



Always Been ^A *Banking Town:*

A HISTORY OF THE OMAHA BRANCH OF
THE FEDERAL RESERVE BANK OF KANSAS CITY

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INTRODUCTION

Since its opening in 1917, the Omaha Branch of the Federal Reserve Bank of Kansas City has provided Nebraskans with a direct local connection to the nation's central bank. Over that period the Branch has participated in each of the Fed's mission areas including financial services, the regulation and supervision of financial institutions and monetary policy.

Like any institution, the Branch and the Fed have both changed over the years, reflecting innovation and development in the financial sector and to meet the demands of businesses and consumers who rely on the system every day. Today, Branch functions focus on bank supervision, community development, public outreach and economic and financial education, in addition to providing Fed policymakers with important insight and analysis on Nebraska's economy. Through a network of numerous relationships with businesses and communities across the state, the Fed closely monitors banking and economic conditions, ensuring that the state's voice is heard in the Federal Reserve's policy deliberations. Additionally, the Branch is a Federal Reserve System hub for research on agriculture, providing insights on the agricultural and rural economy both within the seven states of the Tenth District and nationally. The Branch also hosts a number of public events across Nebraska with Federal Reserve policymakers as well as top economists and other officials focused on a wide range of economic and financial issues from economic education in the classroom through in-depth discussions on pressing economic and monetary policy challenges. Over the years, the Branch has welcomed former Federal Reserve Chairs Paul Volcker, Alan Greenspan and Ben Bernanke for these types of events.

The Omaha Branch is entering the next 100 years with plans for growth. With a strong focus on technology, the Branch will support financial services work on behalf of the U.S. Treasury Department. The multi-year plan will include physical improvements to the current building and grounds, which are already underway, and will add approximately 100 new positions at the Branch.

A HISTORY OF CENTRAL BANKING IN THE UNITED STATES

First Bank of the United States

Alexander Hamilton, the nation's first Treasury secretary, had considered the need for what would today be considered a central bank for a decade or more before finally raising the idea publicly with a proposal in 1790.

His plan called for the creation of a national bank that would serve the public interest and help the country address a debt hangover from the Revolutionary War. His proposal would improve the new nation's creditworthiness by providing a currency, and, it would lend directly to businesses. The bank would also be considered a private institution, with about 80 percent of it owned by shareholders and the rest held by the government.

Although Hamilton's bank would prove to be successful, the founding fathers did not welcome the idea. The bank was strongly opposed by Thomas Jefferson, who questioned its constitutionality, and James Madison, who viewed bankers as "swindlers and thieves."¹

Some early Americans openly despised banks, seeing them as tools for a few wealthy individuals to take advantage of the rest of the population. For many farmers, the proposed bank was seen as too closely aligned with the financial powers in the Northeast. For a number of early Americans, the idea of a central bank connected very closely to the issue at the core of the Revolutionary War:

"What was it (that) drove our forefathers to this country?" asked Georgian James Jackson. "Was it not the ecclesiastical corporations and perpetual monopolies of England and Scotland? Shall we suffer the same evils to exist in this country?"

When Hamilton said the bank was for "the general welfare," Jackson responded angrily, "What is the general welfare? Is it the welfare of Philadelphia, New York and Boston?"²

Hamilton was able to get his bank legislation through Congress, but the support came almost entirely from congressmen serving regions north of the Potomac River, while those to the South opposed the proposal. The approved bill then lingered on Washington's desk. The first president, a farmer who was understandably sympathetic to the agricultural interests, was

¹ Joseph J. Ellis, *Passionate Sage: The Character and Legacy of John Adams*. New York: W.W. Norton, 1994.

² M. St. Clair Clarke and D.A. Hall, "Legislative and Documentary History of the Bank of the United States (1832)," as appearing in H.W. Brands, *The Money Men*, New York: W.W. Norton, 2006.

believed to be strongly influenced by Jefferson's views. Eventually, Hamilton authored a 15,000-word report about the bank that convinced Washington to sign the bill.

