. At the Democratic convention, after Speaker of the House Champ Clark of Missouri failed narrowly on successive ballots to obtain a two-thirds majority, Governor Woodrow Wilson of New Jersey was nominated on the 46th ballot. A switch by the still-potent Bryan from Clark to Wilson on the 14th ballot was a decisive factor, and Wilson was in the Nebraskan's debt. Ironically, though Wilson had routed the bosses and sponsored some progressive legislation in New Jersey, he was basically as conservative as Taft or Roosevelt; he had never supported Bryan or his principles.

President Taft, who had offended Wall Street with his vigorous anti-trust prosecutions—he had violated the detente reached by Roosevelt and J.P Morgan-

²⁰ *Ibid.*, 187-189.

²¹ Paolo E. Coletta, William Jennings Bryan (Lincoln, 1969), II, 126; Kolko, *Triumph of Conservatism*, 189.

²² Carter Glass, *An Adventure in Constructive Finance* (New York, 1927), 29.

got no help from the large bankers in the campaign. Both Roosevelt, whose views were well-known, and Wilson, whose views were not, opposed anti-trust prosecutions simply because a business combination was large; it had to have misused its power (the rule of reason). George Perkins, a Morgan partner, had been Roosevelt's closest adviser for years, and the third-party ticket got the majority of financial-center support. But Wilson also did well; Jacob Schiff was one of his largest contributors. As predicted, Wilson won the presidency in an electoral landslide and the Democrats controlled both houses of Congress.

Wilson's position on banking reform, if any, was not publicly known. He had stuck to generalities during the campaign, going no further than supporting the Democratic platform, which rejected the Aldrich plan and central banking while endorsing reform in principle. The Progressives had been more direct, denouncing the Aldrich Plan and stealing Bryan's thunder with "currency is fundamentally a government function . . . {it} should be protected from domination or manipulation by Wall Street."²³

Wilson's vagueness during the campaign was small consolation to the largest bankers, especially after they learned that Bryan was to be his Secretary of State. They feared retaliation from the Democrats because they had supported a banker-owned central bank, although the president-elect seemed "sound" to those who had known of him or his work during his academic career. The National Citizens' League had continued its educational and informational drive through the campaign and after, and it had done its work so well that Congress and the incoming administration were inundated with pleas and demands for banking reform legislation.

Even more important, because it brought the popular press and the public into the picture, was the congressional investigation of the "Money Trust." Democrat Arsene Pujo's subcommittee of the House Banking Committee held public hearings in 1912 and early 1913 that revealed a level of concentration in the financial world that startled nearly everyone and stirred public resentment. After interviewing J. R. Morgan, George F. Baker, Jacob Schiff and other Wall Street figures, the committee concluded that a "few leaders of finance" controlled railroads, industrial corporations and public utilities and held the control of the nation's money and credit in their hands. Morgan and the banks allied with him held 341 directorships in 112 of the country's largest corporations. Morgan testified that he had no power in these firms and that he had taken away the Equitable Life Assurance Society from Thomas Fortune Ryan simply because it would be "a good thing to have."²⁴

²³ From the Progressive Party platform of 1912, quoted in Arthur S. Link, Wilson, *The New Freedom* (Princeton, 1956), 201.

²⁴ Testimony of J. P. Morgan, senior partner of J. P. Morgan and Company, December 19, 1912. Final Report from the Pujo Committee, February 28, 1913, in Herman E. Krooss, editor,

Paradoxically, these revelations stirred up demand for legislation to bring the big bankers into line, the same bankers who had been behind the drive for banking reform all along. Central-bank reformers wasted no time; they wanted a banking system and they wanted the right kind. Colonel E.M. House, who was to be Wilson's White House chief-of-staff, was eager to oblige. He consulted with Paul Warburg and J. P. Morgan, Jr. long before inauguration day. In view of Jacob Schiff's campaign support for Wilson, it was not surprising that House and Warburg got together, nor was it surprising that House persistently advocated the Aldrich plan, with a gloss on it to conceal its origins. Carter Glass, who became chairman of the House banking committee in the new Congress, resented the Colonel's efforts to influence the President's views on banking legislation. He claimed that House had no idea why he favored a central bank, but it seems likely that the Colonel had a very good idea after he talked with Warburg.²⁵

Glass's currency subcommittee had begun its work before the 1912 elections, and it was to begin its hearings in January 1913. Glass had been a small city Virginia newspaper editor before his election to Congress, and neither he nor the other members of the subcommittee knew very much about banking systems. President Wilson was not an expert either, but he was more knowledgeable than the committee or its chairman. He had taught economics for 10 years and was well acquainted with the writings of Walter Bagehot and W. Stanley Jevons on central banking.²⁶

To help the committee's "intelligent amateurs," as Glass called them, he hired H. Parker Willis, associate editor of the *New York Journal of Commerce* as the committee's banking expert. Willis, a professional economist, was a close friend and protégé of J. Laurence Laughlin, his former professor at the University of Chicago. Naturally, Willis was a real bills exponent, and through his extensive writings for the National Citizens' League, he was identified with the principles of the Aldrich bill. Chairman Glass opposed the central-bank feature of that ill-fated proposal, but he too favored private control of the system. As the plan evolved, it became clear that there was little difference in the thinking of the framers of the first draft (Willis, Laughlin, and Glass) and Paul Warburg.²⁷

After preparing memoranda on various proposed banking systems during the summer of 1912, Willis, with Glass's consent, invited Laughlin to draft an outline for the committee's benefit. By this time, the three men knew that a regional

Documentary History of Banking and Currency in the United States (New York, 1969), III, 2107-2122, 2143-2195.

²⁵ Glass, *Constructive Finance*, 29.

²⁶ William Diamond, *The Economic Thought of Woodrow Wilson* (Baltimore, 1943), 101.

²⁷ Kolko, *Triumph of Conservatism*, 218, 226.

approach was essential. Clearly, they were indebted to Victor Morawetz for the basic structure of their developing system, but none of the three ever acknowledged the debt. Laughlin submitted several plans, and by October, according to Willis, a rough draft of the Glass bill was completed, considerably influenced by Laughlin's contributions. It called for an unspecified number of regional reserve banks (apparently they had 15 to 20 in mind), calculated to eliminate the concentration of reserves in New York City. National banks would be required to be stockholding members of their reserve banks, and their existing reserves would be transferred to those banks immediately. The reserve banks would issue federal reserve notes with a gold and liquid paper cover (real bills); they would rediscount commercial paper for member banks, setting their own discount rates, and they would displace the subtreasuries as fiscal agents of the government. They would be jointly liable, required to shift funds from one to the other when needed. The Comptroller of the Currency would supervise the system.²⁸

Carter Glass did not share much with the Bryan wing of his party, but he agreed with them that the National Banking System was badly flawed because it concentrated reserves in Wall Street, where banks invested them in the lucrative call money market, thereby feeding stock market speculation. For Glass, the worst feature of this sequence was the high interest rates in New York that lured funds from country banks that should have been invested at home. On one occasion, he suggested to the president-elect that the bill might prohibit banks from paying interest on deposits from other banks. Wilson liked the idea, but he pointed out that, if included, it would endanger the entire reform bill.

For the same reason, Glass was against a central bank that would concentrate reserves. Consequently, joint liability was of key importance. Funds would be dispersed over the country, but the regional banks together would hold a pool of reserves. Glass would have the best of both worlds: a system that would function as a central bank in emergencies without geographical concentration of its resources.²⁹ Festus Wade of St. Louis, an early partisan of the Aldrich plan, speaking for the American Bankers' Association, told Glass after the details of the plan were known that it did not matter what the system was called, "it will be a central bank in the last analysis."³⁰

On December 26, 1912, Glass and Willis took their secret draft to Woodrow Wilson, who was in bed with a cold at his home in Princeton, New Jersey. According to Glass, Wilson had insisted on their coming despite his illness because he wanted "speedy and sweeping" currency reform. Wilson had lashed out at the Money Trust in his "New Freedom" campaign addresses, charging that

²⁸ *Ibid.*, 223-226; Link, *The New Freedom*, 202; West, *Banking Reform*, 92-96.

²⁹ Glass, *Constructive Finance*, 61, 83-84.

³⁰ Quoted in Kolko, *Triumph of Conservatism*, 226.

it crushed smaller businesses whenever it found them inconvenient, and he was not hostile to central banking. But he knew that an out-and-out central bank, identified as such, would not be politically feasible. When Glass and Willis described their plan, he told them they were on the right track, but then he startled them by advocating a "capstone," a presidentially appointed "altruistic" board of control which would supervise the regional reserve banks and set policy for the system.³¹

Neither of Wilson's guests disagreed openly, but they were uncomfortable. The capstone would replace the Comptroller of the Currency as the supervising authority and it would make policy for the system, which they had intended to be in the hands of bankers. Glass thought somebody had gotten to Wilson, presumably an advocate of the Aldrich plan, but that seems unlikely. A government board of control would suit Bryan and the Progressives more than the bankers. Thereafter, Glass had to direct his efforts toward obtaining banker representation on the central board.

Willis and Glass went to work immediately after the conference, revising their draft bill and preparing for the committee hearings which were to begin on January 7, 1913. During the next few weeks Wilson and his aides met with several major bankers, including Paul Warburg and A. Barton Hepburn, chairman of the board of the Chase National Bank. Warburg and Hepburn said they would cooperate, Warburg even suggesting during his committee testimony that there were other roads to an effective banking system than the Aldrich plan. Unlike other prominent Wall Street bankers, Hepburn had for years been active in the leadership of the American Bankers' Association, and his views were closer to those of the Midwest bankers than to his New York peers. At the hearings, Warburg, Hepburn, George Reynolds of Chicago and Festus Wade of St. Louis pleased Glass by avoiding specific plans, simply voicing support for regional reserve banks, commercial paper cover for notes, elastic credit and cooperation among regional banks. Despite Warburg's apparent friendliness, Glass never trusted him, believing that he was conspiring to revive the Aldrich plan. Throughout the hearings, witnesses and minority committee members attempted to get a central reserve bank on the agenda, despite Glass's pointing out that both the Democratic and Progressive campaign platforms repudiated the idea.³²

After giving their testimony, Wade, Reynolds, Hepburn and other bankers met privately and agreed to support a regional plan and try to persuade others to do the same, reserving the privilege to make suggestions for improvements. Glass appreciated this and corresponded frequently with Wade thereafter. At times the Reynolds-Wade group's "improvements" tested the supersensitive Glass's

³¹ Glass, *Constructive Finance*, 81-84.

³² *Ibid.*, 91; Kolko, *Triumph of Conservatism*, 225-226.

patience. In exasperation he told Wade in early July that, since he had made several changes requested by "you and your associates," the bill should be supported "by men of your type." Glass described Wade to Secretary of the Treasury William McAdoo as "the fiercest, but frankest of the adverse banking group;" and on another occasion, "a belligerent without guile."³³

On January 30, Glass handed Wilson a revised draft of the reform bill. It called for 15 or more regional reserve banks, each controlled by a board elected by its member banks. Over the system, there was to be a Federal Reserve Commission consisting of two representatives of each regional bank, three members appointed by the President, the Secretary of the Treasury, the Secretary of Agriculture and Comptroller of the Currency—unless more districts were added, 36 members in all. To supervise the operations of the regional banks, there would be a Federal Reserve Board, Wilson's "capstone." The Board would have nine members, three elected by the banker members of the Commission plus the six public members of the Commission. The Board was to report to the Commission at the latter's quarterly meetings on the activities of the regional banks. The lines of responsibility between the two bodies were not clearly defined in the draft bill, but it was apparent that the Board would have the more active role. According to Glass, Wilson was enthusiastic about the draft, which, except for the above, varied little from the earlier version.³⁴

With Wilson's go-ahead to encourage them, Glass and Willis hid themselves away to rewrite what they believed would be the final draft of the administration's bill. They completed it by the first of May and circulated it among the president's close associates. But rough water lay just ahead. Secretary of State Bryan, still the hero of millions of Democrats, and Senator Robert L. Owen of Oklahoma, chairman of the Senate Banking Committee on the one side and the major bankers on the other, were dissatisfied, for different reasons and about different sections of the bill. Not only was Owen a Bryanite, he was irritated by Glass's secrecy. As the Virginian's senate counterpart, he had reasonably expected to be consulted on, or at least informed about, the bill while it was in preparation. Bryan's disquiet was potentially devastating.

Why the experienced Glass had not anticipated the depth of Bryan's opposition is hard to understand. Perhaps he was misled by the secretary's silence in the cabinet and in the columns of his family's publication, *The Commoner*, on currency questions. Bryan wanted to be loyal to the president, and he had instructed his brother Charles not to publish anything on the topic until Wilson's position was known. When the details of the Glass bill were released, he was

³³ Glass to Festus Wade, July 31, 1913; quoted in *Ibid.*, 222; Glass, *Constructive Finance*, 157.

