De-Central Bank:
The Politics of Selecting the Federal Reserve Banks in 1914

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Abstract

Significant changes in demographics, technology, and the economy have not altered the original 1913 regional structure of the Federal Reserve. In this paper, we explore the origins of the Federal Reserve’s regional bank system, focusing on the dynamics that led to the selection of cities that would host the banks. In contrast to accounts that focus primarily on economic forces, we show that Democrats designed the decentralized reserve system with the aim to secure partisan advantage and to co-opt Republican opponents of the new monetary authority. Such efforts ultimately helped to build bipartisan support for a monetary system designed primarily by Democrats. We conclude by considering the political consequences of a decentralized Federal Reserve and explore the implications of our findings for the evolution of the Federal Reserve System.
Despite periodic efforts to reform the powers and governance of the nation’s central bank, one aspect of the Federal Reserve System—its hybrid structure that includes both a Washington board and a set of twelve district Federal Reserve banks—has largely escaped reform. The organizational structure of the Fed has proven remarkably sticky. Even with significant changes in the economy, demographics, and technology, the twelve Federal Reserve banks remain moored in the cities selected just after the creation of the Federal Reserve in 1913.

Reserve bank stability raises theoretical and empirical questions about the political forces that gave rise to the structure of the Federal Reserve. How were the locations of the reserve banks selected and with what consequence? Why has the structure of the system proven impervious to change? In this paper, we focus on the designation of the reserve bank cities. In contrast to accounts that highlight purely economic or electoral incentives, we offer an alternative view. Democrats, we argue, acted with twin motivations: To secure partisan advantage after enactment of the Federal Reserve Act and to co-opt opponents of the new monetary authority—opponents whose support was considered essential to the future success of the system. We test our account with archival materials from the committee empowered by Congress to design the regional bank system, and show the limits of existing explanations. We conclude by considering the implications of our findings for the evolution of the Fed.

**Why Study the Federal Reserve Banks?**

The Federal Reserve Act of 1913 created a hybrid institution. One part consisted of the Federal Reserve Board in Washington, D.C., whose five members (plus the Secretary of Treasury and the Comptroller of the Currency) would be selected by the president and confirmed by the Senate for ten-year terms. The second part consisted of a set of regional reserve banks, in which national banks were required to purchase stock. Bankers were guaranteed influence over management of the reserve banks by the opportunity to select two-thirds of their reserve bank’s directors (with the Federal Reserve Board choosing the remaining third). As we explore below, legislators disagreed intensely about the size and scope of the reserve bank system. Ultimately, to
finalize the Federal Reserve Act, Congress created a “Reserve Bank Organization Committee” (RBOC), a panel consisting of the Comptroller of the Currency and the Secretaries of Treasury and Agriculture. The RBOC was charged with designing the Federal Reserve’s regional structure: Selecting the number of reserve districts, drawing district boundaries, and locating the reserve banks within them.\(^1\) The powers and structure of the Federal Reserve Board were revised in the Banking Act of 1935 (creating today’s more familiar Board of Governors), but the RBOC’s 1914 regional design remains unchanged.

Why should we care about the politics that led to the selection of the regional banks? The regional banks today play a collateral role in the making of monetary policy. In addition to the DC-based Governors, only the president of the Federal Reserve Bank of New York has a permanent seat on the Federal Open Market Committee (FOMC); the remaining eleven Federal Reserve bank presidents rotate across four voting seats. Moreover, the regional bank presidents can be outvoted when six or seven governors sit on the Board of Governors. The district banks have supervisory powers over national banks in their districts, but most of the nation’s largest financial institutions are in the Second District under the purview of the Federal Reserve Bank of New York.

Still, there are good reasons to probe the origins of the reserve system. First, we lack a good theoretical basis to account for the design of the system. Scholarship on the creation of monetary institutions tends to focus on the origins of independence. Lawmakers often try to insulate central banks from political authority to signal credible commitment to controlling inflation (e.g. Maxfield 1997) or to please dominant financial interests (e.g. Broz 1997). Alternatively, independence may be the unintended consequence of political compromise: Independence emerges when competing interests seek to prevent their adversaries from gaining control of monetary policy (Jeong, Miller and Sobel 2009). Still, theories that posit the creation

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\(^1\)Designating additional branch locations within the new districts was left to the initiative of the reserve banks (subject to approval by the Federal Reserve Board) after 1914.
or emergence of central bank independence provide little leverage for explaining the design of the Federal Reserve. Many of the founders of the Fed preferred political control to independence, and many preferred a decentralized system rather than a “central” bank-- which helps to explain the system’s decentralized, federal structure, the limited power originally granted to the Board in Washington, and its inclusion of the Treasury Secretary and Comptroller. Explaining the creation of the reserve system and the selection of the district banks requires a different approach to thinking about the origins of monetary institutions.

Second, as we explore below, a decentralized system of reserve banks was the price of enactment. Disagreements about the degrees of centralization and political control meant that the 63rd Congress (1913-1915) would have struggled to create the Federal Reserve without a system of regional banks. Democrats and Populists rejected a single central bank controlled by Wall Street. Republicans rejected a central bank controlled by Washington. And Progressives rejected a bank controlled by bankers. A full accounting of the origins of the Fed requires that we understand partisan and ideological conflict over the design of the broader reserve system.

To be sure, the reserve banks have a limited role in setting monetary policy today. That was not the case in the early years of the Federal Reserve, when the Federal Reserve Board struggled to coordinate monetary policy across the twelve reserve banks (Meltzer 2003, 146-7). The district banks, Wheelock argues (1998, 5), “held the balance of power.” The reserve banks were central to the extension of credit from their creation in 1914 into the Great Depression. As Barber (1985, 23) observes, the regional banks in this period had “wide latitude to carry on their business as they saw fit, with little regard for whether or not their actions were consistent with recommendations from the center.” Unlike today’s discount rate – a uniform national rate set by the Board of Governors-- the pre-Depression era Federal Reserve district banks could and did affect the lending activities of their member banks and thus their regional economies by varying
the required reserve ratios and their locally-set discount rates, even conducting their own open market operations.\(^2\)

Consider, for example, the evidence offered by Richardson and Troost (2009), who observe that Mississippi was divided into two different reserve bank districts, one serviced by the Federal Reserve Bank of Atlanta and the other by the Federal Reserve Bank of St. Louis. This regulatory quirk allows the authors to test for the impact of the contrasting monetary policies pursued by the Atlanta and St. Louis district banks on the fate of Mississippi banks in 1930. Mississippi banks in the Atlanta district (whose bank offered a lower discount rate and emergency lending) failed at a much lower rate than similar banks in the St. Louis district (whose bank followed the real bills doctrine and tightened access to credit during recessionary times). Given the semi-autonomous nature of the district banks and the economic impact of their policies, the selection of the reserve cities (and the drawing of the district boundaries) mattered.\(^3\)

Third, policy makers periodically question the fit of the reserve system to today’s financial system. The Federal Reserve, after all, was a solution to the Panic of 1907. Yet the regional banks have not been moved after a century of transformation in the economy, demographics, and technology. Nor is it clear that there ever was a rational basis to the design of the reserve system. In the aftermath of the Panic of 1907, one might expect the reserve banks to have been placed in only the most financially active cities. But in several cases, the RBOC

\(^2\) The power held by the regional banks stemmed both from the banks’ willingness to initiate their own monetary policies, as well as from disagreements among members of the Federal Reserve Board about whether the Board had the legal authority to initiate its own open market operations or changes in the regional discount rates (Wheelock 1991, 68-70). Still, reserve bank independence was limited at times by the Board’s refusal to approve rate increases. Wheelock (1991, 43, n28) notes that the Board rejected several attempts by the Federal Reserve Bank of New York to change its discount rate between 1928 and 1932.