The First Bank of the United States opened in Philadelphia on Dec. 12, 1791 with a 20-year charter. When it came up for renewal in 1811, those who had opposed the Bank now held the political majority. The opposition was fueled by some of the same concerns voiced two decades earlier, along with some new issues. For example, some Americans were outraged that British investors held a significant portion of the Bank's stock. Some commercial bankers meanwhile were frustrated because the First Bank was a competitor for deposits. With Hamilton, killed in his famous duel with Aaron Burr, the Bank had no champion and the charter renewal failed. The First Bank of the United States closed March 3, 1811.

Second Bank of the United States

Almost exactly one year after the close of the First Bank of the United States, the nation was at war with the British in the War of 1812. As the fighting continued, President Madison fell victim to a temptation that Hamilton had feared: Madison began printing unsupported money, sending the nation's finances and economy into turmoil. As the fighting escalated, state banks, which could issue their own currency at that time, stopped redeeming their notes. The result was a banking panic.

“(A)bout the time the British burned the Capitol and the White House, Madison concluded that Hamilton had been right regarding the need for a national bank, at least in times of crisis,” H.W. Brands writes in his 2006 book, “The Money Men.”

Again, the idea was hotly opposed.

“This Bank is to begin with insolvency. It is to commence its existence in dishonor: It is to draw its first breath in disgrace,” said Daniel Webster, who was then a congressman.³

The opposition, however, was overcome, and the Second Bank of the United States was approved by Congress in 1816. While larger than its predecessor, with \$35 million in capital compared with \$10 million at the First Bank, the two banks had much in common. The government owned 20 percent of the institution with the rest owned by stockholders, but while

³ M. St. Clair Clarke and D.A. Hall, “Legislative and Documentary History of the Bank of the United States (1932),” as appearing in H.W. Brands, *The Money Men*, New York: W.W. Norton, 2006.

stockholders appointed all of the First Bank's directors, the government appointed five of the Second Bank's 25 board members. The Bank opened on Jan. 7, 1817, with a 20-year charter.

The Second Bank struggled under its early leadership with imprudent, and sometimes fraudulent, lending. It was able to reverse course, however, when Nicholas Biddle, a member of the Bank's Board of Directors who had been appointed by President James Monroe, became Bank president in 1823.

As a member of the Pennsylvania legislature in 1810, Biddle had supported the First Bank, and his politics and economics were both Hamiltonian.⁴ At the Second Bank, Biddle made sweeping changes. Among the more notable: He implemented what was essentially a crude open market operation by buying or selling state bank notes to loosen or tighten credit conditions.

He was also able to eliminate monetary exchange rates between various parts of the country by transferring funds more efficiently. Brokers, who profited on the discount of western bank notes, were angry with Biddle. Because the Second Bank also dealt directly with the public, many commercial bankers were once again frustrated by the competition for business. The Bank's most vehement critics believed Biddle's bank was a threat to democracy.

For his part, Biddle initially tried to keep the bank out of politics, but despite his efforts, the Bank found itself in a political fight against a man who was considered a hero to many of the Bank's detractors: President Andrew Jackson.

In his first annual message to Congress, a written report that modern Americans would equate with today's annual State of the Union Address, Jackson referenced the Bank, although its charter did not expire for another six years.

"Both the constitutionality and the expediency of the law creating this bank are well questioned by a large portion of our fellow citizens, and must be admitted by all that it has failed in the great end of establishing a uniform and sound currency," Jackson wrote, vowing that he would veto any charter renewal that crossed his desk.

Biddle, with some prompting from Henry Clay who hoped to unseat Jackson and gain the presidency for himself, decided to seek approval on the charter renewal early under the idea that the Bank, not Jackson, held more leverage before the 1832 election. The charter renewal bill, Bank supporters believed, would either force Jackson to back down on his promised veto or to follow through and likely doom his re-election bid.

⁴ H.W. Brands, *The Money Men*, New York: W.W. Norton, 2006.