³⁴ Krooss, *Documentary History*, 2207-2209; Glass, *Constructive Finance*, 90; Kolko, *Triumph of Conservatism*, 227; J. Laurence Laughlin, *The Federal Reserve Act: Its Origins and Problems* (New York, 1933), 136.

shocked. Except for the absence of a central reserve bank and the public majority on the Federal Reserve Board, admittedly significant differences, the Glass bill looked a lot like the Aldrich bill. In a private session with the President on May 19, the agrarian Achilles warned that if certain features of the plan were not removed he would use his influence in Congress and the country to defeat it. He was against banker dominance of the regional boards and the Commission, banker membership on the Federal Reserve Board, and asset-backed bank notes instead of government notes. He reminded the president later, through Wilson's aide Joseph Tumulty, that only government notes would be consistent with recent Democratic platforms.³⁵

Meanwhile, Senator Owen had prepared a reform bill of his own, providing for eight regional reserve banks under the supervision of a National Currency Board of seven members, all presidential appointees. Two-thirds of the reserve bank directors would be elected by member banks and one-third appointed by the president of the United States. Currency would consist of U .S. notes redeemable in gold, issued to the reserve banks on the security of their assets, including commercial paper in their vaults. To check inflation, the banks would pay interest on the notes issued to them. Because demand for these notes would fluctuate with credit needs, they would provide an elastic currency, replacing national bank notes. In other respects, the Owen bill resembled the Glass bill.³⁶ Bryan preferred the Owen bill, and so did Samuel Untermyer, the Pujo Committee counsel who kept pressing for transfer of banking and currency legislation from Glass's committee to his own.

This division in the ranks alarmed Treasury Secretary McAdoo, who stepped forward with another plan, claiming that it would unite bankers and Bryan behind reform. He had discussed the question with some bankers, Senator Owen, Colonel House, Samuel Untermyer, Bryan and Comptroller of the Currency John Skelton Williams. Apparently, the plan was written by Untermyer, with help from Owen and Williams. It called for a central bank (the National Reserve), which would have 15 branches and be a part of the Treasury Department. National Reserve Board members would be appointed by the president. Treasury notes backed by gold would replace the existing national bank notes and greenbacks. McAdoo seemed to believe that bankers would approve because his plan would provide a central bank. On the other hand, the agrarian "radicals" would like the government bank and note issue feature. When he outlined the plan to Glass, the astounded congressman asked him if he was serious. McAdoo responded, "Hell, yes." Fearing that the president would go along to appease Owen and Bryan, Glass wrote despairingly to Willis that he doubted now that all their work had achieved anything. But after being assured by George Reynolds of Chicago that the bankers had not encouraged McAdoo, Glass conferred on June 7 with

³⁵ Coletta, Bryan, II, 130-131; Glass, *Constructive Finance*, 94-96.

³⁶ Krooss, *Documentary History*, 2196-2206.

President Wilson, who agreed to support him. Two days later, McAdoo backed off and agreed to help Glass with his bill thereafter (which he did). Later McAdoo claimed that his proposal had been a feint, intended only to scare the bankers into backing the Glass bill. Glass did not believe him. If Glass had worked with Senator Owen from the beginning, he would have had a somewhat different bill, but he would have slept better.³⁷

Wilson now had to conciliate Bryan without totally alienating the bankers, and he had to bring Glass along. As his banking reform manager in the House, Glass was important to the president, but not as important as Bryan. After McAdoo, Joseph Tumulty and Wilson himself had talked to the adamant Westerner, the president informed Glass that the Federal Reserve notes had to be government obligations. Glass was speechless at first, but then he reminded Wilson that since the notes already had a substantial gold and commercial paper cover, the government obligation would be a sham. The president agreed, adding, "If we can hold the substance . . . and give the other fellow the shadow, why not if we can save our bill." As Glass pointed out to a group of bankers, the security behind the notes was more than enough to keep the noteholder from reaching the Treasury counter, saying further, ". . . we have yielded to the sentiment for a government issue, but retained the substance of a bank issue."³⁸

On June 11, Wilson called in his most trusted economic adviser, Louis D. Brandeis, a crusading Boston attorney who had worked closely with him in developing his New Freedom themes. Brandeis agreed that only the government should issue currency, and recommended that bankers be excluded from the Federal Reserve Board on the grounds that their private interests precluded them from serving impartially. A week later, after Brandeis had sent him a detailed statement of his views, Wilson informed a chagrined Glass and a happy Owen and McAdoo that he had decided not only on a government note issue, but a central board of government appointees only. Bryan and the progressives had won a big victory and a little one (the shadow victory). President Wilson had no choice if he wanted banking reform; even Brandeis's advice was no more than confirmation-Wilson must have known what his friend would say. Bryan may or may not have understood that the Federal Reserve notes were still bank money; he was satisfied and he told the president so at the next cabinet meeting, saying that he would support the bill "to the end of the fight."³⁹

³⁷ Glass, *Constructive Finance*, 100-110.

³⁸ *Ibid.*, 123-126; Coletta, Bryan, II, 130-133; David F. Houston, *Eight Years With Wilson's Cabinet* (Garden City, N.Y., 1926) I, 47-48.

³⁹ Brandeis suggested that bankers could assist the Federal Reserve Board as technical advisers. He believed they should have no voice in policy matters; their interests were "irreconcilable" with administration goals. Brandeis had been Wilson's first choice for Attorney-General, but New York and Boston bankers and railroad interests, fearing that he would press anti-trust prosecutions, had persuaded Wilson to look elsewhere. Brandeis' views were generally consistent with those of Bryan, La Follette, and other "radicals," but unlike them he did not attack

Glass and Willis then revised their bill as ordered, and the new version was released to the public on June 20. Most of its details were as they had been in the Glass bill, but, in some significant areas, Owen's (and Bryan's) influence prevailed, as ordered by the president. The unwieldy Federal Reserve Commission was out; control was vested in a Federal Reserve Board of seven members, including the Secretary of the Treasury as chairman, the Secretary of Agriculture, the Comptroller of the Currency and four appointed by the president. One of the four would be named governor by the president and would be the "active managing officer" of the Board.

There were to be no less than 12 Federal Reserve banks, each controlled by a board of nine directors. Three bankers elected by the member banks would be Class A directors; three directors representing agriculture, industry and commerce, also elected by the member banks, would comprise Class B; and three chosen by the Federal Reserve Board would make up Class C. One of the Class C directors would be designated by the Board as its Federal Reserve Agent and Chairman.

Discount rates for each district would be set by the Federal Reserve Board each week, but they were not required to be uniform. The Board could determine the kind of paper eligible for discount, but it must be of 45 days or less maturity and based on real bills. Paper drawn for investment purposes, unless secured by public bonds, would not qualify. The currency, limited to \$500 million, would "purport on its face" to be a government obligation, but notes would be issued to the reserve banks at their request only if they could furnish a 33 1/3 percent gold and 100 percent paper cover.⁴⁰

Cries of outrage from bankers followed the release of these details. The Banking Law Journal charged that the bill was intended to create "a vast engine of political domination" over the nation's productive interests. The New York Times bemoaned the triumph of the "Nebraska Idea" which reflected "the rooted distrust of banks and bankers" that had always resided in the Democratic Party. The New York Sun, the voice of Wall Street, said that government currency and a government board of control over the banking system was "covered all over with the slime of Bryanism."⁴¹

business concentration as undemocratic or oppressive, but simply as unwieldy and inefficient. Henry L. Higginson, a Boston investment banker and Wilson supporter, orchestrated the attack on Brandeis' nomination. President A. Lawrence Lowell of Harvard also actively opposed Brandeis. See Coletta, Bryan, II, 133; Link, *The New Freedom*, 10-13, 212; Kolko, *Triumph of Conservatism*, 208.

⁴⁰ Krooss, *Documentary History*, 2207-2229.

⁴¹ Link, *The New Freedom*, 216.

Galvanized by this reaction, President Wilson ran at full throttle for the next few days. On June 23 he addressed a joint session of Congress on behalf of the Glass-Owen bill, emphasizing the urgent need for an elastic currency, decentralization of reserves and public control of the banking system. Then he discussed legislative strategy with Speaker Champ Clark before meeting at the White House on the 25th with Glass, Owen, McAdoo and the ABA currency commission's George Reynolds of Chicago, Festus Wade of St. Louis, Sol Wexler of New Orleans and John Perrin of Los Angeles. The bankers obtained some concessions, the most important of which transferred control of discount rates in the Federal Reserve districts from the Federal Reserve Board to the Federal Reserve banks, subject to the review and "determination" of the Board. Another provided for gradual instead of immediate retirement of the 2 percent bonds that backed national bank notes.

But the bankers did not achieve their main objective. According to Carter Glass, when they implored the president to provide for banker representation on the Federal Reserve Board, Wilson dumbfounded them with, "Will one of you gentlemen tell me in what civilized country on earth there are important governmental boards of control on which private interests are represented?" No one said a word. The bankers surely knew the English and German precedents, but it was clear from the president's tone that further argument was futile. On the next day, the Glass-Owen bill was submitted to the House and Senate.⁴²

Safely out of the White House, the ABA commissioners made it clear that they were not satisfied. They would support the bill in principle, but they would oppose certain provisions. Lower reserve requirements, banker representation on the central board and fewer regional reserve banks were still on their list of demands, and they wanted a bankers' advisory committee whether there was or was not banker representation on the Federal Reserve Board.⁴³

Ominously for the administration and for the bankers, too, Southern and Western agrarians were in a rebellious mood. Led by Representatives Robert L. Henry and Joe Eagle of Texas, they insisted that the interlocking directorates of the financial and corporate world had to be destroyed before any banking legislation was adopted. As it stood, the Glass-Owen bill itself, with its banker-controlled regional banks, would create a new and bigger financial trust under government protection. Unimpressed by the "shadow" government obligation for federal reserve notes, they denounced such "asset currency" as a betrayal of the Jacksonian tradition. Furthermore, they were outraged that there was no credible provision for agricultural credit. The "corn-tassel" congressmen, as Glass called them, wanted a farmer and a laborer on the system's central board, and they wanted three kinds of legal tender currency. Commercial currency (\$300 million)

⁴² *Ibid.*, 217; Glass, *Constructive Finance*, 116

⁴³ Kolko, *Triumph of Conservatism*, 232-233.

could be loaned at will by the reserve banks; industrial currency (\$200 million) would be allocated to states for public works; and agricultural currency (\$200 million) would be loaned by reserve banks directly to cotton, wheat and corn growers upon presentation of warehouse receipts. The loans would not mature until the commodity reached a market price of 60 cents a bushel for corn, a dollar for wheat and 15 cents a pound for cotton.⁴⁴

On July 23, the agrarians showed their muscle in the House Currency and Banking Committee by pushing through an amendment prohibiting interlocking directorates. Prospects for the reform bill looked darker every day until President Wilson took the reins-bargaining, persuading, pressuring. He promised to take care of interlocking directorates in the pending anti-trust bill, and he turned a committee member around by instigating pressure from the congressman's district. The committee then rejected the Henry amendments and approved the Glass bill. But Henry and his cohorts did not give up; they simply shifted their attack to the Democratic caucus, which began meeting in early August. With a nudge from Secretary Bryan, Glass attempted to disarm the opposition by agreeing to make agricultural paper eligible for discount. Henry brushed him off, reminding his colleagues of Bryan's long fight against asset currency. Several regular Democrats supported Henry, and again the bill was in jeopardy. This time Bryan himself stepped in to save it. In a letter to Glass, which the Virginian was pleased to read to the caucus, he called the Henry amendments irrelevant and the Glass bill adequate in its major provisions. He wanted his friends to understand that he was with the president "in all details,"⁴⁵

After their initial shock, the agrarians turned their wrath against their "peerless leader." As historian Paolo Coletta put it, "men who had sworn by Bryan for a generation now swore at him."⁴⁶ But their rage and their breath was wasted. The Democratic caucus approved the Glass bill by an overwhelming margin on August 28, committing every House Democrat to support it.

At this point, bankers were divided in their views of the Glass-Owen bill. Because there was neither a central bank nor banker control of the central board, the New York financial giants opposed it. Frank Vanderlip, president of the National City Bank, in an open letter to Glass and Owen, spoke for most of his peers when he charged that the banking system would be at the mercy of political intriguers. A. Barton Hepburn of the Chase National Bank, always something of a maverick in Wall Street, opposed the same features of the bill, but he kept trying to work with Glass. Paul Warburg, always cordial in his relationship with Glass and Willis, published two severely critical articles during and after the Democratic caucus.

⁴⁴ Glass, *Constructive Finance*, 134-136.

⁴⁵ *Ibid.*, 138-143; Link, *The New Freedom*, 218-223.

⁴⁶ Coletta, *Bryan*, 11, 135.