\(^3\) Disparities across the districts took root quickly. The rate for discounting of 30-day paper in December 1914 was 4.5 percent in four districts and 5 percent in the other districts (Reed 1922, 252).
passed over some cities with substantial national bank activity (such as Baltimore) while rewarding other cities with only limited banking activity (such as Richmond).

Finally, some puzzling elements of the Federal Reserve System merit attention. At least three western and Great Plains cities—Denver, Omaha and Lincoln—made claims to house a regional reserve bank. But the only reserve banks created west of Kansas City were placed in Dallas and San Francisco, with no regional banks designated for the Great Plains or Mountain West. Perhaps most curious, the RBOC rewarded Missouri with two reserve banks, one in Kansas City and one in St. Louis. In short, deciphering the choices of the RBOC offers an array of theoretical and empirical dividends.

The Mandate of the RBOC

We start by mapping the disagreements that led Congress to create the RBOC. Two key disputes emerged as the House and Senate worked on currency bills in 1913 (Jeong, Miller and Sobel 2009). First, how should Congress balance the demands by Eastern, primarily Republican, bankers for centralized authority against the demands by Populists and Democratic farmers for decentralized control of the flow of credit? And second, how should Republican demands for private control of a central bank be balanced against Democratic, Progressive, and Populist demands for significant public control? These two dimensions—the degree of centralization and public control—gave shape to competing proposals in the wake of the Panic of 1907. Republicans wanted a single, central bank controlled by bankers, while most Democrats and Progressives envisioned a set of regional banks under government control. By all accounts, President Woodrow Wilson played a critical role in devising a compromise around which a winning coalition would eventually agree (see in particular Sanders 1999 and Jeong, Miller, and Sobel 2009).

Disputes over the regional reserve banks

Disagreements about the extent of centralization and the balance of public and private control played out in debates over the number of regional reserve banks to be created and over
how they would be selected. At one extreme, rural Populists, farmers, and small city bankers (largely Democrats) lobbied for a system of forty-eight regional banks—one per state (Timberlake 1978). Such a system would maximize local control over the seasonal flow of credit and, when coupled with a president-appointed board in Washington, would check Wall Street’s influence during financial crises. The bill originally proposed by the chair of the House Banking and Currency Committee, Carter Glass (D-Virginia), came closest to advancing populist interests by mandating twenty local reserve banks. Under pressure from Wilson, the version of the bill passed by the House reduced the number of reserve banks to a minimum of twelve and a maximum of twenty (Jeong, Miller and Sobel 2009). Out of concern that a Federal Reserve Board in Washington could be dominated by banking interests, the House bill delegated the choice of reserve cities to an organizing committee that would be composed of top Wilson political appointees.

In contrast, large city bankers—typically Republicans from the Northeast—preferred a single, central bank dominated by bankers (Jeong, Miller, and Sobel 2009). Reading the political winds, with Democrats in control of both the White House and Congress and Progressives favoring public control, prominent New York bankers acquiesced to three or four regional reserve banks.4 As Benjamin Strong (who would become the first president of the Federal Reserve Bank of New York) argued, a system with any more reserve banks would be a “many-headed hydra”—an uncontrollable set of competing banks that would undermine central control of the system (Strong 1913, 8). “I oppose,” Strong declared, “the establishment of this creature of myth, and would let its bones rest in peace in the coming centuries as another fairy story with its lessons for generations” (Strong 1913, 8).

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4 On disagreements within the New York banking community over the scope of the currency bill, see Whitehouse (1989).
Under heavy lobbying from the banking community, the Senate Banking Committee approved two competing versions of the currency bill.\(^5\) Gilbert Hitchcock (D-Nebraska)—attracting the support of Republicans on the Senate banking panel—proposed four regional banks, with the Federal Reserve Board appointing a majority of each bank’s directors; Robert Owen (D-Oklahoma), chair of the Senate Banking panel, proposed a minimum of eight and a maximum of twelve regional banks, each of which would be owned by the subscribing banks. Both Senate versions dropped the House concept of an organizing committee, instead entrusting the selection of the reserve bank cities to the Federal Reserve Board (which bankers expected to dominate). Ultimately, Owen’s version prevailed in the full Senate, albeit only after the Senate Democratic Conference voted to bind its members to the proposal.\(^6\)

We offer two observations about the final compromise that emerged from conference negotiations over the weekend before Christmas in 1913. First, despite the disagreements reflected in the House and Senate’s competing models of the reserve system, final decisions largely amounted to horse-trading—perhaps inevitable given the approaching holiday. Negotiators split the difference: They adopted the Senate provision on the number of banks (at least eight, no more than twelve), and they adopted the House provision that created the RBOC to design the districts, rather than entrusting the job to the soon-to-be-established Federal Reserve Board. As the *New York Times* had observed a month earlier, debates over the number of regional banks now “strongly resembled debates on public building bills, and the financial importance of a community figured but little in the arguments.”\(^7\)

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\(^5\) On the procedural machinations that brought two competing versions of the bill (plus the House-passed version) to the floor, see “Senate to Tackle Three Money Bills,” *New York Times*, Nov. 21, 1913, p. 13.

\(^6\) The “binding” nature of the Caucus action is questionable: Two Democrats defected, preferring Hitchcock’s alternative. See “Senators Waver on Currency Bill,” *New York Times*, Nov. 28, 1913, p. 16.

\(^7\) See “More Regional Banks,” *New York Times*, November 29, 1913, p. 3.
Second, the final votes in both chambers had a partisan cast. Nearly every House Democrat and every Senate Democrat voted in favor; a majority of House Republicans and ninety percent of Senate Republicans were opposed. This is not a surprising outcome, given Republican senators’ vociferous objections after the Democratic Conference had moved to bind its members on the currency bill. “A tightening of party lines,” one reporter observed, “would drive them [the Republicans] into concerted opposition to the bill.” Still, Republicans did not uniformly reject the compromise, as more moderate members of the party’s House ranks voted in favor. Just over half of the GOP who hailed from states won by Teddy Roosevelt in 1912 voted in favor of the final House compromise, as did thirteen of the fifteen self-avowed House Progressives.

Even with the support of Progressives, there was a heavy Democratic tilt to the final chamber coalitions. That partisan edge belies the received wisdom that the Federal Reserve System was a political compromise in which no coalition got everything it wanted, but was ultimately acceptable to all parties. If that was so, the bill should have attracted far more support from Republicans, particularly those in the Senate. In fact, Republican opposition to the final bill extended even to the partisan makeup of the RBOC. The flavor of such critiques was summed up by Senator John Weeks (R-Massachusetts) after Wilson had signed the bill into law: “These men would have the right to designate regional districts to suit themselves and to leave on the new system a deep partisan mark.” Weeks’s prediction was not far off.

Preparations of the RBOC

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9 We consider the eighteen legislators (including eight Republicans) who voted for Victor Murdock (Progressive-Kansas) for Speaker in 1913 as Progressives (of whom fifteen cast a vote on the final conference report establishing the Fed).

If the RBOC—composed of Treasury Secretary William McAdoo, Agriculture Secretary David Houston, and the yet-to-be-confirmed Comptroller of the Currency John Williams—already knew where they would place the reserve banks, they did not let on. Instead, funded by a $100,000 congressional appropriation, the RBOC took two preparatory steps in the winter of 1914. First, the RBOC conducted a poll of the more than seven thousand national banks that were committed to joining the Federal Reserve System. The balloting sought to determine where the bankers preferred to have their reserve bank located (as excerpted in Figure 1).