“If the bill passes and the President negatives it, I will not say that it will destroy him, but I certainly think it will, and moreover, I think it ought to,” Biddle wrote.⁵

The bill narrowly passed the Senate while getting through the House somewhat more easily. In both cases, opposition was strongest in the western and southern United States, which were the farthest removed from the bank and where suspicions about its influence were the highest.

Jackson received the renewal bill on July 4, 1832. Vetoes were rare – the first six presidents had vetoed a combined total of only 10 bills, but Jackson had done that many on his own. Jackson, was not intimidated. The Bank bill was promptly vetoed and, in a surprise to Biddle and Clay, Jackson easily regained the presidency. The Second Bank’s service as a de facto central bank of the United States was finished.

⁵ Biddle to Charles Ingersoll, Feb. 11, 1832, appearing in H.W. Brands, *Andrew Jackson: His Life and Times*. New York: Anchor Books, 2005

A NEW CENTRAL BANK

The end of the Second Bank had substantial consequences for the national economy.

Economists estimate that between 1834 and 1836 the money supply grew at an average annual rate of 30 percent compared with 2.7 percent annual growth in the three previous years.⁶ The result was a speculative bubble in land and commodities that burst with the Panic of 1837. A depression followed, lasting until 1843.

“(Jackson) professed to be the deliverer of his people from the oppressions of the mammoth – but instead he delivered the private banks from federal control and his people to speculation,” economic historian Bray Hammond later wrote.⁷ “No more striking example could be found of a leader fostering the very evil he was angrily wishing out of the way.”

The 1837 panic was the first in a cycle of panics that regularly hit the United States in the years that followed. Among the more notable and severe was the Panic of 1873, which came after a period of post-Civil War economic overexpansion. The collapse was caused largely by the failure of Jay Cooke & Co., then a massive investment bank that was deeply involved with Northern Pacific Railroad. The bottom fell out when the market for railroad bonds collapsed after revelations of corruption emerged in the building of the Union Pacific.

The cycle culminated in the Panic of 1907. With the United States the only one of the world’s major financial powers without a central bank, finance mogul J.P. Morgan stepped in and organized his friends to make investments and arrange lines of credit to stabilize the economy. Recognizing that the nation could not be in a position where it was reliant on wealthy individuals to stem an economic and financial crisis, Congress embarked on a series of steps that led to the eventual creation of the Federal Reserve as the central bank of the United States.

The road to the Federal Reserve

Recognizing the catalysts behind the failures of the previous banks, lawmakers knew that it was critical to design the Bank’s structure in a way that assured broad representation and mitigated the risk of potential abuse.

⁶ Jane Knodell, “Rethinking the Jacksonian Economy: The Impact of the 1832 Bank Veto on Commercial Banking.” *Journal of Economic History*, Vol 66 (3).

⁷ Bray Hammond, “Jackson, Biddle and the Bank of the United States.” *Journal of Economic History*, Vol. 7 (1).

While other countries had successful central banks that operated under tightly consolidated authority, those models would not work in the United States. Americans were far more distrustful of federal authority than many of their European counterparts. Additionally, the broad and diverse U.S. economy presented a potentially wider range of economic and financial challenges than might occur in a smaller nation.

Recognizing the uniquely American demand for a system with checks and balances, Congressional leaders, including Oklahoma Sen. Robert L. Owen, designed a new compromise structure. It would be a network of regional banks, each operating under the leadership of local boards of directors, with oversight by a government agency, the Board of Governors of the Federal Reserve System, in Washington, D.C. It was a unique combination – a “decentralized” central bank that blends both public and private control in a reflection of the nation’s checks and balances system.

“One of the arguments for decentralization was the necessity of ensuring the representation of local interests. A second argument was the fear that big bankers would capture the operation of a centralized system,” economist and historian Robert Craig West later wrote.⁸ “The point was made that the banks should have as much information about local business conditions and the member banks as possible. Better credit decisions concerning any local paper or the needs of the banking community would be the result. Such familiarity would make decisions about discount rates easier and would allow better control of the local money markets.”