He also wrote to Colonel House expressing his disappointment that "after all of your and my trouble" there are still government notes, 12 reserve banks, and "practically government management."⁴⁷

In Chicago, James Forgan of the First National Bank called the Glass bill "unworkable . . . fundamentally unsound," but George Reynolds of the Continental and Commercial Bank pointed out that bankers were faced with "a condition and not a theory," and that they had better settle for what they could get. Festus Wade of St. Louis shared that opinion, perhaps because Glass had reminded him during Congressman Henry's assault on the bill that there were worse fates than the he offered. Most Southern and Western country bankers favored the Federal Reserve plan or something stronger. Preferring the government to Wall Street, some of them wanted a nationalized central bank and most of them federally guaranteed deposits. Midwestern country bankers were less aggressive; but state banking associations in Illinois, Iowa, Missouri and Wisconsin approved the main outlines of the bill at meetings in September. On one point, country bankers in all sections were agreed: they wanted agricultural credits.⁴⁸

Some of the financial center bankers shifted their positions from time to time, and most of them were more hostile in public than they were in communicating with Glass, Owen or Wilson. George Reynolds told Glass in June that the moderate bankers who dominated the ABA would accept much less than they demanded publicly, and, as if to prove his point, he denounced the bill root and branch to Minnesota bankers a few weeks later. Late in August, representatives of 47 state banking associations and 191 clearinghouses, meeting in Chicago at the invitation of the ABA currency committee, passed resolutions demanding a central bank and banker control. James Forgan called on Congress to scrap the Glass-Owen bill totally, but George Reynolds warned his colleagues that such a demand could terminate their influence altogether. Accordingly, the delegates conceded in the preamble to their negative resolution that the Federal Reserve bill had many excellent features.⁴⁹

In September, the Senate Banking and Currency Committee took up the banking bill. Despite Wilson and Bryan's power with Senate Democrats, only Chairman Owen and three other majority members of the committee were friendly to the measure. Gilbert M. Hitchcock of Nebraska, James O'Gorman of New York, James A. Reed of Missouri and the five Republican members were hostile. Hitchcock, a conservative, was Bryan's chief rival in his home state; O'Gorman, a Tammany Democrat, resented Wilson's anti-machine rhetoric and personal

⁴⁷ Wiebe, *Businessmen and Reform*, 130-131; Link, *The New Freedom*, 225.

⁴⁸ Wiebe, *Businessmen and Reform*, 131-133.

⁴⁹ *Ibid.*, 134-135; Link, *The New Freedom*, 225-227.

intervention in the legislative process; and Reed, a hard-drinking ex-mayor of Kansas City, loved the maverick role and disdained Wilson's moralistic approach to government. With his oratorical eloquence and talent for invective, Reed was a heavy load for Wilson throughout his presidency.⁵⁰

These recalcitrants dragged out the hearings through October, giving everyone against the bill a chance to be heard. Even some bankers who had supported it in August now saw an opportunity to demand changes in the measure. Glass and Wilson knew the committee was stalling, but said nothing publicly for several weeks. Finally, the president threatened to take the fight to the people of Missouri, Nebraska and New York, but Reed, O'Gorman and Hitchcock were unmoved. Charging that the big bankers were willing to bring on a panic to win their point, Wilson first asked the Democratic caucus to bring the dissenters into line and then invited the three to the White House. He believed that he convinced Reed and O'Gorman to cooperate, but to his astonishment and nearly everyone else's, Frank Vanderlip, one of the authors of the Aldrich bill, proposed a brand-new scheme to the committee which two-thirds of them immediately endorsed.⁵¹

Vanderlip's plan called for a central bank with 12 branches, all completely controlled by the government. National banks, the public and the government would all subscribe its \$100 million in capital. It would issue notes backed by commercial assets and a 50 percent gold reserve, and it would perform the usual central banking functions. Vanderlip revealed that he had written the plan at the request of Reed, O'Gorman, Hitchcock and agrarian Republican Senator Joseph Bristow of Kansas. Since its total absence of banker control repudiated its author's previous position, Wilson and Glass assumed that Vanderlip was simply trying to defeat the Federal Reserve bill.⁵²

Reed and Bristow and the LaFollette progressives liked the Vanderlip plan's government-control feature, and Hitchcock approved the central bank aspect. Ironically, despite the fact that Vanderlip was a real Wall Street titan, Reed coupled his endorsement of the proposal with a blast at the Federal Reserve bill as the creation of "Wall Streeter" H. Parker Willis, who was an assistant financial magazine editor. Now thoroughly convinced that the large bankers were trying to do him in, Wilson called in the Senate's Democratic leaders and told them that he would not let bankers dictate to him, and that they must enforce party discipline. With the threat of both presidential and senatorial retaliation facing them. O'Gorman and Reed surrendered. Now the committee was deadlocked: six

⁵⁰ *Ibid.*, 228-229.

⁵¹ *Ibid.*, 229-232; Glass, *Constructive Finance*, 166-167; Kolko, *Triumph of Conservatism*, 239.

⁵² Link, *The New Freedom*, 232-234; Wiebe, *Businessmen and Reform*, 136; Glass, *Constructive Finance*, 166-167.

Democrats for Glass-Owen and five Republicans and Hitchcock for a slightly altered version of the Vanderlip plan. Both bills were reported out of committee, but on November 30, the Senate Democratic caucus, after adding federally guaranteed bank deposits, approved the Glass-Owen bill, committing all Democrats to it on the final vote.⁵³

Toward the end of October, business and banker opinion began to swing definitely toward the administration bill. The U .S. Chamber of Commerce and the Merchant's Association of New York both approved it. Jacob Schiff of Kuhn-Loeb, Henry Davison of the House of Morgan and even crusty old James Stillman of the National City Bank gave public endorsements or private instructions to support the measure. Apparently, a good many bankers had become alarmed that there would be no action at all, the worst of the possibilities. On November 13, Glass and Vanderlip debated their plans before 1100 bankers and businessmen at the Hotel Astor in New York. Vanderlip conceded that there were good features in the Glass- Owen bill, and praised Wilson and Glass for their good intentions. The audience was definitely on Glass's side of the argument, a gratifying personal triumph for the Virginian.⁵⁴

From St. Louis, Festus Wade had congratulated Glass on September 23 on the passage of his bill in the House, thanking him for his devotion to banking reform, saying that "one becomes a better citizen by coming into contact with men entrusted with the affairs of the nation and finding such untiring energy, unfaltering integrity, and indomitable spirit:" Wade had written Wilson after the Vanderlip plan became public that the people would never accept such a central bank, and in November he and other leading St. Louis bankers issued a statement that the Federal Reserve bill was the best ever presented.⁵⁵

Unlike his former collaborators, ex-Senator Aldrich opposed the Glass-Owen bill to the last. Speaking in New York on October 15, he attacked the regional concept; denounced the note-issue provision as "populism," "Bryanism," "fiatism," and "greenbackism;" said the Federal Reserve Board was a socialistic central bank; and predicted that the rediscount feature would be inflationary. Bryan welcomed Aldrich's speech, saying that his enmity was the only thing needed to pass the bill. During the Senate debates, another veteran Republican, Senator Elihu Root, predicted the bill would bring a roaring inflation and lead to paternal government, decadence and ruin. He proposed to eliminate guaranteed deposits, increase reserve requirements and curtail the note issue. Democrats agreed to raise the

⁵³ New York World, October 25, 1913, cited in Link, *The New Freedom*, 233-235.

⁵⁴ Kolko, *Triumph of Conservatism*, 240; Glass, *Constructive Finance*, 168-169.

⁵⁵ *St. Louis Republic*, November 20, 1913; Glass, *Constructive Finance*, 158.

gold cover of the notes from 331/3 to 40 percent, but they ignored Root's other suggestions. In this phase as well as in the rest of the debate, Senator James A. Reed stoutly defended the administration bill.⁵⁶

The Senate tilted toward centralization as opposed to the House, although many members thought it a non-issue in view of the Federal Reserve Board's powers and the joint liability of the reserve banks. In fact if not in form, they were creating what would be a central bank. Most senators favored fewer regional banks; Hitchcock wanted four. Finally, the Senate settled for eight to 12 regional banks as opposed to Glass's 12 or more; deleted the Secretary of Agriculture and the Comptroller of the Currency from the central board; lengthened the maturity of eligible agricultural paper from the House's 90 days to 180 days; and authorized domestic acceptances.⁵⁷

With Christmas near at hand and President Wilson grimly denying adjournment before there was a final vote on a banking and currency bill, the Senate passed the Federal Reserve measure on December 19 by a vote of 54 to 34. All Democrats, five Republicans and one Progressive made up the majority. In the reconciliation conference, the House agreed to eight to 12 reserve districts, deletion of the Secretary of Agriculture from the Federal Reserve Board, and lengthened maturity for agricultural paper. But the House conferees rejected domestic acceptances and guaranteed deposits, and they would not remove the Comptroller from the central board. Nor would they relinquish the requirements that member banks retain part of their reserves in their own vaults. (Within three years, Congress amended the act to allow domestic acceptances and permit all reserves to be deposited in the reserve banks. The latter eventually became a requirement.) The conference also set 10-year terms for the five appointed Federal Reserve Board members, with staggered terms for the first appointees. Under this provision, no president after Wilson could appoint an entire board, even in two terms. No one imagined then that any president would serve longer.⁵⁸

On December 22, 1913, the House passed the conference bill by a five-to-one margin, and the Senate approved it the next day by nearly two to one. A few hours after the Senate vote, President Wilson signed the Federal Reserve Act. He thanked Glass and Owen for their contributions and spoke animatedly about the benefits the Federal Reserve System would bring to the country. He had reason to be pleased. Not only was the act his greatest domestic achievement, it was a major milestone in American history.⁵⁹ As Bryan wrote to Wilson in

⁵⁶ *Ibid.*, 196, 220, 242-243.

⁵⁷ Link, *The New Freedom*, 237.

⁵⁸ *Ibid.*, 237-238; West, *Banking Reform*, 132-135.

⁵⁹ New York Times, December 24, 1913; cited in Link, *The New Freedom*, 237-238.

January, "You made a master stroke and it will immortalize you, and no one with lesser faith and courage could have achieved it." Bryan deserved some credit himself, as Wilson and Glass had acknowledged at various stages of the bill's progress. However insignificant technically his insistence on government obligation notes may have been, politically it was absolutely essential. He had aborted the agrarian rebellion in the House, and on two separate occasions he prevented his followers from making bimetallism a condition for the success of the bill. He could have killed the measure, perhaps even by staying on the sideline, but he did not.⁶⁰

Almost immediately after the act was signed, it was hailed on all sides as an enormous achievement, and suddenly it had a thousand fathers. Carter Glass spent much of his life thereafter denying that this or that person was its "real author," including such remote possibilities as Secretary McAdoo, Colonel House and Samuel Untermyer. Glass gave Wilson the principal credit, with Parker Willis and himself close behind as the actual authors. In the realm of ideas, and in some of the language of the bill, Paul Warburg was a major contributor, as was J. Laurence Laughlin, with Victor Morawetz the author of the regional concept. But if the

Federal Reserve Act was the Aldrich Bill thinly disguised, as Robert M. LaFollette said it was, Aldrich himself did not know it. Paul Warburg opposed government control of the central board and more than five regional banks almost to the last ditch. But on the day Wilson signed the Federal Reserve Act, Warburg wrote to Glass that the "fundamental thoughts" he had labored for over the years had been enacted at last.⁶¹

Like the federal constitution, which had a host of enemies before it was ratified, the Federal Reserve Act had many friends once it was in being. The next steps were crucially important and closely watched; the President's choices for the Federal Reserve Board, and the selection of the number and locations of the Federal Reserve banks.

⁶⁰ Coletta, Bryan, 11, 138-139. The Nation, November 26, 1914, 622; the New York Times, May 30, 1915; and the New York Tribune, December 24, 1913, all anti--Bryan for decades, conceded that his support for the Federal Reserve Act had been crucially important.

⁶¹ Glass, *Constructive Finance*, 235; Kolko, *Triumph of Conservatism*, 242.

Chapter Three

The Establishment of the Eighth Federal Reserve District

Would St. Louis have a Federal Reserve bank? Without a doubt, thought the city's bankers. It was the nation's fourth largest city, and one of only three central reserve cities in the national banking system. With 26 trunk line railroads, it was a major hub of the midcontinent and southwestern distribution systems, and it led the nation in shipping hardware, hardwood lumber and a variety of agricultural products. St. Louis was the world's largest fur market, a major livestock market, a brewing center and a leading distributor of dry goods. In manufacturing, the city was the national leader in shoes, stoves, streetcars and millinery. After being known primarily as a wholesaling and jobbing center for more than a half-century, St. Louis by the end of the nineteenth century had achieved parity between manufacturing and wholesaling.¹

In preparing for their appearance before the Federal Reserve Bank Organizing Committee, the St. Louis Clearing House's representatives concentrated on winning a generously sized district with a balance of economic interests. It seemed to them unlikely that they would be denied a reserve bank, but there was a chance that rival claimants might threaten the "natural" boundaries of their district-to-be. These ideal boundaries covered a lot of ground, as H. Parker Willis had pointed out. Willis's "preliminary committee" had sounded out aspirants for a Federal Reserve bank before the Organizing Committee's visit, and they had found according to Willis that New York, Chicago and St. Louis together wanted the whole country for their districts.²

Under the Federal Reserve Act, after hearing testimony from the interested cities, the Organizing Committee would choose the bank locations and draw up district boundaries. Secretary of the Treasury William G. McAdoo, a New Yorker; Secretary of Agriculture David Houston, a New England native who had been president of Texas A.&M. University before becoming chancellor of Washington University; and Comptroller of the Currency John Skelton Williams, a native of Richmond, Virginia, were the members of the Organizing Committee. All three of

¹ *Thirteenth Census of the United States, 1910* (Washington, D.C., 1912); *Census of Manufactures, 1909*, Vol. IX, 643-667; testimony of A.L. Shapleigh before the Reserve Bank Organizing Committee, *St. Louis Republic*, January 21, 1914.