Second, McAdoo and Houston embarked on a 10,000 mile “listening tour” of eighteen cities, allowing communities eager to secure a bank the opportunity to make their case to the committee. Houston claimed in his memoirs that the poll results “aided us immensely, helping to confirm opinions which we had developed during our trip” (Houston 1926, 108). The tour might also have been intended to generate political cover for the RBOC’s decisions.

[Figure 1 about here.]

The documents cataloged by the committee were diverse, ranging from letters by Chicago bankers to a statement on the mail facilities of El Paso, Texas (RBOC 1914a). The entreaties from cities were also wide ranging. Most cities marshaled evidence to show their city’s centrality to commerce in the region, including maps showing rail travel times between the city and surrounding locales (see, for example, Kansas City’s map in Figure 2). Cities also explicitly compared themselves to their competitors. Summing up the city’s claim, for example, one prominent Kansas City banker argued that “Kansas City, ranking sixth in bank clearings, seventh in postal receipts, second as a live stock market and tenth in manufacturing, proves her supremacy in this great Southwestern territory (RBOC 1914a, 1908-9).” Chattanooga, with just

11 The Federal Reserve Act stipulated that all national banks were required to accept in writing (within sixty days of enactment) the provisions of the new law. The RBOC was charged with writing regulations to implement that section of the law, including the processes for purchasing stock in the reserve banks and electing their boards of directors. See RBOC (1913-4).
three national banks compared to Kansas City’s twelve (or New York’s 35), was promoted for its “40 miles of paved streets, 80 miles of sewers, a most efficient and well-equipped police and fire department, a low rate of insurance, 64 miles of street railway, an excellent school system, a very complete public library, and a very fine system of public parks and recreation center….all the safeguards, comforts, and conveniences which would have to be considered in locating a reserve bank (RBOC 1914b, 35).”

[Figure 2 about here.]

Thirty-seven cities submitted formal applications with the RBOC to be considered for a reserve bank. Each of the cities provided (or the committee procured from the Comptroller of the Currency) data on national banking activity in their city (including the volume of capital, loans, discounts, deposits, bonds and reserves). The challenge for the RBOC was to determine the number of reserve districts and where the district reserve banks would be located, beyond the country’s most obvious financial centers. Those existing centers—New York, Chicago and St. Louis—had long been designated as “central reserve cities” under 19th century banking acts. As staff for the RBOC noted early in the process, placing Federal district banks in those cities “must be regarded as practically predetermined” (Preliminary Organization Committee 1914, 13). The RBOC ultimately reported its criteria: It claimed to have focused on each city’s financial activity, national bank strength, transportation networks and business activities. However, as the

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12 A series of reserve banks had been designated in a 19th century national banking system, with a pyramid of small national banks, larger banks in several dozen “reserve cities,” and the largest banks in the initial three “central reserve” cities. With fluctuating demand, but a relatively fixed currency supply, the national banking system proved unable to stem the periodic financial panics before creation of the Federal Reserve system.

13 The order in which the reserve system was designed—districts first and cities second, or vice versa—has never been clearly established. H. Parker Willis, the staff director for the RBOC (who had assisted Representative Carter Glass (D-Virginia) on the House Banking and Currency Committee in 1913 and who would then become the first secretary of the Federal Reserve), maintained that the cities were chosen before the corresponding reserve districts were drawn. The RBOC’s public statements, Willis noted, often suggested the opposite: Districts were drawn first, and then headquarter cities within them were selected (Willis 1923, 587).
committee’s staff director, H. Parker Willis, advised years later, the reader was left to “draw his own conclusions concerning the degree to which the principles…had been put into application in any given place” (Willis 1923, 586-7). Willis’s skepticism leads us to test competing accounts of how the reserve banks were allocated.

**Selecting the Cities: Competing Explanations**

The Federal Reserve Act gave the RBOC only limited statutory guidance, specifying that the “districts shall be apportioned with due regard to the convenience and customary course of business” (Federal Reserve Act, Section 2). Such language in effect gave the RBOC complete discretion over the choice of reserve bank cities. To be sure, the RBOC emphasized the apolitical nature of its task. As McAdoo argued—in these or similar words— at the outset of every stop on the RBOC cross-country tour:

> This is an economic and not a political problem, and what the committee is after is facts. We have been obliged, just to say, everywhere we have gone that it is not oratory we want but facts, those facts that will enable us to determine as intelligently as possible the customary courses of business and what will best conserve the convenience of business throughout the country in the organization of this system (RBOC 1914a, Proceedings at Kansas City, p. 1).

Indeed, two studies by economists have found that the RBOC’s choices were largely shaped by the strength of banking and commerce in the applicant cities (see Hammes 2001 and McAvoy 2005). Neither study finds much evidence that the RBOC acted on partisan grounds to reward Democratic allies (although McAvoy never directly tests financial and partisan accounts against each another).

Still, even if the RBOC had wanted to choose reserve banks cities solely on the basis of financial networks, the committee would have been constrained by the concentration of the banking industry in the Northeast. If the committee had followed the advice of New York’s banking elite and had drawn a New York district that encompassed all of the areas that looked to New York for currency and credit, Parker Willis calculated that such a district would have absorbed nearly half of the national bank capital available for the entire reserve system—
undercutting the financial stability of other reserve banks.\textsuperscript{14} In other words, bound by law to create between eight and twelve reserve banks, it would have been impossible for the committee to be exclusively guided by the “customary course of business.”\textsuperscript{15}

We suspect that the RBOC pursued two political strategies in deciding where to place the reserve banks. First, given the perception of the Federal Reserve as the brainchild of a Democratic president and Congress, the Democratic RBOC had a strong incentive to dole out reserve banks with an eye to currying the support of Republicans and bankers—a large proportion of whom had opposed creation of a decentralized and publicly controlled Fed.\textsuperscript{16} Second, we suspect that the RBOC also had an incentive to reward the administration’s strongest supporters—be they loyal southern Democrats or Progressive Republicans who had crossed party lines to support Wilson’s bill. We elaborate and test these and alternative explanations below.

\textbf{Co-opting opponents of the Fed}

Given the partisan cast of the institution’s creation, Democrats had a political incentive to build bipartisan support for the Federal Reserve. Both the short and long-term viability of the new reserve system depended on securing the support and participation of large city bankers and their Republican allies, convincing them that the Federal Reserve System would work to improve the economy and to stem banking panics. Most important was ensuring the support of Republican bankers for the regional bank system that they largely opposed, not least on account of the number of battles they had lost in the fight to create the Fed. If Democrats failed to increase Republican support for the new reserve system, Democrats reasonably could have worried that Republicans would seek to dismantle the system once they won back the White


\textsuperscript{15}Ironically, as the New York banker Paul Warburg (appointed by Wilson in 1914 to the first Federal Reserve Board) observed, the greater the number of reserve banks (meaning the smaller their district size, save New York’s), the greater the power of the New York bank (Warburg 1930, 122).

\textsuperscript{16}To be sure, not all bankers were Republicans, particularly in the south where bankers would have been Democrats.
Knowing that Republicans preferred a central bank with just three or four reserve banks (if any at all), the hybrid character of the reserve system would have been at risk. In fact, a coalition on the Federal Reserve Board attempted to close down nearly half of the reserve banks in November 1915, including the Federal Reserve Banks of Kansas City, Minneapolis, Atlanta, Dallas, Richmond, and Boston.18

Bipartisan support for the Federal Reserve also promised to insulate both political parties from responsibility for managing the money supply. Legislators would be able to use the Federal Reserve as a convenient scapegoat in poor economic times only if both parties were complicit in sustaining the Fed. Interestingly, Lynch (2002) reports that national economic conditions better explain midterm congressional election outcomes before 1913 than afterwards. Creating the Fed may have reduced voters’ inclination to blame Congress for the state of the economy—perhaps aided by legislators who were eager to heap bipartisan blame on the Fed when the economy soured.