The founders recognized that this network of regional banks was an essential element in building and maintaining trust in the institution. The bank’s long-term success required a structure sharing responsibility and power broadly instead of isolating authority within the government or along Wall Street.

In the words of Carter Glass, House sponsor of the Federal Reserve Act: “In the United States, with its immense area, numerous natural divisions, still more numerous competing divisions, and abundant outlets to foreign countries, there is no argument, either of banking theory or of expediency, which dictates the creation of a single central banking institution, no matter how skillfully managed, how carefully controlled, or how patriotically conducted.”⁹

⁸ Robert Craig West, *Banking Reform and the Federal Reserve 1863-1923*. Ithaca, N.Y.; Cornell University Press, 1974.

⁹ Carter Glass, *An Adventure in Constructive Finance*, New York: Doubleday, Page and Co., 1927.

President Woodrow Wilson signed the Federal Reserve Act on Dec. 23, 1913. The legislation created a central bank comprising a unique network of Banks serving local regions, or Federal Reserve Districts, with national coordination by a Board of Governors in Washington, D.C.

Local involvement

The system presented the nation's communities a unique opportunity to play an important role and many were eager to participate.

Among those praising the Federal Reserve's design was the *Lincoln (Neb.) Trade Review*, which described the nation's pre-Fed banking structure as "a great leaning proposition."

"New York City was... the private center. Other cities surrounding it leaned toward it and the smaller cities leaned toward the few larger cities that rested on New York and out from the smaller cities what are known as country banks, leaned in their turn on these smaller cities so that the whole system became a leaning process."¹⁰

While the concept may have found supporters, when it came to the details of establishing the Federal Reserve System's regional map, the legislation offered relatively little direction.

For example, when it came to locating the regional Banks, both the cities where they would operate and the regions they would serve, the Act devoted only about 300 words – essentially a lengthy paragraph that made just a few key requirements:

- There would be between eight and 12 Federal Reserve Districts.
- The Districts would "be apportioned with due regard to the convenience and customary course of business."

- A Reserve Bank Organizing Committee, comprising the Secretary of the Treasury, the Secretary of Agriculture and the Comptroller of the Currency, would create 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."

To sign the Act, Wilson delayed his departure for a Gulf Coast vacation for several days while Congress worked to approve the legislation. A similar urgency was exhibited by the Reserve Bank Organizing Committee. With Wilson still considering nominees for Comptroller of the Currency, the Committee was a two-member panel, but it quickly forged ahead with

¹⁰ Lincoln (Neb.) Trade Review, Jan. 24, 1914.

Agriculture Secretary David F. Houston and Treasury Secretary William G. McAdoo holding their first informal meeting on Christmas Day at McAdoo's Washington home. The Committee's first formal session was held the following day at the Treasury.

"We do not propose to let any grass grow under the feet of the organization Committee," McAdoo told a reporter. "We are going at these problems carefully but quickly."

The pressure to complete the task quickly only compounded the already difficult question of how to divide the country.

"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, a history of the creation of the Federal Reserve."

"On no point had there been sharper controversy than as to the issue whether Banks should be four, eight, 12 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."

Twelve Districts

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

Ballots were sent to 7,741 national banks that had formally assented to the provisions of the Federal Reserve Act asking each their preferences for Reserve Bank cities. The vote, however, was only one component in determining the Reserve Bank locations and the Federal Reserve Districts. The Committee appointed a Preliminary Committee on Organization, headed by Willis, to address several issues related to the organization of the Federal Reserve, including the drawing of some preliminary District maps.

Meanwhile, the Committee embarked on a tour of the United States under a travel schedule that was aggressive even by modern standards. During a five-week span, Houston and

McAdoo logged 10,000 miles, convened hearings in 18 communities and heard presentations from 37 cities. At the end of the tour, they held 5,000 pages of testimony. While it was a daunting task, from a logistical standpoint the tour was far simpler than inviting hundreds of the country's banking and business leaders to come to Washington, D.C. for hearings. The tour could also be scheduled on short notice with the contingent embarking on their trip only a few weeks after the legislation was passed.

