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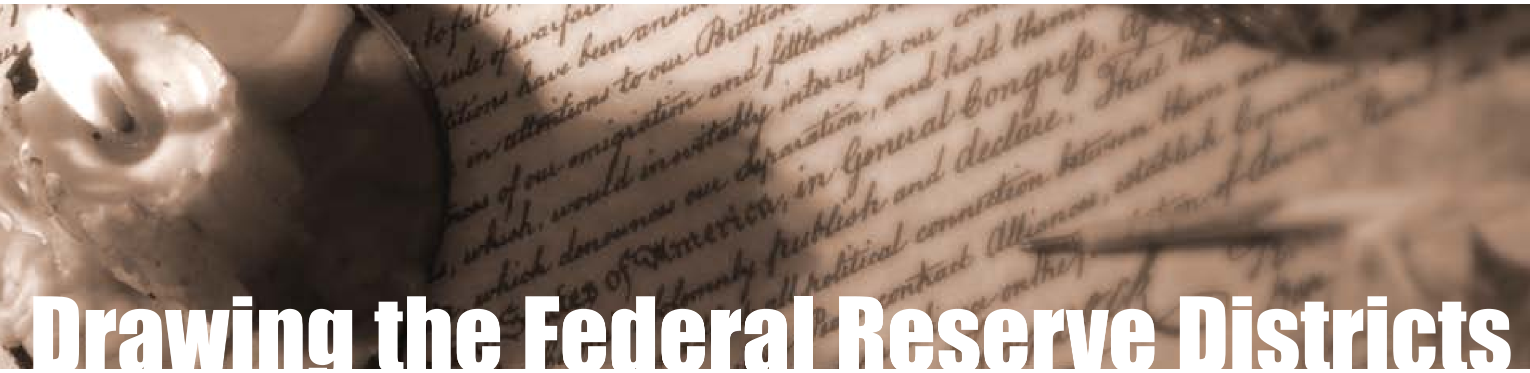
BY TIM TODD



Drawing the Federal Reserve Districts

The Federal Reserve Act, approved by Congress on December 23, 1913 and signed later that same day by President Woodrow Wilson, created a central bank with a unique "decentralized" structure: a network of banks serving local districts with national coordination by a Board of Governors in Washington D.C. But when it came to locating the regional banks, both the cities where they would operate and the districts they would serve, the Act was intentionally vague, offering only a few requirements:

- There would be between eight and 12 Federal Reserve districts.
- The districts would "be apportioned with due regard to the convenience and customer course of business."
- A Reserve Organizing Committee comprised of the Secretary of the Treasury, the Secretary of Agriculture and the Comptroller of the Currency would determine the districts and designate "Federal Reserve cities" where the regional banks would be located.
- The act gave the committee a deadline to complete their work "as soon as practicable."

Realizing the scope of the task ahead, the Committee took the somewhat ambiguous deadline seriously, convening for the first time three days later on Friday, Dec. 26.

"Nothing had aroused such scorn and ridicule, nothing had been so fiercely fought in Congress, nothing had so generally been pronounced impossible, as the division of the country into several banking districts in each of which there should be a separate and independent institution," Henry Parker Willis wrote in his 1923 book *The Federal Reserve System*. "On no point had there been sharper controversy than as to the issue whether banks should be four, eight, twelve or some other number. Yet this politically contested issue, and the much more difficult problem (of) how to construct the several banking districts, were now to be quickly disposed of by a committee which had scant time for theoretical inquiry or practical observation."

And much of the work would be done by only a partial committee. President's Wilson's nominee for the Comptroller of Currency, John Skelton Williams, would not be confirmed for several weeks, leaving the bulk of the Committee's work in the hands of Agriculture Secretary David F. Houston and Treasury Secretary William G. McAdoo.

Twelve districts

Although the number of Reserve Districts was hotly debated prior to the Act's approval, for the Committee, the issue would be among the first, and perhaps the easiest, to resolve.

It "became obvious that if we created fewer banks than the maximum fixed by law, the Reserve Board would have no peace till that number was reached," Houston would later write.

For the more difficult questions on locating the Reserve Banks and determining the Districts, the committee would seek input through three initiatives:

- Ballots were sent to 7,471 national banks asking each their preferences for Reserve Bank cities.
- A Preliminary Committee on Organization, headed by Willis, was appointed to address several issues related to the internal organization of the Federal Reserve. Willis, who would go on to become the first secretary to the Federal Reserve Board, would also prepare some preliminary maps for the Committee's consideration.
- The Reserve Organizing Committee began a tour of the United States with a travel schedule that might be considered aggressive even by today's standards. Over a six-week span Houston and McAdoo would log 10,000 miles, convene hearings in 18 communities, hear presentations from 37 would-be Federal Reserve cities and receive 5,000 pages of testimony.

The hearings would receive widespread media attention. The testimony, which the Committee likely envisioned as being focused on banking and business relationships, was instead perhaps somewhat similar to a modern day municipality courting a professional sports franchise.

Willis later wrote that the would-be Federal Reserve cities saw in the new banking system a means of self-aggrandizing or self-advertising.