The most direct strategy to secure Republican support after enactment of the Federal Reserve Act would have been to locate the reserve banks in cities most likely to sustain existing banking and commerce patterns and in any additional cities preferred by bankers. With its banker survey in hand, the RBOC knew precisely where the bankers wanted the new district banks. The poll results revealed bankers’ first, second, and third choice locations for the reserve banks, in their own regions and nationwide. If Democrats exploited their control of the RBOC to entice

17 Many also worried that national banks might convert to state charters to avoid mandatory subscription in the stock of the new district reserve banks. As reported by the New York Times during Senate debate over the Federal Reserve bill, a poll tallied 640 national banks whose directors responded that they would convert to a state charter and 428 banks that vowed to keep their national chapters were the bill to become law. See “Brighter Outlook for Currency Bill,” New York Times, November 14, 1913, p. 6.

18 The effort was quashed when Wilson intervened, threatening to disband the Board if the coalition (led by Paul Warburg) persisted. Carter Glass (1927, 255-72) recounts the episode.
Republican support for the reserve system, the likelihood that a city would receive a bank should run in tandem with its popularity among bankers.\textsuperscript{19}

Not surprisingly, the most popular cities with the bankers also tended to be the most financially active cities, as shown in Figure 3 (which plots the number of first place votes each city received in the banker poll against the total banking capital of each city).\textsuperscript{20} Regardless of whether the RBOC sought to place banks in existing financial centers or to accommodate bankers’ preferences, either approach would have produced a roughly similar list of reserve bank locations. And either approach could have helped to institutionalize support for the new regional reserve system amongst Republicans and banking interests. Thus, in the models we estimate below, we expect that more popular and financially active cities should have the greatest likelihood of receiving a district reserve bank.

[Figure 3 about here.]

\textbf{Rewarding supporters}

Keeping in mind that two of the three RBOC members were Wilson’s political intimates (including his son-in-law William McAdoo), the RBOC might have allowed Wilson’s electoral interests to shape its drawing of the reserve bank map. As Knight (1992) argues, institutions provide opportunities for distributive politics, as winners seek to bend institutions to their advantage. Counter to treatments of the Fed as a politically neutral bargain that was signed and sealed in 1913 (Jeong, Miller, and Sobel 2009), we suspect Democrats gained a post-passage, partisan advantage by empowering the RBOC to design the reserve system. That control might

\textsuperscript{19} MacAvoy (2001) provides evidence that bankers’ preferences helped to predict the likelihood of selection, although he interprets the evidence to show that the RBOC acted in the public’s interest.

\textsuperscript{20} Data reported by the RBOC (1914b) capture the volume of financial activity by national banks in each city. We use the (logged) total amount of loans and discounts of all national banks in each city as of March 4, 1914 (see RBOC 1914b, 15). Bankers’ votes for the location of a reserve bank in their region are reported in RBOC 1914c. We recode Wheeling’s vote total as 1 (rather than 0) to facilitate the log transformation of the bankers’ votes. The two variables correlate at .83.
have been exercised to reward Wilson’s most loyal Democratic supporters or to curry the support of his new Progressive backers. We explore each of these in turn.

The RBOC could have easily doled out banks to cities in loyal Democratic areas. So long as the key financial centers—New York, Chicago, St. Louis, and perhaps a western city—were allocated banks, the RBOC might have viewed the remaining regional banks as political patronage. Moreover, placing new reserve banks in Democratic states would have helped to ensure the spread of easy credit to agricultural areas in the South and West, whose borrowers would have preferred easier monetary policy than the reserve banks in the north east were likely to adopt. 21 Certainly the evidence offered by Troost and Richardson (2009) is suggestive of the differences that reserve bank location made before the Depression and before stricter coordination of the policies of the twelve Federal Reserve banks. Whether for patronage or policy reasons, we would expect that the stronger the Democratic party in the applicant state, the more likely the city would have been to receive a bank—even controlling for each city’s attractiveness to banking interests and Republican communities.

Alternatively, the pursuit of Wilson’s electoral interests might have led the RBOC to draw the reserve bank map with an eye toward rewarding Wilson’s Progressive allies in Congress. As James (2000) shows, much of Wilson’s policy agenda in his first term was shaped with the aim of drawing Progressive Republican voters into the Democratic fold in 1916. Given that Wilson could not count on another three-way race with two Republicans splintering the opposition vote, Wilson had a strong incentive to find ways to attract and retain the support of Republican dissenters in the West and Midwest (but see Ware 2006, 131-2, who argues that Wilson reached out to conservative Democrats rather than Progressive GOP). If so, we would expect that applicant cities from Progressive-leaning states (particularly if their Republican

21 On the autonomy of the district reserve banks, see Wheelock (1991, 72-4 and 113-7) and Meltzer 2003 (266 and 408). Bordo and Wheelock (2010), however, note the limited effectiveness of the banks’ discount windows before the Depression.
legislators voted in favor of the bill) would be more likely to secure a reserve bank—even controlling for the city’s financial activity.

Previous studies of the origins of the Federal Reserve have typically stopped at the moment of enactment—leading scholars to adopt a view of the bank as the outcome of bargaining akin to Moe’s (1989) persuasive argument about the formation of political institutions. But the post-passage politics of the Federal Reserve Act suggest a different framework for understanding the origins of the Fed: In crafting the final agreement, Democrats granted their party complete discretion over the design of the regional bank system. As such, we turn next to test these alternative accounts of how the RBOC used the powers delegated under the Act.

**Data and Methods**

We build our empirical analysis from the archival records of the RBOC. The documents include transcripts from the RBOC listening tour, applications submitted by the thirty-seven cities seeking a reserve bank, results of the committee’s banker survey, and materials released by the RBOC after it announced the locations of the Federal Reserve banks (see RBOC 1914b). We also rely on Willis’s account of the selection process, published a decade after the RBOC had completed its work. From these materials, we estimate models of the forces shaping the selection of the reserve cities.

**Dependent variables**

We use the list of 37 applicant cities to construct two dependent variables. The first variable codes whether or not each of the 37 cities was chosen to receive a bank. We use this dichotomous variable to estimate a logit model that predicts the likelihood that a city receives a bank. Given the small N, we construct a second dependent variable to be analyzed with OLS. For this variable, we exploit Willis’s (1923, 580) recounting of the three rounds in which the

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22 The Federal Reserve Act allowed for subsequent changes by the Federal Reserve Board to the boundaries of the reserve districts, but did not allow for the creation of new districts once twelve districts had been designated.
committee selected the cities. We code the three cities selected in the first round (Boston, New York, and Philadelphia) as “4,” indicating that they had the greatest certainty of being chosen. As Willis noted, these cities were “to be regarded as practically basic in any scheme of districting” (1923, 580). The three cities selected in the second round (Chicago, St. Louis, and San Francisco) are coded as “3”; Both Chicago and St. Louis had been designated central reserve cities under earlier banking acts, and San Francisco “as the metropolis of the Pacific Coast” (Willis 1923, 583) had long been considered the next likely central reserve city. Judging from Willis’s account (1923, 583-5), the RBOC selected the remaining six cities in a final, third round; we code each of these six cities as “2.” The cities that did not receive a bank are each coded “1.” Overall, the variable increases with a city’s relative certainty of securing a reserve bank.