The Committee hoped the meetings would be tightly focused on banking and business relationships throughout the country. In announcing the hearing schedule, the Committee said it sought information related only to three key points:

- Geographical convenience, including both transportation and communication.
- Industrial and commercial development, including a consideration of the movement of commodities and business transactions.
- The established custom and trend of business under the existing system of bank reserves.

“Purely local sentiment and pride must yield to the common good in order that the system itself may accomplish the purposes for which it was designed, namely to secure to the business of the country the elastic system of credits and the stability of conditions so long imperatively demanded,” the Committee wrote.

The hearings received widespread media attention, fueling public speculation about the Committee's eventual selections and influencing the tone of the discussions. Although the Committee wanted to talk about business and banking relationships, they often found themselves involved in something similar to what is seen today when municipalities court a professional sports franchise or a corporate headquarters.

“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 of the advocate would mean its ruin and that of their territory,” Houston later wrote.

The media also criticized the behavior of local civic boosters across the United States.

“The hearings of the Reserve Bank organizers, generally speaking, have been more remarkable for the local jealousies they have disclosed than for the perception that there was anything of national significance in the new departure,” *The New York Times* wrote in an editorial.

In an attempt to return an appropriate tone to the hearings, McAdoo said several times publicly that the selection as a Reserve Bank city was not as important to future economic development as some citizens appeared to believe. The issue also was touched upon later in a statement issued by the Committee days after their selections were announced.

“It became clear in the hearings that comparatively few people realized, or seemed to realize, what the Act was intended to accomplish; what the nature and functions of the Reserve Banks were to be; and how little change would occur in the ordinary financial relations of the communities, the business establishments and the individual banks,” the Committee wrote.

In his book, Willis, who went on to become the first secretary to the Federal Reserve Board, says 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. The political aspects of the game soon took precedence of other considerations and the question became fundamental how to satisfy the greatest possible number of the places which were demanding the assignment of a Bank.”

WELCOME TO NEBRASKA

Agriculture has always been the fuel for the Nebraska economic engine. And in the early 1900s, that engine was firing on all cylinders.

Nebraska was fourth in terms of agricultural wealth, behind only Texas, Iowa and Illinois, according to the 1910 census, with nearly 130,000 thousand farms covering nearly 80 percent of the state's total land. Over the decade since 1900, the value of all farm property in the state had swollen by more than 178 percent, a pace that dwarfed most of the nation's top farming states. In 1912, total farm production, including crops and livestock, topped \$428 million, up 7 percent from the previous year.¹¹

Transportation was another important component in the Nebraska economy, with the Omaha area's involvement dating back to the founding of the Union Pacific Railroad in the 1860s. By 1914, the Union Pacific Line took 880,000 tons of freight into its terminals in Omaha, South Omaha and neighboring Council Bluffs, Iowa. Overall, railroads, including Union Pacific, Chicago, Burlington & Quincy, and others, did more than \$14.6 million in business in Nebraska in the most recent fiscal year.¹²

In terms of banking, at the time of the Federal Reserve Act's approval, Nebraska was home to nearly 1,000 banks, most of them small, community institutions. The state's 721 state-chartered banks had a total capital and surplus of \$17.8 million. Comparatively, 245 Nebraska banks with national charters had total capital and surplus of \$24.6 million.¹³

Nebraskans, including those living in both Omaha and Lincoln, believed that they should host one of the regional Reserve Banks. Both cities presented their arguments for a Reserve Bank to the Organizing Committee during a daylong hearing in the Federal Court Room of what was known then as the Post Office Building in Lincoln on Jan. 24, 1914. The structure at 129 N. 10th St. was later known as the Old Federal Building and eventually redeveloped into the Grand Manse.

¹¹ Data from various sources included in *U.S. Reserve Bank Organization Committee Exhibits and Letters Submitted at Hearings (Lincoln, Neb. and Omaha, Neb.)*

¹² Data from documents filed with the Nebraska State Railway Commission and included in *U.S. Reserve Bank Organization Committee Exhibits and Letters Submitted at Hearings (Lincoln, Neb. and Omaha, Neb.)*.