"Much of the testimony and many of the briefs that were filed read like land or travel prospectuses in which the good gifts of Providence to the different parts of the country were enumerated in the most glowing colors," Willis wrote.

In an apparent attempt to try to refocus the hearings, on repeated occasions McAdoo publicly stated that a designation of Reserve Bank city was not as important to future economic development as some citizens appeared to believe.

Houston would later write that it quickly became clear they committee would be "in for a great deal of roasting," regardless of their decisions.

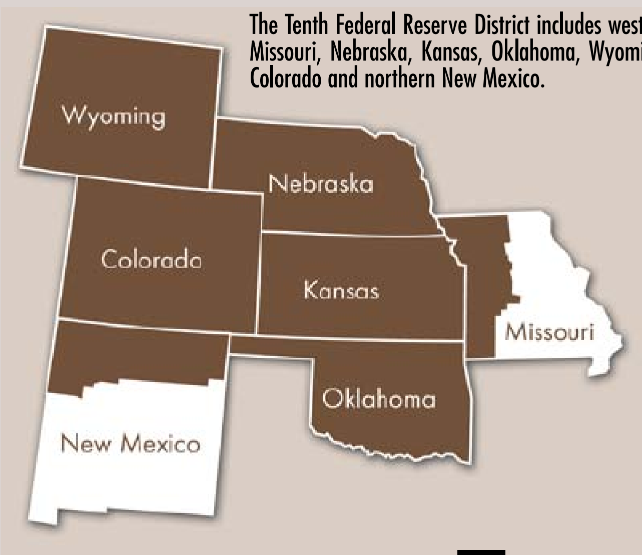
"There was a vast amount of state and city pride revealed to us in the hearings; and to hear some of the speeches one would have thought that not to select the city … would mean its ruin," he wrote.

The committee would hear from three cities in what would become the Tenth Federal Reserve District: Kansas City, Omaha and Denver.

On Jan. 23, 1914, The Associated Banks of Greater Kansas City presented its plan for a Federal Reserve District that included western Missouri, southwest Iowa, all of Nebraska, Kansas and Oklahoma, the northern half of Texas, western Arkansas, all of New Mexico and all of Colorado.

"Kansas City with her splendid railroad facilities and excellent mail service, has become the natural market, financial and distributing center of the riches and most rapidly developing agricultural and mineral district in America," the bankers' group said in its written testimony.

The Tenth District



The Tenth Federal Reserve District includes western Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and northern New Mexico.

The Federal Reserve Bank of Kansas City "would be a commanding institution with ample capital and deposits to protect and properly care for the legitimate business needs of this district," the bankers said.

The following day, the committee moved on to Lincoln, Neb. where the Banks of Omaha and South Omaha suggested an Omaha-based Reserve District encompassing western Iowa, southern South Dakota, a northern tier of Kansas, and all of Nebraska, Montana, Idaho, Wyoming, Colorado and Utah.

"Nothing had so generally been pronounced impossible, as the division of the country into several different banking districts."

On February 9, Denver made its bid for a Reserve Bank with a presentation calling for a district bounded on the east by the 100th meridian that bisects Nebraska and cuts across western Kansas. For the western edge of its proposed district, the Denver contingent proposed a line near the eastern boundaries of Washington, Oregon. They proposed a district spanning nearly 1,200 miles from north to south, covering the country from border to border.

The decision

A few Reserve Bank cities were obvious choices for the Committee. New York, Chicago and St. Louis were major population centers already serving as reserve cities in the national banking system. To some degree, the committee's challenge was then to fill in the rest of the nation.

In its report, the Reserve Bank Organization Committee spelled out its selection criteria:

- The ability of the member banks within the district to provide the minimum capital of $4 million required for each Reserve Bank by law.
- Existing mercantile, industrial and financial connections.
- The probable ability of the Reserve Bank to meet demands placed upon it.
- The fair and equitable division of available capital among the districts.
- Geographical factors including transportation and communication.
- The population, area and prevalent business activities of the district.

In the Tenth Federal Reserve District, the boundary lines were very similar to what was proposed by the Kansas City bankers.

"The region in the middle and far West presented problems of difficulty," the committee wrote. "Careful consideration was given to the claims of Omaha, Lincoln, Denver and Kansas City, which conflicted in this region."

In announcing the decision, the Committee noted the results of the banker balloting. Kansas City received the most first place votes within the District: 355, followed by Omaha, 191 and Denver, 132. The Committee also noted that the vast majority of banker support for both Denver and Omaha was confined to their respective states while Kansas City enjoyed wider support including substantial backing in Kansas and Oklahoma.

"It seemed impossible to serve the great section from Kansas City to the mountains in any other way than by creating a district with Kansas City as the headquarters," the committee wrote, noting also that Kansas City was the region's "dominant banking and business center."

"The relations of that territory on the whole are much more largely with Kansas City than with any other city in the Middle West with which it could have been connected," the committee wrote, noting that most of the trade moved toward the east.

The committee completed its work in 98 days. By November 16, 1914, less than a year after McAdoo and Houston convened their first meeting, the nation's "decentralized" central bank opened for business in all 12 districts. T

COMMENTS/QUESTIONS are welcome and should be sent to teneditors@kc.frb.org.