**Independent variables**

*Financial activity.* Data reported by the RBOC (1914b) capture the volume of financial activity by national banks in each city. Specifically, we use the total amount of loans and discounts of all national banks in each city as of March 4, 1914 (see RBOC 1914b, 15). Given the distribution of the financial data, we estimate the models below logging the financial activity variable. Odell and Weiman (1998) advocate the volume of check clearings in each city as a metric of national bank activity. However, the volume of clearings correlates very highly with population, as well as with the total amount of loans and discounts.25

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23 New York, of course, was the center of American finance. Banks in Boston and Philadelphia were considered necessary to break up the concentration of capital that would otherwise have been included in the New York district—creating a district that would have dwarfed the combined capital of any set of potential reserve bank cities.

24 New York had been designated a central reserve city in the National Currency Act of 1863, and Chicago and St. Louis were added in 1887 (Keene and Smiley 1977). Note that each of the twelve selected cities had earlier been designated a reserve or central reserve city. Still, not every reserve city in the applicant pool received a bank. On the designation of reserve cities, see Office of the Comptroller of the Currency (1920).

25 We obtain volume of check clearings in each city in 1913 from *Dun’s Review* (1913). Willis (1923, 7), however, advises against such measures: “Clearings are never a very good index of business either as to volume, nature, or strain on the financial resources of the places where they are effected. There is little need, therefore, to examine figures of clearings in seeking to place the new reserve banks.”
Banker preferences. We tally bankers’ first choice votes for the location of a reserve bank in their region, as reported in RBOC 1914c, logging the data. We recode Wheeling’s vote total as 1 (rather than 0) to facilitate the log transformation.

Democratic strength. We tap Democratic electoral strength in each state with a variable measuring the percentage of the four-party vote (Democrat, Progressive, Republican, and Socialist) received by Wilson in the state in the 1912 presidential election (Woolley and Peters 2010).

South. We create a dummy variable to denote cities in the South, as an alternative measure of Democratic strength in the state.

Progressive strength. We tap the strength of the Progressive movement in each state in two ways. The first variable measures the percentage of the four-party vote received by Teddy Roosevelt in the state in the 1912 president election (Woolley and Peters 2010). The second variable taps the percentage of Republican members from the state’s congressional House delegation who voted for the conference report on the Federal Reserve Act.

Adjacent state applicants. Some regions of the country had more applicant cities than others. If the RBOC wanted to disburse banks across the country, applicant cities in adjacent states should have had a lower chance of securing a bank. We include a control variable that indicates the number of adjacent states in which a city applied for a bank. The variable ranges from 0 (for the cities of St. Paul and Minneapolis) to 6 (for the cities of Chattanooga, Memphis and Richmond).

Results and Discussion

The map devised by the RBOC appears as Figure 4. Several aspects of the map stand out. First, recall that the RBOC chose to create twelve banks, the maximum allowed under the Federal Reserve Act. Given Republican bankers’ preference for fewer banks, maximizing the number of reserve banks favored Democrats’ policy and electoral interests. Second, given the nature of the cities selected, the RBOC seems to have reached beyond major financial centers in
designating twelve reserve districts. The median amount of loans and discounts across the 37 applicant cities was twenty-five million dollars, and yet Atlanta (with national bank activity near the median) and Dallas (with bank activity significantly below the median) each received a reserve bank. Third, by placing banks in cities with relatively low volume of loans and discounts, the RBOC bypassed at least two cities with significant bank activity—Pittsburgh and Baltimore.

[Figure 4 about here.]

In Table 1, we show descriptive statistics for the key variables. Loan and discount volume (not logged) ranged from a low of three million in Savannah, Georgia, to over one billion dollars in New York City. Wall Street dwarfed its closest competitor: Chicago was a distant second with just over 300 million dollars of loans and discounts. City popularity with the bankers (not logged) as revealed in the RBOC survey also varied widely. Chicago proved the most popular, drawing 908 first choice votes; New York trailed with just 675 votes, most likely because Eastern bankers’ votes were split between Boston and Philadelphia.

[Table 1 about here.]

We report the results for three models in Table 2. The overall fit of each model is good; we can reject the hypothesis in each model that all the coefficients jointly equal 0. In column 1, we test for the impact of a city’s financial activity and the Democratic and Progressive strength of each city’s state on the RBOC’s choices (controlling for the number of applicants from contiguous states). The greater the volume of loans and discounts by national banks in each city, the greater probability that the RBOC placed a reserve bank in the city. Democratic party strength in the state also mattered: The better Wilson did in the state in 1912, the more likely the applicant city was to secure a bank. The committee did not, however, appear to reward Wilson’s Progressive boosters; Republican support for Wilson on the House roll call for the Federal Reserve Act did not bolster a state’s chances of winning a reserve bank for its state. Nor do we
detect any Progressive vote effect in column 2, where we substitute the measure of Roosevelt’s 1912 vote share to capture Progressives’ electoral success.\textsuperscript{26}

[Table 2 about here.]

In column 3, we substitute the measure of banker preferences for each city’s financial activity. The more popular a city amongst executives of the national banks, the more likely the RBOC was to award a reserve bank to that city. Notably, in this iteration, neither Democratic nor Progressive party strength appears to have shaped the RBOC’s decisions. This likely reflects in part the broader reach of the banker preferences variable. Some cities were more popular with bankers (e.g. Minneapolis, Kansas City, and Dallas) than would be predicted from their financial activity, and these cities secured banks. The RBOC seems to have sought to please the bankers in doling out the reserve banks, a useful strategy if Democrats aimed to build Republican support for a reserve system Republicans had largely opposed. Indeed, that decision rule helps to explain some of the anomalies in the RBOC’s decision. Philadelphia, for example, secured a bank while Pittsburgh (with more banking capital) did not; Philadelphia, however, garnered far more first place votes (511 votes) among bankers than did Pittsburgh (354 votes).

In Table 3, we use the alternative dependent variable that captures the order in which the RBOC doled out the banks. The results are similar, regardless of the structure of the dependent variable or estimation technique. The more Democratic the state and the greater a city’s financial activity (column 1) and appeal to bankers (column 2), the earlier the city was allocated a reserve bank. Regardless of how we measure Progressive strongholds, there is little direct evidence that the RBOC pursued an electoral strategy aimed at reaching out to Progressive voters. Given that the less financially active cities that received a bank were largely in the Democratic south, it seems much more likely that the RBOC used its power to reward Wilson’s most loyal partisans.

\textsuperscript{26} Given the high correlation (-.85) of Wilson and TR’s 1912 vote shares, we substitute a southern dummy variable to capture Wilson’s Democratic party base in the region.
To ease interpretation of the estimates, we simulate the effects of financial activity given Wilson’s 1912 performance in the state. The simulation suggests that cities with the greatest banking activity were shoe-ins for a reserve bank. Cities in which loans and discounts were significantly greater than the average level of banking activity were all but guaranteed a bank regardless of their location. Less financially active cities in Republican territory, however, were less likely to secure a bank. A city with 50 million dollars worth of loans and discounts was sure to get a bank only if it was located in a Democratic stronghold. Republican-leaning places with similar levels of activity had less than a fifty percent chance of securing a bank.

The models also help us to account for the committee’s decision to place two reserve banks in Missouri. According to Willis, St. Louis was bound to receive a bank, given its long-time status as a central reserve city. How to serve the region to the west of St. Louis was a thorny problem. The choice appears to have come down to Omaha, Lincoln, Denver, or Kansas City. As we show in Table 4, none of these cities was especially Democratic. But Kansas City stood out on a key dimension: Financial activity and popularity with the bankers. It far outstripped its rivals in terms of financial business, and bankers preferred it overwhelmingly—even compared to St. Louis. As RBOC member Houston noted in his memoirs, “I got a good many surprises. There was little enthusiasm for St. Louis anywhere” (Houston 1926, 103). Although some charged at the time that Missouri received two banks because the Democratic Speaker of the House, Champ Clark, hailed from Missouri and because Houston had served as president of

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27 We hold constant the degree of House GOP support for the Federal Reserve Act and the number of adjacent states with applicant cities at their mean values.