¹³ *Location of Reserve Districts in the United States*, letter from the Reserve Bank Organization Committee, April 29, 1914.

McAdoo opened the session at 10 a.m. stating that the committee was focused on addressing a purely economic problem. The committee did not want a political discussion, nor did it want to hear arguments about why a particular city might be superior to its regional neighbors.

“We do not care to be told about the beautiful streets nor the sewers that are in the city, nor things of that kind,” McAdoo said. “What we want are such facts as will enable us to determine what will best serve certain stated portions of the country in the creation of districts and what will best serve the communities within these districts.”¹⁴

After McAdoo’s opening remarks, P.L. Hall, president of Lincoln’s Central National Bank, presented the Lincoln Clearing House’s proposal for a massive Federal Reserve District that would be served by Lincoln. The District spanned from the western half of Iowa to parts of Oregon and Washington in Pacific Northwest, with sections of Kansas and Missouri to the south and a third of Montana to the north.

It was almost immediately clear that, when measured against the Committee’s criteria for selecting Reserve Bank cities, Lincoln was facing a substantial challenge. Congress had directed the Committee locate the Federal Reserve Banks and draw their respective Districts based on established business and banking relationships. McAdoo and Houston were charged with identifying commercial centers within the areas they served, which Lincoln clearly was not. For example, while Lincoln touted its rail access to the west, Hall had to admit that the vast majority of goods were passing through Lincoln on their east way to Omaha.¹⁵

It also became apparent that the Lincoln group had proposed a massive District, not because it was a geography that Lincoln served, but because the group felt it needed to encompass enough banks to create a viable District.

“That is not the point,” McAdoo said. “... (W)hat we would like to have is any evidence you have that Lincoln is the commercial center of this District.”¹⁶

Hall continued to defend the city’s effort, although conspicuously absent were Lincoln supporters from other communities within the District Lincoln had identified. Throughout the committee’s tour, remarks from these types of outside voices were fairly common. In Kansas City, for example, while the effort focused on creating the Reserve Bank on the Missouri side of

¹⁴ Stenographer’s minutes, Reserve Bank Organizing Committee hearing at Lincoln, Neb. Jan. 24, 1914.

¹⁵ Stenographer’s minutes, Reserve Bank Organizing Committee hearing at Lincoln, Neb. Jan. 24, 1914.

¹⁶ Stenographer’s minutes, Reserve Bank Organizing Committee hearing at Lincoln, Neb. Jan. 24, 1914.

the state line, Kansas bankers strongly supported the bid and the current Kansas governor spoke at the hearing in favor of Kansas City, Mo.

Hall told the Committee that Lincoln recognized “it has been the practice where you have been heretofore for a city ... to get friends to come before you. Now, we have not made any attempt to influence you in that way. We could have had hundreds of men in here today who would tell you that Lincoln would better serve their interests than any other city. We have some here that have come voluntarily, but we have not played politics in this matter and have not written letters to anybody requesting them to ‘leg’ for Lincoln.”¹⁷

Cross of gold

Hall’s comment about not playing politics could be viewed as either interesting or ironic. While it cannot be confirmed through any of the surviving documents, it might be reasonable to assume that Lincoln’s supporters were, in fact, relying on the idea that the city would be able to secure one of the Reserve Banks thanks the political clout of its most famous resident: Secretary of State William Jennings Bryan.

Bryan, who had called Lincoln home since 1887, rose as a political force on the national stage due largely to his own views on the issue of currency, which he shared in his well-known “cross of gold” speech. Even today, it remains among the most well-known speeches in U.S. political history.