² Secretary of the Treasury William G. McAdoo appointed a "preliminary technical committee" of banking experts early in January 1914. It was to precede the Organizing Committee in visiting cities aspiring to Federal Reserve banks and to report and make recommendations to that committee before its formal hearings. H. Parker Willis was chairman; other members included Andrew H. Benton of Peat, Marwick, and Mitchell, accountants; Joseph A. Broderick of the New York state banking department; Howard Wolfe of the A.B.A.'s clearing house committee; Ralph Dawson of the Guaranty Trust Company; and Edmund D. Fisher, New York City's deputy comptroller. See Willis, *The Federal Reserve System: Legislation, Organization, and Operation* (New York, 1923), 548.

the members took part in the decisions, but the interviews in most cities were conducted by McAdoo and Houston.

The committee was to determine the number of districts, between eight and 12 under the Federal Reserve Act, set the boundaries of the districts according to the "customary course of business," and select the Federal Reserve cities. Since the act mandated a minimum capital of \$4 million for each reserve bank, based upon a investment of 6 percent of their capital and surplus by the member banks, it followed that some western districts would have to be much larger in area than the eastern. Each national bank was required to join the Federal Reserve System within 30 days after notification by the Organizing Committee or surrender its federal charter. One-sixth of each bank's required investment was due immediately in gold or gold certificates, and similar amounts three and then six months thereafter. The remaining 50 percent was due upon the call of the Federal Reserve Bank.³

Beginning in New York on January 4, 1914, the Committee held hearings in 18 cities, taking testimony from clearing house associations, chambers of commerce and business groups from more than 200 cities, 37 of which requested designation as Federal Reserve cities. Within the area that St. Louis considered to be its territory, there were eight other aspirants for that designation: Kansas City, Memphis, New Orleans, Indianapolis, Nashville, Dallas, Houston and Fort Worth. Outside cities including Chicago, Birmingham, Cincinnati, Atlanta, Louisville, Omaha and Denver, also claimed some part of this territory.

The Organizing Committee sent ballots to 7,471 national banks and more than 16,000 state banks and trust companies, asking them for their preferences for a reserve bank connection. St. Louis received 299 first and 580 second-choice votes from national banks, a majority of them from Missouri, Arkansas, southern Illinois and Oklahoma, with a scattering of first and substantial second-choice support from Texas, Tennessee, Louisiana, Kansas, Mississippi and Indiana. Kansas City had more first-choices from national banks in Missouri than St. Louis, but when state chartered banks were included, St. Louis ranked fourth nationally, after New York, Chicago and San Francisco.⁴

Secretaries McAdoo and Houston conducted their St. Louis hearings on January 21 and 22, 1914. In preparation for this event, Festus Wade and Frank O. Watts, president of the St. Louis Clearing House Association and chairman of its special "Committee of 18," respectively, sent a letter to the clearinghouse's bank correspondents, asking them for their support for a St. Louis-based Federal

³ Federal Reserve Act, Section Two, in H. Parker Willis and William H. Steiner, *Federal Reserve Banking Practice* (New York, 1926), Appendix 1, 839-841.

⁴ Reserve Bank Organizing Committee Pamphlet, *Decision Determining the Federal Reserve Districts* (Washington, 1914), 3-4, 10-14.

Reserve district. The clearinghouse wanted a long north-and-south axis to ensure a balance of economic interests. The cotton-belt bankers from Tennessee through Arkansas, Mississippi and Louisiana to Texas, with their heavy seasonal demands for credit, should press the Organizing Committee to give St. Louis a self-sufficient district with a variety of economic interests, such as mining and manufacturing, and enough banking resources to absorb seasonal credit demands.

To persuade bankers in New Orleans, Dallas, Memphis and other cities that wanted their own reserve bank, the St. Louisans claimed that the system was designed to provide plenty of branches, so that all sections of a district would be well-served. No doubt there would be 10 to 15 branches in a St. Louis district, each of which would provide all essential services. There would be local control in each branch through a seven-man board selected by the reserve bank and the Federal Reserve Board, as good as having the bank itself, so the letter implied. As for St. Louis, it had been the center of commerce and finance for "this splendid district" for a half-century. Since the law was intended to give the natural flow of business "new and effective aid," St. Louis bankers assumed that their correspondents would want to be in a St. Louis district, and that they would so inform the Organizing Committee. The letter was signed by 19 St. Louis bank presidents.⁵

David R. Francis' *St. Louis Republic*, the oldest newspaper west of the Mississippi River, which carried the slogan "America's Foremost Democratic Newspaper" on its masthead, hailed the impending arrival of McAdoo and Houston as a major event in St. Louis history. St. Louis was prepared, according to the *Republic*, to make a showing that would give it one of the four largest regional banks, including 12 states within its district boundaries. Spokesmen for thousands of banks from Missouri, Kansas, Nebraska, Texas, Arkansas, Oklahoma, Kentucky, Tennessee, Louisiana, Mississippi, southern Illinois and southern Indiana would speak for St. Louis. The *Republic* had been told that civic and business groups everywhere in the lower Mississippi Valley had sent hundreds of letters and resolutions favoring St. Louis to the Committee. No other city in the Southwest could command such support according to the jubilant editorialist.⁶

On the 21st, a reception committee of the Businessmen's League headed by the league's president, A.L. Shapleigh, and including Festus Wade and Albert Bond Lambert, met McAdoo and Houston at the Union Station. After checking in at the Jefferson Hotel, the two officials were escorted to the Federal Building at Eighth and Olive streets, where the hearings were held in the United States Circuit

⁵ Reserve Bank Organizing Committee, "Exhibits and Letters Submitted at the Hearings: in Wilbur C. Bothwell, "The Federal Reserve Bank of St. Louis;" (Ph.D. dissertation, Washington University, 1941), 36-37; *St. Louis Republic*, January 20, 1914

⁶ *St. Louis Republic*, January 21, 1914.

Courtroom. The Republic reported that the crowd overflowed into the hall and adjacent rooms. The Committee of 18, which handled the arrangements for the stay, was not surprisingly an honor roll of the business leadership. In addition to Shapleigh and Wade, it consisted of Frank O. Watts, E.C. Simmons, Walker Hill, J.C. VanRiper, Edwards Whitaker, Jackson Johnson, Thomas H. West, James Barroll, Robert S. Brookings, David R. Francis, Murray Carleton, Breckinridge Jones, E.F. Goltra, H.F. Bush, D.C. Nugent and James Bulck.

McAdoo and Houston were entertained privately the first evening, along with 25 other guests, by Rolla Wells at his home on Lindell Boulevard. In addition to most of the members of the Committee of 8, Wells had invited Charles Nagel, a distinguished Republican attorney who had been Secretary of Commerce and Labor in the Taft administration, and James Campbell, a utilities magnate who was a major investor in Mexican silver mines, a matter of interest to the Wilson administration because of its heavy involvement in Mexican internal affairs, an involvement which led to the American seizure of Vera Cruz a few weeks later. On the second evening, the two cabinet members were guests of honor at a dinner for 600 people at the Planters Hotel.⁷

St. Louis, as did every city on their schedule, used every advantage it could muster to impress the visitors. Ex-mayor Wells, David R. Francis, Edward F. Goltra and Breckinridge Jones were nationally prominent Democrats with close ties to the Wilson administration. Wells had been the president's campaign treasurer in 1912. Francis was not only publisher of a major Democratic newspaper, he had been mayor of St. Louis, governor of Missouri, and Secretary of the Interior, and he was soon to be named Minister to Russia by Wilson. Goltra, a Democratic national committeemen, had been an early Wilson supporter in 1912. Banker Breckinridge Jones was an important Democratic fund-raiser. From another angle, Secretary Houston, who was on leave as chancellor of Washington University, knew most of the welcoming committee personally. When he sat down to dinner at Wells' home, he must have thought it was a meeting of his board of trustees. Francis, an alumnus, had been a trustee for years, as had Jackson Johnson and A. L. Shapleigh, and several other committee members. Robert S. Brookings, one of Houston's predecessors as chancellor, was Washington University's greatest benefactor, having given it a fortune in money and land. In addition to their interest in university affairs, Rolla Wells and Houston saw a lot of each other at their summer homes in Wequetonsing, Michigan. While there is no evidence that any of these considerations affected the Organizing Committee's deliberations, this web of relationships certainly did not create an unfavorable climate for St. Louis's case.⁸

⁷ *Ibid.*, January 22, 1914. Rolla Wells, *Episodes of My Life* (St. Louis, 1933), 381-382.

⁸ *Ibid.*, 449; Walter B. Stevens, *Centennial History of Missouri, 1820-1921*, II, 48-49; Primm, *Lion of the Valley*, 330-336

Festus Wade, whose standing among American bankers and his 'important if at times irritating role in the formation period of the Federal Reserve Act was well understood by the Organizing Committee, and Frank O. Watts, president of the Third National Bank and Chairman of the Clearing House's presentation committee, laid out the banker's case for McAdoo and Houston. Wade, the first witness, requested the committee to create eight banks, the minimum under the law, so that each would have sufficient capital to serve its district adequately and so that excessive decentralization of reserves might be avoided. Branches could meet the needs of distant areas in a district. Wades argument reflected his confidence that St. Louis was high on the list for a regional bank, and it was a characteristic view of big bankers who had favored the Aldrich plan and still wanted as much concentration of reserves as possible.

As usual, Wade stressed financial balance. Both borrowing and lending areas should be included in a St. Louis district, with credit-hungry cotton and other agricultural territory offset by cities with large banking resources. Reaching out in all directions, he pleaded for a district broad and long enough to include a variety of crops harvested at different times. Even the touted "natural course of business" should give way if necessary to achieve balance. In short, St. Louis's district would be extended beyond its existing trade patterns. At this point, Wade presented his proposed "District Five," built around St. Louis and including Missouri, Arkansas, Oklahoma, Texas, Louisiana, southern Illinois (including Springfield), southern Indiana (including Indianapolis), western and central Tennessee (including Nashville), and southeastern Iowa with its Keokuk dam.⁹

This ambitious proposal, which had been "tamed down" from Wades original version as printed in the newspapers, was not unreasonable if there were to be eight districts of similar size and financial strength. As of October 31, 1913, there were 1,483 national banks and 1,806 state banks and trust companies eligible for membership in the Federal Reserve System. The national banks had an aggregate capital and surplus of \$262.7 million, providing the reserve bank with \$15 .8 million in capital subscriptions. If all of the eligible state banks became members, they would add \$9.4 million to the reserve bank's capital. The 62 banks and trust companies of the St. Louis Clearing House had a combined capital and surplus of \$78.6 million, one-seventh of the aggregate in the proposed territory, and deposits of \$302 million, one-sixth of the total. This was twice the capital and surplus of the banks in New Orleans, despite talk that the Crescent City had been gaining on St. Louis in the lower Mississippi Valley.¹⁰

Frank Watts, who followed Wade before the committee, laid out the remainder of St. Louis's plan for the entire system. District One would be New England

⁹ Reserve Bank Organizing Committee, Minutes, in Bothwell, "Federal Reserve Bank," 39-41; *St. Louis Republic*, January 22, 1914.

¹⁰ Bothwell, "*Federal Reserve Bank*," 41.

(Boston); District Two, New York and bits of New Jersey and Connecticut (New York City); District Three, the seaboard-South; District Four, the Ohio Valley; District Six, the North Central States (Chicago); District Seven, the Great Plains and Rocky Mountains; District Eight, the Pacific Coast (San Francisco). This plan severely restricted New York in area to keep its capital down to \$24.1 million. Chicago, Boston, St. Louis and the Ohio Valley (including Philadelphia!) would have reserve banks with capitals ranging from \$14.7 to \$17.9 million. The two western banks and the seaboard-south would be smaller, but well above the \$4 million mandated in the Federal Reserve Act.¹¹

This banking plan would have distributed banking capital far more evenly than the 12-district plan finally adopted. Ironically, it would have reduced New York's financial dominance, in contrast to the larger number of districts favored by Carter Glass and Parker Willis, for whom the concentration of reserves in New York was the major reason for banking reform. Paul Warburg had argued before the Glass Committee that there should be no more than five reserve banks, warning that a larger number would guarantee that New York would dominate the system, exacerbating the condition the committee was trying to rectify.¹²

A.L. Shapleigh of the Shapleigh Hardware Company, one of the nation's largest wholesale firms, Jackson Johnson, president of the International Shoe Company, the largest shoe manufacturer in the country, and Murray Carleton, president of Ferguson-Carleton Dry Goods Company, made the St. Louis case for businessmen. Shapleigh had a larger view than Wade or Watts: he expanded their plan to include Kentucky and Kansas as far west as Wichita, both areas being a part of the St. Louis trade territory. Shapleigh also reminded the committee that one-third of the United States' population was within 12 hours of St. Louis by train. St. Louis firms had sold \$568 million worth of goods in 1913, chiefly in Missouri, Illinois, Texas, Indiana, Kansas, Arkansas, Oklahoma, Iowa, Louisiana, Mississippi, Tennessee and Kentucky, in that order. Johnson and Carleton agreed with Shapleigh, stressing that St. Louis's trade was even more far-ranging than its banking influence, and that since banking followed trade, that influence was certain to grow. McAdoo interposed after Carleton's statement, saying "Yes, and trade follows transportation." This had to be considered a friendly comment, since St. Louis' transportation facilities were unsurpassed elsewhere.¹³

Several other St. Louis speakers followed, making the case that St. Louis was one of the great grain and livestock markets in the world, the third largest

¹¹ *Ibid.*, 41-42.