28 In the table, we include St. Louis for comparison’s sake and Salt Lake City for its geographic location (although RBOC member Houston later noted in discussing the choice of reserve cities that there was “nothing west of Denver to speak of until California was reached” (Houston 1926, 103). Salt Lake City was notably Republican, unpopular, and had very little banking business.
Washington University in St. Louis, we suspect that partisan connections at best smoothed the way for selecting two Missouri cities. More likely, the choice reflected the nature of economic patterns (with Kansas City looking westward and St. Louis looking eastward) and the desire to curry support of the most active banking communities (given St. Louis’s long-time status as a major financial center).

[Table 4 about here.]

It is harder to reject charges of partisan favoritism in the RBOC’s decision to pass over Baltimore in favor of locating a bank in Richmond. Baltimore’s financial activity was nearly twice that of Richmond’s, and Richmond barely squeaked by Baltimore in the tally of banker votes. Still, although Democratic senators represented both states, Wilson ran nearly twenty points better in Virginia in 1912 than in Maryland. Factor in the Virginia roots of Treasury Secretary McAdoo, Representative Glass, and Wilson himself, and it seems likely that the RBOC selected Richmond to reward a loyal Democratic city and state. Although McAvoy (2006, 524) concludes that the RBOC “likely maximized social welfare rather than its own,” the selection of Richmond— coupled with the broader impact of partisanship detected in the models— suggests otherwise.

With only twelve banks to dispense, the committee managed to place banks both in key Democratic strongholds and in financially active cities preferred by Republican bankers. In that light, we should not be surprised that the RBOC refused to entertain any changes in their decisions, despite vociferous protests from Baltimore, New Orleans, Denver, and several other cities. Re-opening the RBOC’s decision would have unraveled the committee’s carefully knit plan. In many ways, the RBOC was aided by turn of the century partisan geography. So long as


30 Willis would have concurred: “In none of the preliminary surveys of the situation,” Willis observed, “was the establishment of a bank at Richmond, Virginia, ever seriously considered” (Willis 1923, 585).
the RBOC sought some regional balance in locating the reserve banks, any Southern banks would be placed in Democratic hands—no matter how undeveloped the region was economically. And given the Democrats’ interests in constraining the size of the New York district, almost by definition the RBOC had to reward additional cities in the predominately Republican Northeast (but not it seems in Progressive strongholds in the West or Midwest). In short, the partisan landscape helped facilitate the RBOC’s political strategies.

**Implications**

We conclude by returning to our initial question about the Federal Reserve: Why has the system of regional banks proven so sticky, despite nearly a century of rapid economic, technological and demographic change? As Greider (1987) suggests, the Federal Reserve proved hard to undo given the political compromises embedded in the act. We suspect that the Fed’s structural stability is as much a product of the politics that occurred *after* enactment of the Federal Reserve bill into law. The emergence of bipartisan support for the Fed was a central feature of this post-passage politics.31 How and why bipartisan support for the Fed took root merits close attention.

First, we suspect that legislators—regardless of party—gradually recognized that the Federal Reserve was a convenient punching bag for deflecting blame for a poor economy. Bipartisan support for the Federal Reserve was critical in this regard, as it allowed the parties to insulate *themselves* from the Fed. In effect, both parties agreed to blame the Fed when the economy soured. Certainly legislators from both parties pointed fingers at the Fed in 1932 when it dragged its feet in easing monetary policy. The banking system and the Federal Reserve, Senator John Thomas (D-Oklahoma) argued on the Senate floor in 1932, “have failed us.”32 We

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31 Or as suggested by Lewis (2002), the politics of designing institutions do not stop after the body is created.

32 See “Price Bill Passage in Senate Forecast,” *New York Times*, May 3, 1932, p. 34. Casting blame on the Fed for the Great Depression was, of course, a popular move. Even future Fed officials blamed the Fed for
suspect that subsequent reforms—most of which concentrated and centralized authority in the Board of Governors, even when the Fed made mistakes—made the central bank an even more attractive scapegoat for legislators eager to avoid blame for a poor economy.

Second, we show below that the placement of the reserve banks in cities across the country created a bipartisan base of congressional support for the reserve bank system. We term this the “reserve bank effect”: Legislators with a district reserve bank in their home state became the strongest defenders of the Federal Reserve System. As we argue below, the RBOC’s strategy—reward Democrats and garner Republican support—was critical to laying the groundwork for bipartisan support.

Although conventional wisdom suggests that bipartisanship was embedded in the Federal Reserve Act, we know that the Act was largely passed with Democratic votes. Moreover, Republican opposition to the Federal Reserve did not immediately subside with Wilson’s signature—even after Wilson disappointed Democrats by appointing Republican bankers and businessmen to the Federal Reserve Board (Sanders 1999, 395). Republican Wall Street banker Paul Warburg, for example, continued to fight the establishment of the regional banks even after Wilson appointed him to the Federal Reserve Board. We noted earlier that Warburg had led a faction of the Board in 1915 in an effort to close half of the reserve banks. Warburg had also tried a year earlier to keep the banks shuttered before they had been officially opened. In July of 1914, with the onset of war in Europe and the increased flow of gold exports out of the United States to help finance the war, Secretary McAdoo had shut down the New York Stock Exchange and had delayed the planned opening of the reserve banks. Warburg argued that the opening of the reserve banks should be “indefinitely postponed” (Silber 2007, 133), ostensibly to give the banks sufficient time to build up greater gold reserves with the onset of war. Warburg also

its role in failing to stem the Depression. “You're right, we did it. We're very sorry,” Federal Reserve Chair Ben Bernanke fessed up in 2002 (Bernanke 2002).
advocated amending the Federal Reserve Act before allowing the banks to open, suggesting his continued opposition to the regional bank system.

Still, we detect the emergence of Republican support for the Fed as early as 1917. That summer, Congress adopted the first major changes to the Federal Reserve Act. The 1917 amendments targeted the collateral and reserve requirements of the district banks, allowing the reserve banks to issue Federal Reserve notes without the high collateral restrictions originally written into the Act (Fishe 1991). By expanding the regional banks’ lending authority, the reserve banks secured more lending capacity, and the U.S. gained a means for financing its entry into the war.

We explore changes in Republican attitudes towards the Fed by comparing the votes on the Federal Reserve conference report in 1913 to the amendments to the Federal Reserve Act in 1917. In the Senate in 1913, ten percent of the GOP voted in favor of creating the Federal Reserve; in 1917, seventy percent of Republicans voted in favor of strengthening the Fed. Isolating the ten GOP senators who voted in both 1913 and 1917, all ten converted from opponents of the Fed into supporters. In the House, we also observe an increase in GOP support. Forty percent of House GOP voted to create the Federal Reserve in 1913; fifty-two percent voted in favor of strengthening the Fed in 1917.

The votes suggest that the strategy of placing the banks to curry GOP support worked. If we look more closely at the adoption of the 1917 amendments, we find that House and Senate members with a Federal Reserve bank in their state favored enhancing the lending authority of the Federal Reserve. When the House voted to amend the Federal Reserve Act, legislators from states with reserve banks disproportionately favored strengthening the regional banks. A

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33 Senate roll call votes are available at http://www.voteview.com [Accessed July 30, 2010]. The two votes are V185 (63rd Congress, 1913) and V64 (65th Congress, 1917).

34 We model the vote choice as a function of each member’s party affiliation and whether or not they hailed from a state with a reserve bank. Because legislator ideology and party affiliation are correlated at .86, we control only for partisan affiliation. Estimating the impact of representing a state with a reserve bank,
Republican from a non-reserve bank state had a 43 percent probability of voting for the amendments; a Republican from a reserve bank state had a 67 percent probability of voting in favor. For Democrats, who largely supported the act, we also detect a reserve bank effect. The likelihood of supporting the amendments rises from 52 to 75 percent when a Democrat represents a district in a reserve bank state. In the Senate, only twelve senators representing reserve bank states voted on the amendments. Over ninety percent of the reserve bank senators voted for the amendments (including each of the four voting Republican senators), compared to 75 percent of the non-reserve bank senators.

We suspect that legislators’ blame-avoidance tendencies and the reserve bank effect underlie the stability of the Fed and the enhancement of its powers over time. Granted, we examine only a single vote at the onset of U.S. engagement in the war. Still, legislators from reserve bank states likely became defenders of the reserve system. Indeed, we see evidence of a lingering reserve bank effect in the recent battle over Representative Ron Paul’s (R-Texas) movement to audit the Fed. There was no direct up or down vote on the measure in the House, but the bill itself attracted 316 co-sponsors. Every Republican signed onto the bill, so we limit our focus to House Democrats (see Table 5). The populist audit movement earned its greatest Democratic support from the party’s electorally vulnerable members—conservative Blue Dogs and freshmen. In contrast, legislators who served on the House Financial Services Committee rose to the defense of the Fed, as did members who hailed from reserve bank states. Both sets of Democrats disproportionately refrained from signing onto Rep. Paul’s popular bill. The Fed was reported to have lobbied heavily against the audit bill (Grim 2010), and their efforts paid dividends among Democrats—who fought successfully to limit the reach of the audit enacted into

controlling for each legislator’s ideology, yields a similar result. Ideological scores made available by Keith Poole and Howard Rosenthal at [http://www.voteview.com](http://www.voteview.com) [Accessed August 1, 2010]. Results available from the authors.
law. Embedding reserve banks in communities far from Wall Street appears to have hard wired Main Street support for the Fed, even in a period of intense criticism of the Fed.

[Table 5 about here.]

**Conclusion**

The archival record left by the RBOC suggests that the committee selected the reserve bank cities with two goals in mind: To place the banks in popular financial centers so as to build Republican support for the Federal Reserve System, and to reward loyal Democrats with a major financial resource. Those strategies laid the groundwork for two types of bipartisan coalitions: One that would later eagerly blame the Fed for a poor economy, and one that would over time rise to defend the regional banks. These coalitions appear to have sustained and at times further strengthened the Federal Reserve System.

We see evidence of these twin legislative currents today. The parties’ eagerness to attack the Fed to avoid blame for the state of the economy persists in 2011. Republicans lead the charge, arguing that the Federal Reserve’s large-scale asset purchases risk debasing the currency and stoking uncontrollable inflation. Some Republican congressional leaders also advocate stripping the Fed of its “dual mandate”: Instead of requiring the Fed to maximize employment and price stability, the Fed’s mandate would be limited to keeping inflation low (Chan 2010). This is perhaps a curious Republican-led attack on the Fed, given that Ben Bernanke (chairman of the Federal Reserve Board of Governors) was originally appointed by George W. Bush and confirmed by a Republican-led Senate. But congressional attacks on the Fed are not surprising, given Congress’s complicity in failing to jumpstart a stalled economy. The Fed continues to serve as a scapegoat for opportunistic parties eager to deflect blame for a weak economy.

At the same time, the reserve bank effect continues to undergird Main Street support for the Federal Reserve System. In 2010, the reserve bank effect emerged in plain view on the Senate floor when senators rejected a proposal to strip the reserve banks of their supervisory
powers over small and medium-sized banks.35 Aided by heavy lobbying by reserve bank
presidents, two senators from Texas and Missouri—each with a reserve bank (or two) in their
state—rallied 91 Senate votes to preserve the district banks’ supervisory powers, even over the
objections of the chair of the Senate Banking panel. Every senator from a reserve bank state
voted in favor of retaining the district banks’ powers. Bipartisan support for the reserve banks
continues to reinforce the stickiness of the Fed’s original structure.

Many argue that political institutions are sticky because politicians design them to be
insulated from political influence, making it far too costly to renegotiate the compromises that
created them (Moe 1989). By embedding the reserve banks in communities across the country
and by attracting Republican support for the reserve system, the RBOC made the Fed even
stickier. A fragile Democratic Fed was stabilized by accruing Republican support. Today, a de-
central bank continues to give both Democrats and Republicans on Main Street an incentive to
sustain an institution that might otherwise be entirely captured by Wall Street or Washington.

35 The vote (V143, 111th Congress, 2nd Session) was on a Kay Bailey Hutchison (R-Texas) amendment to
the financial regulatory reform bill in May 2010. The amendment preserved the power of the Fed to
supervise banks and bank holding companies with fewer than $50 billion in assets. Stripping the Fed of
supervision of these banks would have left most of the regional reserve banks with little to do, as the
Federal Reserve Bank of New York supervises the largest banks.
References


Houston, David F. 1926. *Eight Years With Wilson's Cabinet 1913 To 1920 (Parts 1 and 2)*. Kessinger Publishing.


FIRST-CHOICE VOTE FOR RESERVE-BANK CITIES.

RESERVE BANK ORGANIZATION COMMITTEE,
Washington, D. C., June 24, 1914.

Sir: The reserve bank organization committee has the honor to acknowledge the receipt of a copy of the resolution of the House of Representatives, dated April 15, 1914, which reads as follows:

Resolved, That the organization committee of the Federal Reserve Board be, and it is hereby, directed to send to the House of Representatives the ballots, or a tabulated statement thereof, cast by the various national banks of the United States to determine their choice for reserve cities according to a request made to said banks by the organization committee of the Federal Reserve Board.

In compliance therewith there is herewith transmitted the information called for.

Respectfully,

W. G. MoAdoo,
D. F. Houston,
Jno. Skelton Williams,
Reserve Bank Organization Committee.

The Speaker of the House of Representatives.

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<tbody>
<tr>
<td><strong>Alabama.</strong></td>
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<tr>
<td>First.</td>
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<tr>
<td>Atlanta</td>
</tr>
<tr>
<td>Birmingham</td>
</tr>
<tr>
<td>Chattanooga</td>
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<tr>
<td>Cincinnati</td>
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<td>Louisville</td>
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<td>Memphis</td>
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<td>Montgomery</td>
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<tr>
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<td><strong>Arizona.</strong></td>
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<td>First.</td>
</tr>
<tr>
<td>Chicago</td>
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<td>St. Louis</td>
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<tr>
<td>San Francisco</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Source: RBOC 1914c. See also compilation in RBOC 1914b (pp. 347-57).
Figure 2:
The Centrality of Kansas City to the West

This map shows Kansas City’s rail service. We have 138 dispatches of mail daily—west, 24; south, 18; north, 21; east, 18; southwest, 18; southeast, 11; northeast, 13; northwest, 6.

Kansas City has 16 trunk-line railroads and 32 subsidiary, which bring in and take out 260 passenger trains and 2,000 cars of freight daily.

(The seeming discrepancies in mileage between points in the same states as indicated on this map are due to round-about connections to reach them.)