¹² Paul A. Warburg, *The Federal Reserve System*: I, 93. Warburg would have preferred four banks or three. Five was his outside number. On December 5, 1913, Warburg suggested four Federal Reserve banks, at New York, Chicago, St. Louis and San Francisco. *Ibid.*, II, 279-281.

¹³ *St. Louis Republic*, January 22, 1914.

manufacturing city in the nation and the largest wholesaler in many lines. David R. Francis, after praising the committee for its objectivity, submitted a map illustrating in detail that St. Louis was the hub of the greatest producing area in the country. Kansas City was in that territory and it would be a shame to divide Missouri between two districts. As an inveterate world traveler, Francis stated that St. Louis was better and more favorably known in Europe, China and Japan than any other American city, a not-too-subtle allusion to his own contribution to that end. J.C. VanRiper advised the committee that St. Louis, Chicago and San Francisco could handle the entire West, beginning with Ohio's western boundary. Edwards Whitaker, president of Boatmen's Bank, noted that St. Louis had been the ultimate lender for the area in question for more than 50 years. Not a single national bank had failed in St. Louis since 1887, which could not be said of Kansas City, Pittsburgh, Chicago, New York, Boston or Philadelphia.¹⁴

In a second appearance before the committee, Frank O. Watts made the point that while St. Louis had received deposits because it was a central reserve city, most of its out-of-state deposits were the products of St. Louis investments. On October 21, 1913, St. Louis banks' investments outside of Missouri had been \$63.5 million, and they had held deposits of \$32.4 million from non-Missouri banks. Texas, Illinois, Oklahoma and Arkansas were St. Louis' principal partners, followed by Kansas, Louisiana, Tennessee, Mississippi and Indiana. Festus Wade added that St. Louis had relatively more banking capital than any city in the United States with a population of 200,000 or more, with its aggregate capital and surplus constituting more than 25 percent of its deposits on that October date. "There had never been a day, a week, or month," according to Wade, "when any banker, planter, or farmer in the Southwest, banking in St. Louis and entitled to credit, was delayed one hour in getting all of the cash or credit to move crops . . . not excepting the panicky days of 1907." St. Louis had been the source of development funds for Southwestern hotels, street railway, and utility plants.¹⁵

After the St. Louisans had completed their testimony, the Organizing Committee heard from guests from the trade territory. O.H. Leonard of the Tulsa Exchange Bank testified to Oklahoma's dependence on St. Louis for long-term capital. He did not wish to be attached to a Texas bank. Kansas City was a little closer, but "when we want anything we usually come to St. Louis and we usually get it." H.V. Bird of Ryan, Oklahoma (on the Texas border near Wichita Falls) said that southwestern Oklahoma was more closely allied with St. Louis than any other city. J. C. Reynolds, of Moody, Texas (near Waco) said "we would prefer St. Louis to New Orleans or any other city save Dallas." This sentiment was echoed in writing by bankers from Corpus Christi, Denison, Brownwood and several other cities and towns from all sections of Texas except the El Paso area. More than 50 Arkansas cities and towns endorsed St. Louis, as did R.L. Pennfox of

¹⁴ *Ibid.*

¹⁵ *Ibid.*, January 23, 1914; "Exhibits and Letters," in Bothwell, "Federal Reserve Bank," 48-49.

Boyle, Mississippi (near Greenville) who wrote, "St. Louis can serve us better than Memphis. Memphis feels the burden of making a cotton crop just as we do, and is so dependent on the cotton industry that its funds are low at the same times our funds are low."¹⁶

Many Illinois and Missouri bankers were present at the hearing to testify for St. Louis. J.K. McAlpen of Metropolis, Illinois, said southern Illinois was unanimous in favor of St. Louis. H. W. Harris of Sedalia believed that three-fourths of Sedalia's business was done with St. Louis. A.H. Waite of Joplin acknowledged that he had signed a petition for Kansas City, but he knew St. Louis would be better for his territory. "You signed with repugnance, then?" asked McAdoo. "Yes," Waite admitted, "the K. C. boys are full of pep, and they are nice fellows and we have nothing against them."¹⁷

According to one history of Missouri banking, there was considerable doubt that St. Louis would get a reserve bank when McAdoo and Houston conducted their hearings in St. Louis. While Secretary Houston did write in his *Eight Years with Wilson's Cabinet* that he was surprised that St. Louis did not have more first-place support in Texas and Oklahoma, there is no evidence that this did any more than constrict St. Louis' territory. There were subtleties in the local situation that apparently eluded some observers. During the hearing, Houston asked aloud, of no one in particular, whether "a community that would not accommodate itself to a task like finishing the free bridge ought to have a reserve bank?" The authors of the study mentioned above apparently accepted this as a serious question, reflecting Houston's distaste for "St. Louis's spoils-dominated administration."¹⁸ The infamous Butler machine that had ruled the city at the turn of the century had been routed by crusading district attorney Joseph W Folk and rather more quietly by Mayor Rolla Wells during Wells' first term (1901-05). St. Louis in 1914, in comparison to its past and that of other major cities, was a "clean" city, and Houston knew it. He also knew that his friends Wells and Francis, Festus Wade, and several other insiders in the hearing room had been fighting the free bridge for years. Even if Houston were a free-bridge advocate, which is by no means certain, the question was irrelevant to the discussion, merely a needling comment.

More to the point, Houston recalled in his memoirs that he had entered into the hearing process with the idea that Boston, New York, Chicago and San Francisco were obvious choices, followed by St. Louis, New Orleans, and either Washington, Baltimore or Philadelphia. Richmond had never entered his head,

¹⁶ *St. Louis Republic*, January 23, 1914.

¹⁷ *Ibid.*

¹⁸ Hubbard and Davids, *Banking in Mid-America*, 127, 129; See Houston, *Eight Years With Wilson's Cabinet*, I, 102-114.

and New Orleans was fatally weakened by having virtually no financial or trade connections with Texas. That state related primarily to St. Louis, but the Texans wanted a reserve bank themselves. As for Kansas City, which was favored in Kansas, Missouri and Oklahoma, Houston thought it was too near St. Louis, which was a more impressive banking center. He had favored having only eight banks in the beginning, but it soon became obvious that if they did not go to the maximum, "the Reserve Board would have no peace until that number was reached". The hearings demonstrated that a great deal of local pride was involved, that the committee was "in for a great deal of roasting no matter what we decided."¹⁹

Cities and states acted as if their very survival depended upon their being selected. St. Louisans were outraged when Chicago claimed East St. Louis, and Chicagoans resented St. Louis's pretensions to their state's capital. When Secretary McAdoo suggested in Kansas City that it might become part of a St. Louis district, bankers there protested that he had it backward, since Kansas City's clearings had been growing at a much faster rate than St. Louis'. They did not mention absolute increases nor the fact that St. Louis had three times Kansas City's banking capital. The president of the Kansas City Clearing House Association agreed that St. Louis should have a reserve bank, but he thought it "would be fatal to attach Kansas City to it." The Kansas City Journal denounced the "effrontery of St. Louis" in claiming the Kansas City trade territory. To follow up their protests at their hearing, Kansas Citians sent a delegation to Washington to plead their case with the third Organizing Committee member, Comptroller John Skelton Williams.²⁰

Many factors affected the final choices. Clearly, the members paid a great deal of attention to the bankers' preferential ballots. In some instances, seemingly illogical selections had been based upon future prospects rather than upon present conditions. Texas was still heavily dependent upon St. Louis, Chicago and New York financially, and Dallas, its largest city, had less than one-seventh of St. Louis' population (687,000) in 1910, but the state was huge and it was growing rapidly. In the main, it opposed being attached to an out-of-state bank, most fiercely to a New Orleans bank. A San Antonio clearinghouse official suggested a district including Texas, Louisiana, Arkansas, Oklahoma and Missouri, with its reserve city in Texas. Under questioning, he conceded that St. Louis would be a better choice for such a district. St. Louis had received the largest number of first-choice votes in Texas except for Texas cities; it was

¹⁹ *Ibid.*, 99, 102-108. Interestingly, Houston thought it did not matter much which cities were selected, if due consideration was given to ease of transportation and communication and to "customary practice." The districts were "so many reservoir agencies, under the general supervision of the general staff, the Federal Reserve Board, which could bring one or more districts to the aid of any other." *Ibid.*, 105-106.

²⁰ Hubbard and Davids, *Banking in Mid-America*, 130. See Warburg, *Federal Reserve System*, I, 778.

behind only Dallas in second-place votes; and it had by far the largest number of third-place votes. The committee's main problem with attaching Texas to St. Louis was the distance from St. Louis to points in West Texas and along the Rio Grande. Bankers Wade and Watts had urged in vain that branches would take care of the distance problems, conceding that at some time in the future Texas would need its own bank.²¹

Parker Willis, as an author of the Federal Reserve Act and chairman of the preliminary technical committee, had considerable influence on the Organizing Committee's deliberations, though at times he gave contradictory advice. He advocated districts relatively similar in strength, urging the Committee especially to avoid creating a large bank which would dominate the rest. Neither should it set up two classes of banks, with one class very strong and the other dependent on it. He said that the historic volume of clearings was unimportant, since that volume would be rearranged by the system itself once it was in operation. Banking capitalization was relatively unimportant, but railway facilities were of the utmost importance. Paradoxically, Willis dismissed the idea that large borrowing and lending areas should be included in one district. Since one reserve bank might rediscount the paper of another, self-sufficient districts were unnecessary. Carter Glass shared this view with Willis, as he did on nearly every point, a strange position for the framers of the Glass-Owen bill.²² If the districts, irrespective of size, were not to be relatively equal in financial strength, why have districts at all? What had happened to the concept of regionally controlled central banking?

The Organizing Committee, with Willis's advice, created its own monster. The Federal Reserve Act required a minimum capital of \$4 million for each reserve bank. Since banking capital was heavily concentrated in the East, especially in the New York area, the Committee's decision to create 12 reserve districts made it virtually impossible to approach parity among them without reducing New York's territory to Manhattan Island. Because of the \$4 million minimum, the shortage of capital in the South and West forced the Committee to extend some district boundaries deep into areas where they were not wanted and where the reserve bank city had never had a commercial and financial presence. Prompt enrollment in the system by eligible state banks would have helped, but at the time the committee made its decisions, very few had done so. Willis thought

²¹ Willis, *The Federal Reserve System*, 584-588; Bothwell, "Federal Reserve Bank," 54-55; Letter from the Reserve Bank Organizing Committee, "Vote for Reserve Bank Cities," 63rd Cong., Second Sess., H.R. Doc. No 1134 (Washington, 1914).

²² Report to the Reserve Bank Organizing Committee by the Preliminary Committee on Organization, in Bothwell, "Federal Reserve Bank," 57-59.

there would be no harm done if a few districts could not meet their minimum capital, but the committee chose to follow the law.²³

In the end, the committee's selection of reserve cities and district boundaries reflected a combination of city size, preference ballots, some banking realities and a lot of politics. The eagerly awaited announcement came on April 2, 1914. Some of the decisions had been easy, according to the Committee report. New York, Chicago, Philadelphia, St. Louis, Boston and Cleveland were the largest cities in the United States; their accessibility and banking strength justified their selection. As the only major metropolis on the Pacific Coast, San Francisco was an obvious choice. Portland, Oregon, had been considered, but it finally had been rejected because it lacked banking capital, a consideration the committee was less sensitive to in Minneapolis and Atlanta. By including the Northwest in the San Francisco district, the Committee had achieved a balance of borrowers and lenders, a standard that it had rejected in principle and did not apply consistently.²⁴

The original districts-modified later, principally to enlarge the New York district-were as follows:²⁵

District	Reserve City	Capital in Millions	Area in Square Miles
One	Boston	\$ 9.9	66,465
Two	New York	20.6	49,170
Three	Philadelphia	12.9	39,865
Four	Cleveland	11.6	183,995
Five	Richmond	6.5	173,315
Six	Atlanta	4.7	223,860
Seven	Chicago	13.1	176,840

²³ Preliminary Committee Report, 4-6, in Bothwell, "Federal Reserve Bank," 57; *St. Louis Globe-Democrat*, April 4, 1914; West, *Banking Reform*, 210-212.

²⁴ Reserve Bank Organizing Committee, Decision Determining the Federal Reserve Districts, 4-24; West, *Banking Reform*, 210; Willis, *The Federal Reserve System*, 589-597.

²⁵ *St. Louis Republic*, April 3, 1914.