Source: RBOC 1914b, p. 179.
Figure 3:
Relationship of City Financial Activity and Bankers’ Preferences

Sources: See text. Cities in blue received a Federal Reserve district bank.
Figure 4
Map Showing the Location of the Twelve Federal Reserve Banks, 1914

Source: RBOC 1914b, p. 364.
Note: The probabilities are simulated holding the number of (logged) first choice banker votes and the number of contiguous states with applicant cities at their mean values.
Table 1
Descriptive Statistics for Applicant Cities

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Mean</th>
<th>Min</th>
<th>Max</th>
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</thead>
<tbody>
<tr>
<td>Awarded a Federal Reserve district bank</td>
<td>37</td>
<td>.32</td>
<td>0</td>
<td>1</td>
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<tr>
<td>Financial strength</td>
<td>37</td>
<td>79</td>
<td>3</td>
<td>1082</td>
</tr>
<tr>
<td>(Volume of national bank loans and discounts, in millions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Banker preferences</td>
<td>37</td>
<td>178</td>
<td>0</td>
<td>908</td>
</tr>
<tr>
<td>(Total first choice votes)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Democratic strength</td>
<td>36¹</td>
<td>50.1</td>
<td>26.9</td>
<td>95.9</td>
</tr>
<tr>
<td>(Wilson share of the 4-party vote, 1912)</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Progressive strength (#1)</td>
<td>36¹</td>
<td>24.01</td>
<td>2.6</td>
<td>41.8</td>
</tr>
<tr>
<td>(Roosevelt share of the 4-party vote, 1912)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Progressive strength (#2)</td>
<td>36¹</td>
<td>.174</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>(Percentage House GOP from state voted for FRA)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of adjacent state applicant cities</td>
<td>37</td>
<td>3</td>
<td>0</td>
<td>6</td>
</tr>
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¹Excludes Washington, D.C.
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<thead>
<tr>
<th>Independent variable</th>
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<th>(2)</th>
<th>(3)</th>
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</thead>
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<tr>
<td>Financial strength (logged)</td>
<td>3.927 (1.064)***</td>
<td>4.167 (1.425)**</td>
<td>--</td>
</tr>
<tr>
<td>Banker preferences (logged)</td>
<td>--</td>
<td>--</td>
<td>3.718 (1.722)*</td>
</tr>
<tr>
<td>Democratic strength</td>
<td>.122 (.048)**</td>
<td>.067 (.071)</td>
<td></td>
</tr>
<tr>
<td>Southern state</td>
<td>--</td>
<td>3.718 (2.195)*</td>
<td>--</td>
</tr>
<tr>
<td>Progressive strength (#2)</td>
<td>.368 (2.001)</td>
<td>--</td>
<td>-1.070 (2.047)</td>
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<tr>
<td>Progressive strength (#1)</td>
<td>--</td>
<td>-.057 (.094)</td>
<td>--</td>
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<tr>
<td>Adjacent state applicants</td>
<td>-.232 (.415)</td>
<td>-.261 (.388)</td>
<td>-.017 (.271)</td>
</tr>
<tr>
<td>Constant</td>
<td>-20.832 (5.896)***</td>
<td>-15.284 (5.931)*</td>
<td>-22.718 (12.466)*</td>
</tr>
<tr>
<td>N</td>
<td>36</td>
<td>36</td>
<td>36</td>
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<tr>
<td>Pseudo R2</td>
<td>.569</td>
<td>.588</td>
<td>.568</td>
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<tr>
<td>Prob. Chi2</td>
<td>.001</td>
<td>.055</td>
<td>.11</td>
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</table>

Notes: The dependent variable captures whether or not the applicant city received a reserve bank. Independent variable coefficients are logit estimates (robust standard errors in parentheses) calculated in Stata 11.0. *** p < .001, ** p < .01 * p< .05, (all one-tailed t-tests).
Table 3  
Cities’ Relative Certainty of Securing a Reserve Bank

<table>
<thead>
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<th>Independent variable</th>
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<th>(2)</th>
<th>(3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial strength (logged)</td>
<td>.662 (.088)***</td>
<td>.709 (.098)***</td>
<td>--</td>
</tr>
<tr>
<td>Banker preferences (logged)</td>
<td>--</td>
<td>--</td>
<td>.392 (.109)**</td>
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<tr>
<td>Democratic strength</td>
<td>.011 (.005)*</td>
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<td>-.005 (.005)</td>
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<tr>
<td>Southern state</td>
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<td>.657 (.250)*</td>
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<td>Progressive strength (#2)</td>
<td>.259 (.317)</td>
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<td>.047 (.463)</td>
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<tr>
<td>Adjacent state applicants</td>
<td>.017 (.061)</td>
<td>-.014 (.061)</td>
<td>.043 (.076)</td>
</tr>
<tr>
<td>Constant</td>
<td>-1.304 (.402)**</td>
<td>-1.251 (.601)*</td>
<td>-.031 (.582)</td>
</tr>
<tr>
<td>N</td>
<td>36</td>
<td>36</td>
<td>36</td>
</tr>
<tr>
<td>R2</td>
<td>.652</td>
<td>.586</td>
<td>.378</td>
</tr>
</tbody>
</table>

Notes: The dependent variable measures the order in which a city received a bank (4=first round, 3=second round, 2=third round, 1=did not receive a bank). Independent variable coefficients are OLS estimates (robust standard errors in parentheses) calculated in Stata 11.0. *** p < .001, ** p < .01 * p< .05, (all one-tailed t-tests).
Table 4  
Kansas City’s Competitors for a Reserve Bank

<table>
<thead>
<tr>
<th>City</th>
<th>Loans and discounts ($)</th>
<th>Number of 1st choice votes</th>
<th>Wilson percentage of 1912 4-party vote</th>
</tr>
</thead>
<tbody>
<tr>
<td>St. Louis</td>
<td>102 million</td>
<td>301</td>
<td>47.3</td>
</tr>
<tr>
<td>Kansas City, MO</td>
<td>66 million</td>
<td>508</td>
<td>47.3</td>
</tr>
<tr>
<td>Omaha</td>
<td>33 million</td>
<td>220</td>
<td>43.7</td>
</tr>
<tr>
<td>Denver</td>
<td>28 million</td>
<td>136</td>
<td>42.8</td>
</tr>
<tr>
<td>Lincoln</td>
<td>6 million</td>
<td>24</td>
<td>43.7</td>
</tr>
<tr>
<td>Salt Lake City</td>
<td>12 million</td>
<td>31</td>
<td>32.6</td>
</tr>
</tbody>
</table>
### Table 5
Democrats’ Likelihood of Co-sponsoring the Audit-the-Fed Bill (2009)

<table>
<thead>
<tr>
<th>Independent variable</th>
<th>Coefficient (robust s.e.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserve bank in state</td>
<td>-.465 (.271)*</td>
</tr>
<tr>
<td>Blue Dog Democrat</td>
<td>1.036 (.345)**</td>
</tr>
<tr>
<td>Freshman</td>
<td>1.662 (.424)**</td>
</tr>
<tr>
<td>Financial Services Committee member</td>
<td>-1.291 (.426)**</td>
</tr>
<tr>
<td>Constant</td>
<td>.109 (.220)</td>
</tr>
<tr>
<td>N</td>
<td>258</td>
</tr>
<tr>
<td>Log pseudolikelihood</td>
<td>-159.576</td>
</tr>
<tr>
<td>Pseudo R2</td>
<td>0.106</td>
</tr>
<tr>
<td>Prob. Chi2</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

Note: The dependent variable captures whether or not each Democrat in the 111th House co-sponsored Ron Paul’s audit-the-Fed bill. Independent variable coefficients are logit estimates (robust standard errors in parentheses) calculated in Stata 11.0. * p < .05, ** < .01, *** p < .001 (all one-tailed t-tests).