Eight	St. Louis	6.2	146,474
Nine	Minneapolis	4.7	437,930
Ten	Kansas City	5.7	509,649
Eleven	Dallas	5.6	404,826
Twelve	San Francisco	8.1	693,658

In St. Louis, the press hailed the selection in their lead articles as a great victory for Missouri and for St. Louis. The Democratic *St. Louis Republic* published a front-page cartoon on April 4, showing the symbolic Missourian, a black-hatted, frock-coated mustachioed southern colonel, smoking an enormous black cheroot which had emitted two puffs of smoke, the one labeled "St. Louis," the other "Kansas City." The caption read, "D'you All notice Ouah smoke?" The accompanying editorial was more restrained, reflecting the conflicting reactions of bankers and businessmen. Following the lead of Frank O. Watts, the editorialist called St. Louis's selection "a foregone conclusion." Twelve banks instead of eight "has somewhat reduced the area of which the city felt sure." The district's eastern limits were "about what was forecast . . . our territory to the West and Southwest is deeply cut into by the Dallas and Kansas City district."²⁶

The bankers were disappointed that they had lost Texas, Oklahoma and the western tier of Missouri counties, but they did have a district in which they quickly discovered formerly hidden virtues. Now they realized that Arkansas had the greatest potential of any Mississippi Valley state, with new cotton land being reclaimed every day from its northeastern swamps. Kentucky was "a big surprise," a delightful one. Now the great Mammoth Caverns and most of Kentucky's white tobacco-growing area were in the St. Louis district, as well as western Tennessee and northern Mississippi. Louisville and Memphis were fine catches, though the former was a reluctant captive.²⁷

Within a few hours of the announcement, Festus Wade could find virtue in the previously unthinkable. He told the *Globe-Democrat* that any disappointment over the loss of Texas and eastern Oklahoma was overbalanced by Missouri getting two banks. "All Missourians should rejoice," he said. "Each will augment the other, give a financial strength to this section of the country, and make us a great lending power." Besides, Kansas City's district was chiefly far to the north of the St. Louis's trade territory, extending as it did all the way to Yellowstone

²⁶ *Ibid.*, April 4, 1914.

²⁷ St. Louis Globe-Democrat, April 3, 1914.

Park, in the extreme northwestern corner of Wyoming. As for the St. Louis district, it had a compact appearance, compared to some others.²⁸

Reflecting this overnight conversion, the Republic advised one and all to "cease wondering why Atlanta received a bank instead of New Orleans, Cleveland instead of Cincinnati, Richmond instead of Baltimore," and so on, "and devote our thought to things that may be made out (understood)." Dallas had received the cream of the St. Louis territory, but it should be remembered that banking follows trade; trade does not follow banking. St. Louis manufacturers and jobbers sell millions of dollars worth of goods, in the territory of the Dallas Federal Reserve Bank. "Our Texas customers give promissory notes for their purchases. But they do not give these notes in Texas, they give them to the St. Louis manufacturer or jobber. They will be discounted by St. Louis banks and rediscounted by the St. Louis Federal Reserve Bank." In the end, the "result will be the same as if Texas were in the St. Louis district." Texas merchants and shippers do business in St. Louis "because it pays them to do so." The trade that St. Louis has in Texas would build up the St. Louis bank rather than the Dallas bank.²⁹

Perhaps also reflecting its status as the nation's "foremost Democratic newspaper," the Republic stressed Carter Glass and Parker Willis' major argument for the district reserve system. New York would still be the greatest financial center. St. Louis would handle as much Oklahoma, Texas and Louisiana paper as ever. "It is the artificial elements in finance that will be done away-the vast accumulations of money in New York, not sent there by purchases of New York business men, but heaped up for stock exchange speculation because the call loan market was the only place in the United States where great sums of money could earn interest and still be subject to instant demand. No longer will New York monopolize the country's credit." Determined to make the best of the situation and consoled by not having been shut out as Baltimore, Pittsburgh, Cincinnati and New Orleans had been, St. Louis bankers had decided to take high ground and look to the future. Prophecy was not their strong point, but they were among the winners, after all.³⁰

As David Houston had predicted, the disappointed cities and states cried foul. Not only did New Orleans, Baltimore, Pittsburgh, Cincinnati, Denver, Omaha and Washington raise a ruckus, so did the New York bankers, frustrated by their squeezed-down condition. A look at the map of the districts, with its variety of contortionate shapes, supported the view that the Organizing Committee had done a hard job poorly, but some of the charges went far beyond that, to

²⁸ *Ibid.*

²⁹ *St. Louis Republic*, April 4, 1914.

³⁰ *Ibid.*

allegations of favoritism and base motives. Among the milder criticisms was that of James Forgan, president of the First National Bank of Chicago, who claimed that the committee had ignored the overwhelming opinion of the nation's bankers by creating 12 districts instead of eight. Wall Street agreed, and there was some talk of seeking an injunction to prevent the plan from being carried out, but that project died after the bankers were assured by someone, perhaps McAdoo, that their district's boundaries would be expanded by the Federal Reserve Board. New York's major complaint, their bankers said, was that political considerations had invaded the selection process, which boded ill for the future of the Federal Reserve System. Was it a coincidence that two of the reserve banks were to be in Missouri, the home of Secretary Houston? Was not Atlanta the birthplace of Secretary McAdoo, and Richmond the native city of Comptroller Williams? Were Missouri, Georgia and Virginia solidly Democratic? Indeed they were.³¹

Republican Senator John W Weeks of Massachusetts echoed these charges, alleging that only one of the four cities in question (presumably St. Louis) was entitled to a Federal Reserve bank. These charges were readily accepted by the disappointed or cynical, but they lacked substance. The Organizing Committee reacted by explaining its decisions, but it ignored the political slander.³² McAdoo had been born in Atlanta, but he had lived in Tennessee as a youth, and he had made his career in New York City. Houston had only lived in Missouri for a few years, he had been in Texas for a longer time, and he was a native New Englander. Even if he had favored St. Louis unfairly, the critics agreed that St. Louis was a logical choice, and he was no more pro-Kansas City than the St. Louis bankers were before April 2, which was not much. The complaint about Williams and Richmond was more persistent, but it was still speculative.

New Orleans could hardly believe, and much of the country wondered with it, that it had been denied a Federal Reserve bank. Sol Wexler, a prominent member of the A.B.A.'s currency committee throughout the Federal Reserve System's gestation period, drew up a slashing set of resolutions which were adopted at a mass meeting in New Orleans on April 4, and read into the Congressional Record the next day. The resolutions dismissed Richmond as an insignificant trade center, and charged that it had been selected for political and personal reasons. As for Atlanta, the Federal Reserve city for the district including New Orleans, it had neither the population nor the banking resources that New Orleans had, its only commercial connections with the Crescent City were of a tributary nature, and it had received no Louisiana votes in the banker's poll, not even third-place votes. St. Louis had been the only outside city receiving first-

³¹ *St. Louis Globe-Democrat*, April 4, 1914; *St. Louis Republic*, April 8, 1914. Willis, *The Federal Reserve System*, 587-589.

³² *Ibid.*, April 4, April 11, 1914.

place votes in Louisiana. Memphis had attracted some second- and third-place support.³³

Baltimore hated to be in the Richmond district. The Maryland metropolis was the seventh-largest city in the United States, five times the size of Richmond, which ranked 39th. It had been a major commercial center since colonial days, while Richmond's claim to fame was having been the Confederate capital. Baltimoreans thought they were the victims of a political payoff, and they thought it no coincidence that John Skelton Williams was a native of Richmond and Carter Glass a near neighbor. The *Globe-Democrat* quoted unnamed local bankers in support of this position, noting that St. Louis, Baltimore and New Orleans had done most of the banking business east of the Mississippi and south of the mouth of the Ohio since the Civil War. The *Globe* was in an equivocal position. Most of the political charges were being made by Republicans, and it was a self-styled Independent Republican newspaper. But St. Louis had been awarded a reserve bank, and the editors approved the Organizing Committee's effort. It did give more space to the negative news than the Republic, perhaps because the latter was Democratic.³⁴

Denver and Omaha were outraged that Kansas City had been given a reserve bank "at their expense." Denver bankers asked why the 10th district, which covered one-sixth of the country, was the only district whose reserve bank was at its extreme eastern edge. They furnished their own answer. Senator John Thomas of Colorado had traded Denver's chances for an appointment in Secretary McAdoo's office! His son-in-law, William P. Malburn, had just been named Assistant Secretary of the Treasury. Until they heard that the appointment was coming, they had felt certain of a bank if there were 12 districts, and thought it a possibility if there were only eight. But with the appointment certain, they "threw up their hands," knowing that their city had been traded for "a mess of pottage." Omaha bankers resolved to campaign for a reserve bank of their own or to be transferred to the Chicago district. "Nothing in the world but politics" dictated the Committee's "disgraceful" choices, according to the president of the Nebraska National Bank.³⁵

Pittsburgh newspapers charged politics, too; Cleveland was selected, Pittsburgh's bankers believed, because of its connections in the Wilson administration. Secretary of War Newton D. Baker was one of its own. Cincinnati,

³³ "Speech of the Hon. Carter Glass of Virginia in the House of Representatives," April 8, 1914. Included in the pamphlet, *Decision Determining the Federal Reserve Districts*. Numbered separately, 15 pages. Glass denounced the various critics of the district plan, including those from Baltimore and New York, but with special emphasis on the New Orleans resolutions.

³⁴ *St. Louis Globe-Democrat*, April 4, 1914.

³⁵ *Ibid.*

also placed in the Cleveland district, ridiculed the choice. Some of its bankers suggested that Cincinnati's inveterate Republicanism contrasted unfavorably with Cleveland's affinity for the Democracy. Milwaukee was unhappy, too, but not for the usual reasons. It had been put in the Chicago district, which was agreeable, but most of the rest of Wisconsin had been required for the Minneapolis district, which cut off Milwaukee from its own constituency.³⁶

Whatever its reasons, the Committee's decision to establish two districts in the Southeast created a host of difficulties. Baltimore was too close to New York and Philadelphia to be considered for a reserve bank, the Committee reasoned. It could not go north, and it had no support in the Carolinas. Richmond had to have the richer part of the seaboard South, making it necessary to extend the capital-poor Atlanta district far to the West to enable it to meet the \$4 million minimum capital requirement. Atlanta had to have a reserve bank, it has been charged, because of powerful pressure exerted on the committee by the Bryanite Senator Hoke Smith of Georgia, a reform-minded ex-governor of that state. New Orleans was the big prize for Atlanta but it could not be isolated from the rest of the district, which meant that southern Mississippi had to be in the Atlanta district to provide a corridor. With New Orleans out of the picture, these Mississippians would have preferred St. Louis, in company with the rest of their state and western Tennessee. Without eastern Oklahoma, Missouri's Joplin lead district, or southern Mississippi, St. Louis's district had insufficient capital, a condition the Committee remedied by giving it southern Indiana and western Kentucky including Louisville, both of which had preferred Cincinnati. Without these areas, Cincinnati was not a viable candidate for a Federal Reserve bank.³⁷

At first, despite the indignity of being charged with "tangoing about the country asking the people if they wanted a reserve bank" (by Senator Weeks), the Organizing Committee declined to respond to the avalanche of complaints. But on April 10, Senator Gilbert M. Hitchcock of Nebraska, whose obstreperousness as a member of the Banking Committee during the Glass-Owen hearings was well-remembered, launched a stinging assault on the committee's judgment and its motives. He demanded to see the documents it had used; he thought it contemptible that Kansas City had been chosen as a reserve bank city, especially for a district that included Omaha and all of Nebraska; and he questioned the choices of second-rank cities such as Richmond and Atlanta while omitting New Orleans.³⁸

³⁶ *Ibid.*

³⁷ Willis, *The Federal Reserve System*, 587-588; Bothwell, "Federal Reserve Bank," 50; *St. Louis Republic*, April 11, 1914.

³⁸ *St. Louis Globe-Democrat*, April 4, 11, 1914; *St. Louis Republic*, April 11, 1914.

This attack from the Senate floor from such a prominent politician forced McAdoo's hand. He released a 4,000-word statement, stressing the committee's hard work and careful attention to the claims of Omaha, Lincoln, Denver and Kansas City. Denver had wanted Montana, but Montana preferred Minneapolis or Chicago. Neither Kansas, west Texas nor Nebraska wanted Denver, and Idaho favored Portland or San Francisco. Only Nebraska among the eight plains and mountain states Omaha asked for cared to be in an Omaha district. Kansas City banks served a vast territory and they had loans and discounts totaling \$91.7 million, more than Denver, Omaha and Lincoln combined. McAdoo did not mention that Kansas City also had Senator James A. Reed, whose late conversion had broken the deadlock in the Senate Banking Committee, allowing the Glass-Owen bill to pass. Reed was a powerful friend and a dangerous enemy, he had the administration's attention, and he had given the Organizing Committee the benefit of his views.

As for New Orleans, it had selected a district extending from New Mexico to the Atlantic Ocean. Texas had no trade with New Orleans and its bankers preferred St. Louis or Kansas City after one of its own. New Orleans had a larger capital and surplus than Atlanta or Dallas, but its national banks had a smaller total in loans and discounts than either of them. McAdoo's letter made it clear that there would be no reversals of the Organizing Committee's selection, but that point hardly needed to be stated. President Wilson had told the press on April 6 that he had "unqualified confidence" in the Organizing Committee's decisions on the 12 Federal Reserve districts, a statement intended to quiet the clamor from the disgruntled.³⁹

The *Globe-Democrat*, now that the protests "swelling into wails" had been heard, was sure that the banking community had confidence in its new system, attested to by the fact that nearly every national bank in the country had applied for membership well within the 60-day grace period provided after the passage of the Federal Reserve Act. Now the chief concern was the caliber of the Federal Reserve Board. "Superb ability and high character" were needed. The editor believed that President Wilson would meet the challenge, especially now that members of Congress had promised that they would make no recommendations for appointments. Even ex-Senator Aldrich hoped for the best. He was quoted in the press as saying there was a chance the system might succeed, depending upon the "character and wisdom" of those who controlled the banks, especially the Federal Reserve Board. By ability, character and wisdom, the *Globe-Democrat* and Aldrich meant conservative men acceptable to the major bankers. Wall Street's grumbling reaction to the districting plan served notice that it had better be satisfied with the president's appointments. Paul Warburg advised his

³⁹ *St. Louis Globe-Democrat*, April 7, 11, 1914; *St. Louis Republic*, April 11, 1914; West, *Banking Reform*, 210-212.

friends to mute their criticisms until the Board was in place. As usual, Warburg was in close touch with Colonel E.M. House, Wilson's closest adviser.⁴⁰

At the White House, Secretary McAdoo and Colonel House battled for influence over Board appointments. McAdoo pleaded with the president for men who would work with him to break Wall Street's grip on the nation's credit. House wanted a Board that would satisfy the bankers. Wilson agreed with House, who claimed that the president feared his future son-in-law was trying to subordinate the Federal Reserve Board to the Treasury Department. Accordingly, House dominated the selections, with one or two exceptions. The extent of House's victory was apparent when Wilson offered an appointment to Richard Olney, a noted Boston railroad attorney. As Cleveland's attorney-general in 1894, Olney had broken the Pullman strike near Chicago, and then had jailed the American Railway Union's president, Eugene V Debs. Rewarded by a promotion to Secretary of State, Olney in 1895 faced down the British government in a confrontation over the boundary line between Venezuela and British Guiana, thereby adding a corollary to the Monroe Doctrine. Bankers and businessmen were delighted with the Olney nomination, but Olney was nearly 80 years old and eventually he turned Wilson down, as did Henry A. Wheeler of Chicago.⁴¹

On May 4, 1914, the President submitted his nominees to the Senate. In addition to Olney and Wheeler, the list included W P G. Harding of Birmingham, president of Alabama's biggest bank; Paul Warburg of Kuhn, Loeb, and Company; and Thomas D. Jones of Chicago, a director of the International Harvester Company, who had been a trustee of Princeton University when Woodrow Wilson was its president. Progressives and conservatives alike were stunned. When they recovered, financial and business spokesmen gave the nominees their delighted approval.⁴²

Carter Glass and Parker Willis, who had not been consulted, were dismayed. They feared their federal reserve system had been handed over to its enemies, the Aldrich plan crowd. One midwestern progressive senator thought Frank A. Vanderlip of the National City Bank must have selected the nominees, "a more reactionary crowd could not have been found with a fine-tooth comb."⁴³

To replace Olney and Wheeler, Wilson nominated Charles S. Hamlin, a Boston attorney, and Adolph Miller, a former professor of economics at the University of California. When the revised list of nominees reached the Senate on July 15,

⁴⁰ *St. Louis Globe-Democrat*, April 4, 1914; Kolko, *Triumph of Conservatism*, 248.

⁴¹ Link, *The New Freedom*, 450-451; *St. Louis Globe-Democrat*, May 5, 1914.

⁴² Link, *The New Freedom*, 451-452.

⁴³ Kolko, *Triumph of Conservatism*, 248; Link, *The New Freedom*, 452.

Senator Reed of Missouri, with his Kansas City reserve bank safely in hand, loosed his heavy artillery on the Jones and Warburg appointments. Warburg was a target for the obvious reasons: he was a Wall Street banker and a noted advocate of central banking. Jones was worse. His "Harvester Trust" was the most hated of all businesses by midwestern farmers, and it was under indictment as an illegal combination. Even ex-president Taft joined the chorus, saying that if he had nominated such a man for an important position, "the condemnation that would have followed it staggers my imagination."⁴⁴

President Wilson fought hard for Jones, alleging that his friend had joined the Harvester Board to clean up the organization, but under grilling by Reed, Senator Hitchcock and other banking committee members, Jones admitted that he had approved all of the company's policies since he had joined its board in 1909. Noting that the president had just persuaded the Senate to approve an anti-trust bill (the Clayton Act), Hitchcock wondered how he could ask senators to approve "a maker of trusts." Finally Wilson asked Secretary Bryan to intercede, which he did at no small cost to his conscience. Hitchcock had no use for Bryan anyway, and Reed was not persuaded. Ironically, by opposing Jones, Hitchcock was helping McAdoo, whom he had so bitterly denounced for not giving Omaha a reserve bank. The banking committee refused to move, and the president withdrew the nomination. Wilson had suffered his first defeat in Congress, and he was angry.⁴⁵

The Senate committee also refused to confirm Warburg unless he appeared before it for questioning. Members wanted him to explain how a Wall Street banker proposed to conquer the Money Trust. His pride wounded, Warburg refused to appear and asked Wilson to withdraw his nomination. The president would not do it, and Senator Hitchcock broke the stalemate by asking the imperious banker to come before the banking committee, not for a grilling but for a "conference." Warburg conferred with the committee on August 1 and 3, 1914. Either he satisfied the senators or they did not wish another confrontation with the president. Paul Warburg was confirmed by the Senate on August 7, along with Frederic A. Delano, a Chicago railroad man who had replaced Jones as a nominee. Since Adolph Miller and Charles Hamlin had already been confirmed, the board was completed, and the bankers were well-satisfied.⁴⁶

⁴⁴ *Ibid.*, 452-454.

⁴⁵ *Ibid.*, 455-456.

⁴⁶ *Ibid.*, 456; Kolko, *Triumph of Conservatism*, 249. Bankers in St. Louis praised the appointees. J.A. Lewis, cashier of the National Bank of Commerce, said: "Paul Warburg of New York understands all about international exchanges . . . W. P. G. Harding of Birmingham is a practical banker, I think the board will meet the approval of bankers throughout the country." "A better board could hardly have been chosen," said William McChesney Martin, vice-president of the Mississippi Valley Trust Company. ". . . Warburg is one of the best living authorities on the economic principles underlying all financial schemes . . ." *St. Louis Globe-Democrat*, May 5, 1914.

Of the five appointed members, only Charles Hamlin allied himself in policy matters with ex-officio members McAdoo and Williams. One immediate issue facing the Board was that of redistricting. All members agreed that some alterations in district boundaries had to be made, especially in New Jersey counties within eyeshot of Manhattan which had not been included in the New York district. McAdoo, as chairman, appointed Delano, Harding and Warburg to a redistricting committee. In McAdoo's view, boundary readjustments were all that was necessary, but the committee and Adolph Miller were determined to reduce the number of districts, perhaps to as low as eight. Warburg believed that the language of the Federal Reserve Act (Section 2, paragraph 1), which stated that the Organizing Committee's decisions "shall not be subject to review except by the Federal Reserve Board when organized" gave the Board the power to reduce the number of districts if it thought it necessary. The power to review included the power to consolidate, in the opinion of the majority of the Board. Six strong districts (One, Two, Three, Four, Seven, and Twelve) had been created. The other six were weak. If the ideal of self-sufficient districts were to be realized, their number should be reduced to eight or nine. Atlanta (Six) and Minneapolis (Nine) were especially vulnerable, followed by Kansas City (Ten) and Dallas (Eleven).⁴⁷

Board Chairman McAdoo and members Hamlin and Williams, and Carter Glass and Parker Willis as well, saw an Aldrich-Plan conspiracy in the effort to consolidate districts. This reaction seems unjustified if not ridiculous. The minimum was eight districts under the law; only Congress could change it. Warburg, Delano, and Harding had supported the Aldrich plan, but they had lost the battle. In their view, they were simply trying to strengthen the Federal Reserve System-to make it work. In their redistricting committee report, they warned that decentralization would defeat its purpose unless the regional banks were "strong enough in themselves to be effective, large enough to command respect, and active enough to exert a continuous and decisive effect on banking affairs in their districts."⁴⁸

Since he was outnumbered on the Board, McAdoo looked for outside help. Not surprisingly, he found it in one of his cabinet colleagues. He requested an opinion from Attorney General T.W. Gregory on the question of the Federal Reserve Board's power to alter the Organizing Committee's districting decisions. As expected, Gregory took a narrow view of the statute, ruling on November 22, 1915, that the power to readjust districts "does not carry with it the power to

⁴⁷ Revised report of the Federal Reserve Board Committee on Redistricting, November 17, 1915, in Warburg, *Federal Reserve System*, I, 767-774

⁴⁸ *Ibid.*

abolish districts and banks." In April, 1916 Gregory gave the opinion that the Board could not change the location of any Federal Reserve bank.⁴⁹

On May 4, 1915, the Board transferred 12 counties in northern New Jersey from the Philadelphia to the New York district; two counties in northern West Virginia from the Richmond to the Cleveland district; and 25 counties in southern Oklahoma from the Dallas to the Kansas City district. These moves were made in response to petitions from the areas affected. One county in western Connecticut was transferred from the Boston to the New York district in March, 1916, and in October of that year 20 counties in eastern Wisconsin were shifted from the Minneapolis to the Chicago district. St. Louis picked up a Mississippi county in 1920, at the expense of Atlanta.⁵⁰

On May 11, 1914, the Organizing Committee designated the German National Bank of Little Rock; the Ayers National Bank of Jacksonville, Illinois; the Second National Bank of New Albany, Indiana; the National Bank of Kentucky at Louisville; and the First National Bank of Memphis to execute the Eighth Federal Reserve District's organizing certificate. Representatives of these banks met in St. Louis on May 18, signed the certificate, and sent it to the Comptroller of the Currency. The Federal Reserve Bank of St. Louis was now a corporate body.⁵¹

The Federal Reserve Act provided that each reserve bank should have nine directors, divided into three classes. Three class A directors were to be bankers representing stockholding banks; three Class B directors were also to be elected by the stockholding banks, from persons "actively engaged in their district in commerce, agriculture, or some other industrial pursuit." The district's member banks were to be divided into three groups according to size, and each group was entitled to elect one Class A and one Class B director. Three Class C directors were to be appointed by the Federal Reserve Board, one of them to be the chairman of the district bank's board and Federal Reserve Agent. No Class C director could be an officer, director or stockholder of any bank, although the one named Chairman and Federal Reserve Agent had to be a person of "tested banking experience." The terms of office for directors was three years, staggered so that one director in each class would complete his term each year.

On June 4, 1914, member banks of the Eighth District met in St. Louis to determine the procedure for electing directors, and then to elect them. Festus Wade of the Mercantile Trust Company, the only state-chartered bank in the district that had joined the Federal Reserve System, was elected temporary

⁴⁹ Bothwell, "Federal Reserve Bank," 67-68; *Federal Reserve Bulletin*, December, 1915; *Annual Report of the Federal Reserve Board*, 1916; Warburg, *Federal Reserve System*, I, 781-801.

⁵⁰ Willis and Steiner, *Federal Reserve Banking Practice*, 17-18.

⁵¹ *Annual Report of the Federal Reserve Bank of St. Louis*, 1915, 5.

chairman. In turn, Wade appointed a Rules Committee consisting of one member from each of the seven states in the district. The committee ruled that there would be no proxy voting, which gave rise to charges that St. Louis would dominate the choices because it had more delegates present. A motion that would have nullified that ruling was defeated.⁵²

Walker Hill, president of the Mechanics-American National Bank of St. Louis, was elected a Class A director by Group One banks (those with more than \$100,000 in capital and surplus). For its Class B director, Group One selected Murray Carleton of the Ferguson-Carleton Hardware Company of St. Louis. Group Two (\$50,000 to \$100,000 in capital and surplus) elected Frank O. Watts of the Third National Bank of St. Louis as their Class A director and W. B. Plunkett, president of the Plunkett-Jewell Grocery Company of Little Rock as their Class B director. Group Three (banks with under \$50,000 in capital and surplus) named Oscar Fenley, president of the Kentucky National Bank of Louisville to their Class A position, and former United States Senator Leroy Percy of Greenville, Mississippi, to the Class B seat. There was no requirement that Class A directors be selected from their own group. Both Watts and Fenley were presidents of large banks.⁵³

This situation was corrected on September 26, 1918, by an amendment to the Federal Reserve Act, requiring Class A directors to be members of the group that elected them. On the same day, to give banks voting power commensurate with their stock ownership in their reserve banks, the Federal Reserve Board reclassified the groups. Group One was defined as those with over \$599,000 in capital and surplus; Group Two, \$100,000 to \$599,000; and Group Three, under \$100,000. In the Eighth Federal Reserve District on that date there were 34 Group One, 168 Group Two and 307 Group Three banks.⁵⁴ Primarily because nine more large state banks and trust companies, including the Mississippi Valley Trust Company, the District's second largest bank, had joined the Mercantile Trust, the largest, as member banks, the St. Louis Federal Reserve Bank's authorized capital had increased from the original \$6.2 million to \$7.6 million. At that time, the Mercantile Trust Company's capital and surplus was \$9.5 million and the Mississippi Valley Trust Company's \$6.5 million.⁵⁵

⁵² *Ibid.*

⁵³ *Ibid.*

⁵⁴ *Annual Report of the Federal Reserve Board*, 1918, 801.

⁵⁵ Hubbard and Davids, *Banking in Mid-America*, 145.

The Federal Reserve Board announced St. Louis' Class C directors' appointments on September 30. William McChesney Martin, a 40-year old native of Lexington, Kentucky, was named Chairman of the Board and Federal Reserve Agent. Martin, a graduate of Washington and Lee University, had come to St. Louis in 1896 as secretary to his uncle, William S. McChesney, the superintendent of the Louisville and Nashville Railroad's St. Louis terminals. After graduating from the Washington University School of Law and being admitted to the St. Louis bar in 1900, Martin entered the trust department of the Mississippi Valley Trust Company. He became vice president of the company in April, 1914.⁵⁶

On September 15, 1914 Chairman McAdoo had offered the Chairman-Agent position at St. Louis to Rolla Wells, hoping that Wells would serve at least until "things were in good working order." Wells declined, but at McAdoo's request he agreed to find someone for the position. As Mayor of St. Louis, Wells had worked closely with Martin's uncle William McChesney, who had become president of the St. Louis Terminal Railway Association in 1903, in an effort to block the municipal free bridge movement. As a director of the Mississippi Valley Trust Company, Wells had been impressed with Martin's performance as a trust officer. Accordingly, he took Martin to Washington, where they had a successful interview with McAdoo. The other Class C appointees were Walter W Smith of St. Louis, Deputy Federal Reserve Agent, and John W Boehne of Evansville, Indiana.⁵⁷

Each reserve bank's operating officers, under the law, were to be elected by its board of directors, but Secretary McAdoo took a hand in selecting them, at least in St. Louis's case. He wired Rolla Wells on October 27, asking him to accept the governorship. "You will render great public service by so doing. I do not think it will burden you heavily, and it will not be necessary for you to give up your business interests or investments . . . Have telegraphed to Watts and Martin." The wording of McAdoo's telegram suggests that he expected Wells to be an impressive figurehead, with the management of the bank, in its daily routine if not in all matters, in the hands of others. Either its subordinate officers or the federal reserve agent would run the bank.⁵⁸

⁵⁶ The *St. Louis Republic*, *The Book of St. Louisans*, Second Edition (St. Louis, 1912),397

⁵⁷ Wells, *Episodes of My Life*, 383-384.

⁵⁸ *Ibid.*, 384. The Federal Reserve Act defined the federal reserve agent as the representative in each district of the Federal Reserve Board, responsible for reporting to the Board, handling Federal Reserve note issues for the district, and serving as chairman of the reserve bank's executive board. The act did not mention governors. But Chairman McAdoo and the Board, believing that the spirit of the Federal Reserve Act called for an independent operating head, created the office of governor. The superior dignity of the latter title and the accompanying larger salary in most districts created ambiguity and caused conflict between the two offices. The governors eventually emerged as dominant. See Willis, *The Federal Reserve System*, 688-692,

The board of directors held its first regular meeting on October 28, 1914, in the boardroom of the Mississippi Valley Trust Company in St. Louis. After adopting a set of bylaws, the board elected Rolla Wells governor, WW. Hoxton deputy governor and secretary, and C.E. French cashier. Gold arriving from member banks to pay for their reserve bank stock was stored in a vault at that location until the reserve bank's temporary quarters were ready. The St. Louis Federal Reserve Bank opened for business on November 16, 1914, on the fourth floor of the Boatmen's Bank on the northeast corner of Olive Street and Broadway, with six officers and 17 other employees.⁵⁹

Ignoring the Organizing Committee's suggestion that district boards' executive committees should consist of three elected board members, the Eighth district board chose a five-man executive committee made up of the governor, the federal reserve agent, and three board members elected from Classes A and B. Walker Hill, Murray Carleton, and Frank O. Watts joined Wells and Martin on the committee. All of the members were from St. Louis, presumably because they would be readily available. In most of the other districts, the Federal Reserve Agent was not on the executive committee. By including Martin, the St. Louis board added to his status and power. Since Rolla Wells had accepted the governorship with the understanding that it would not seriously disrupt his other activities, the way was open for Martin to assume the primary managerial responsibilities, which he did with Well's approval.⁶⁰

After stating publicly that it would have to pay good salaries to attract able men, the Federal Reserve Board set the agents' salaries at less than the going rate for top-level bank officials. Only one of the district agents was paid more than the \$12,000 annual stipend for Board members. In New York the agent was paid \$ 16,000; in Dallas and Atlanta, \$6,000; in the other districts from \$7,500 to \$12,000. Martin's was near the average at \$10,000. Governors' salaries were determined by the district boards with the approval of the Federal Reserve Board, and most of the governors were paid much more than their agents, supporting the view that theirs was the most important office. Their salaries ranged from \$30,000 for Benjamin Strong in New York to \$7,500 for the Kansas City governor. While the agents' salaries reflected local conditions and the relative importance of their districts, it is hard to explain why Kansas City valued its governor so little except that his stipend matched that of its Federal Reserve Agent. Rolla Wells' salary, at \$20,000, was among the four highest paid to

for an extended discussion of this problem. In St. Louis, Martin was the operating head from the beginning. When he was named governor of the St. Louis Federal Reserve Bank in 1929, after 15 years as federal reserve agent, neither his office nor his duties were changed, as his son Malcolm Martin recalled in July 1988.

⁵⁹ Annual Report of she Federal Reserve Bank of St. Louis, 1915, 6-7.

⁶⁰ *Ibid.*, 7.

governors. St. Louis was a larger banking center, despite the relative weakness of the Eighth District, than most of the other Federal Reserve cities, but the major reason for Wells' high salary was probably his standing as one of the most powerful men in St. Louis. He was an important national political figure as well, with intimate ties to the Wilson administration.⁶¹

Eight days after it opened, the St. Louis bank offered to collect for member banks checks and drafts drawn on any Federal Reserve bank or any member bank in the Eighth District. To take care of its clearing responsibilities, the bank's staff was expanded from six officers and 17 other employees to six officers and 40 other employees. This proved to be more than was necessary, and a few weeks later the staff was reduced to five officers and 34 employees. The board met on the first and third Wednesday of each month, and during the first year the average attendance was seven of the nine directors. In his First Annual Report, Chairman-agent Martin noted that it had been rumored that directors were paid \$5,000 a year. This was not true; the directors were paid their travel expenses and the "usual fee" for attending meetings. This small amount was not at all adequate. One of the directors, Leroy Percy, spent a night and a day traveling from his home to St. Louis.⁶²

In December 1914, the board gave the executive committee power to fix and change the rediscount rate for the district, subject to the approval of the Federal Reserve Board. The executive committee met at 10:30 A.M. on Monday and Thursday of each week and at other times when necessary. By December 31, 1915, the committee had met 150 times. From the beginning, the board regarded adjustment of the rediscount rate as the most important of its functions. The rate was set at 6 percent when the bank opened for all maturities. In January, 1915 money became more plentiful, and the committee decided to lower the rate for shorter maturities, to 4.5 percent for 30-day paper, 5 percent for 60 days, and 5.5 percent for 90 days. Agricultural loans running from 90 days to 6 months remained at 6 percent. During the first year, demand was disappointingly low, and on several occasions rates were dropped to attract more business.⁶³

Partly because of pressure from the Federal Reserve Board, Martin and the directors tried to encourage the use of trade acceptances by lowering their rate to 3.5 percent, but there was very little response to this and other preferential rates. From the opening in November 1914 to December 31, 1915, the St. Louis Federal Reserve Bank accepted 3,828 notes for rediscount, totalling \$8.2 million. One hundred thirty-one banks were accommodated, just over a fourth of the

⁶¹ Wells was treasurer of the Democratic National Committee in 1912. The initial salaries for governors and agents are listed in Willis, *The Federal Reserve System*, 691-692.

⁶² *Annual Report of the Federal Reserve Bank of St. Louis*, 1915, 7-8.

⁶³ *Ibid.*, 8-9.

district's member banks. Smaller banks in Missouri, Tennessee, Arkansas and Illinois made the heaviest use of their rediscounting privilege. Large banks in St. Louis and Louisville seldom did so. A year after it opened, the reserve bank held 25 percent of the Eighth District's total loans, including 48 percent of the loans in its part of Tennessee and 30 percent of the Illinois paper. The Indiana and Kentucky banks had made the least use of their Federal Reserve Bank, but Missouri was disappointing as well. Eighth District member banks had placed one-third of their loans outside of their district, in most cases at rates that were as high or higher than the rates offered at their reserve bank.⁶⁴

The greatest problem faced by the St. Louis Federal Reserve Bank, during its first year of operation, according to Chairman Martin, was to get member banks to understand the facilities available and the ease with which they could be used. Banks often thought they had no paper eligible for rediscount, "when in fact the greater part of their paper was eligible." Many bankers thought there was a lot of red tape, that it was difficult to do business with the reserve bank. This impression arose largely from the fact that the reserve bank would not accept paper for rediscount that was unaccompanied by a statement, either from the maker of a note or the banker offering it, revealing the customer's assets and obligations. Despite the issuance of a circular letter to all member banks covering eligible paper and giving specific examples of the types of paper that were eligible for discount, 22 addresses on the topic throughout the district by the Chairman, and many visits to individual banks by the deputy agent, after a year a substantial minority of the banks were still "uninformed." Apparently some did not read their mail and others did not understand it.⁶⁵

In December 1915, the St. Louis Federal Reserve Bank moved into new quarters in the New Bank of Commerce building, on the northeast corner of Broadway and Pine Streets, one block south of its former location. The building was renamed the Federal Reserve Bank Building, and it furnished a "light, commodious, and convenient" banking area on the second floor, with plenty of vault space.⁶⁶

During its first year of operation, chiefly because rediscounting volume had not met expectations, the St. Louis Federal Reserve Bank had operated at a loss, though it did show a month-to-month profit beginning in the fall of 1915. Far more important, according to Chairman Martin "a much higher service to the district than the making of money has been rendered. It has stabilized conditions and made it possible for any customer in the district to get money at a reasonable

⁶⁴ *Ibid.* , 9-12 .

⁶⁵ *Ibid.*, 18-19.

⁶⁶ *Ibid.*, 19.

rate." It had also operated a clearing system that had eliminated exchange charges on a majority of the checks drawn on member banks in the district.⁶⁷

No doubt Martin, Rolla Wells and the board of directors of the St. Louis Federal Reserve Bank were consoled by remarks made by Paul Warburg at a conference of reserve bank governors on October 22, 1915.

Earning Capacity must never be the test of the efficiency of Federal Reserve banks . . . I should have felt heartily ashamed had all our banks, considering the circumstances . . . earned their dividends in the past year . . . [it] would have been proof that they had completely misunderstood their proper function and obligations.⁶⁸

Despite these comforting words, Chairman Martin installed a Spartan discipline at the bank in 1916. Rediscounting volume actually decreased, but economies and large and profitable purchases of bankers' acceptances in New York and Boston resulted in a profit of \$145,000 on total earnings of \$286,000. The bank declared a 6 percent dividend on its capital stock, covering the period from the opening of the bank to March 15, 1915.⁶⁹ Relationships between the district bank and its constituency were still in a tentative, formative stage, but by the most conservative standard, the St. Louis Federal Reserve Bank was on a sound footing. St. Louis bankers had played a prominent role in the banking reform movement, and they could congratulate themselves that their city and its area were assured of a significant role in the future of the Federal Reserve System.

⁶⁷ *Ibid.*

⁶⁸ Bothwell, "Federal Reserve Bank," 87-88.

⁶⁹ *Annual Report of the Federal Reserve Bank of St. Louis*, 1916, 5-6.



Rolla Wells entertained McAdoo, Houston and 25 other guests at his home on Lindell Boulevard on their first evening in St. Louis



The Bank's greatest problem during its first year of operation, according to its first chairman of the board, William McChesney Martin, was to get member banks to understand the facilities available and the ways with which they could be used.



At the personal invitation of Secretary McAdoo, Rolla Wells became the Bank's first governor (president).



First Board of Governors of the Federal Reserve System. Seated: Charles S. Hamlin, William G. McAdoo, Frederic A. Delano. Standing: Paul M. Warburg, George Skelton Williams, W.P.G. Harding, Adolph C. Miller.



Looking north on Broadway, where the Federal Reserve would rent its first quarters. View from Market Street.



In 1914, St. Louis was the nation's fourth-largest city, a major railroad hub, the world's largest fur market, a major livestock market, a brewing center and a leading distributor of dry goods. View looking west on Washington Ave. at Broadway.



Though there is no evidence that Secretary Houston's St. Louis connections affected the Committee's deliberations, they did create a favorable climate for St. Louis.



Secretary of the Treasury William G. McAdoo and Secretary of Agriculture David Houston, a former chancellor of Washington University, conducted the hearings in St. Louis to determine its feasibility as a regional Reserve Bank location.



Through Woodrow Wilson's position on banking reform during his campaign for the presidency was virtually unknown, he would later become its champion and describe the Federal Reserve Act as his greatest domestic achievement.



The news looked very good for St. Louis following the hearings.



An early example of currency issued by the Federal Reserve Bank of St. Louis.



In its first year of operation, the Bank operated at a loss, but had "stabilized conditions and made it possible for any customer in the district to get money at a reasonable rate."



Editorial cartoons, particularly in Missouri, pointed out the state's unusual catch: two Federal Reserve Bank headquarters in the same state.



William Jennings Bryan's political support was critical at various stages of the Federal Reserve Act's progress.



David R. Francis' St. Louis Republic, "Americas Foremost Democratic Newspaper" led the celebration following the announcement that St. Louis would get a Reserve Bank headquarters.