In the speech, delivered at the 1896 Democratic National Convention, Bryan argued against the gold standard as the national monetary standard and in support of bimetallism, or the use of both gold and silver as currency. In terms of the money supply, use of the gold standard resulted in an essentially fixed supply – in fact the U.S. money supply had been virtually constant for six years at the time of Bryan’s speech.¹⁸ Bimetallism, meanwhile, was a means of growing the money supply. In general terms, the view at the time was that creditors were benefitting under the disinflationary environment of the gold standard while farmers and others could benefit from higher prices thanks to inflationary bimetallism.

¹⁷ Stenographer’s minutes, Reserve Bank Organizing Committee hearing at Lincoln, Neb. Jan. 24, 1914.

¹⁸ Milton Friedman and Anna Jacobson Schwartz, *A Monetary History of the United States 1867-1960*, Princeton, N.Y.: Princeton University Press, 1963.

Bryan explained this relationship by borrowing phrases from then-Treasury secretary John Carlisle, saying the issue question was a struggle between “the idle holders of idle capital” and “the struggling masses, who produce the wealth and pay the taxes of the country.”

“You come to us and tell us that the great cities are in favor of the gold standard; we reply that the great cities rest upon our broad and fertile prairies,” Bryan said. “Burn down your cities and leave our farms, and your cities will spring up again as if by magic; but destroy our farms, and the grass will grow in the streets of every city in the country.”

He famously concluded: “...we will answer their demand for a gold standard by saying to them: You shall not press down upon the brow of labor this crown of thorns; you shall not crucify mankind upon a cross of gold.”

The speech electrified the convention and Bryan was nominated for the presidency. It was an essentially unprecedented event based on Bryan’s age – he was 10 years younger than any previous presidential nominee – and his background – he was the first nominee for the White House to come from the western U.S. It was the first of three election where Democrats nominated Bryan for the White House, and while he was never victorious, his influence later made him something of a kingmaker within the party. In the 1912 election, he played a critical role in securing Woodrow Wilson Democratic nomination, upending Missourian Champ Clark, despite Clark entering the convention as the frontrunner.

After winning the presidency, Wilson named Bryan his Secretary of State, where he continued to be involved in the currency and banking issue. In his famous speech, Bryan had argued that currency should be under the control of the government instead of the private sector. Not surprisingly, Bryan initially opposed the Federal Reserve Act when early drafts gave too much power to banks. He supported the measure only after the government’s role was increased – a critical step toward expanding support for the measure within the party and paving the way for its eventual passage.¹⁹

“This great piece of legislation, the greatest piece of constructive statesmanship in a generation, has not only broken the hold of Wall Street upon the business of the nation, but it has broken the grip of Wall Street upon the politics of the United States,” Bryan said in 1916.

¹⁹ <http://www.federalreservehistory.org/People/DetailView/263>

Lincoln

While Bryan would unquestionably been the most powerful political force in Lincoln's favor, he was not the only one. The banker Hall was extremely active within the Democratic party. He was a long-time chair of the Nebraska State Democratic Committee and also served on the Democratic National Committee's Executive Committee.²⁰ Notably at the 1912 party convention, both he and McAdoo served on the Democratic National Committee where Wilson was selected. In a group photo, Hall sat, literally, at Wilson's right hand. The party platform that year included a plank focused on revamping the nation's banking system "with protection from control of dominion by what is known as the money trust.

"Banks exist for the accommodation of the public, and not for the control of business. All legislation on the subject of banking and currency should have for its purpose the securing of these accommodations on terms of absolute security to the public and of complete protection from the misuse of the power that wealth gives to those who possess it."²¹

In addition to possibly misjudging the role of any political influence, the Lincoln group also appeared to misinterpret the Committee's decision to stage the hearing in Lincoln, instead of Omaha.

Allen Field, an attorney speaking in Lincoln's favor, noted in his remarks that Lincoln was not the largest city in the region in terms of population, banking or commerce, which meant "that there must have been other considerations in the mind of the Commission when they consented to give Lincoln a hearing."

McAdoo responded that was not the case.

"Let me say there judge, that the selection of the cities in which hearings will be held was based wholly upon a desire simply to take points which were readily accessible to the people who might desire to be heard; and that it has absolutely no significance whatever. This is a convenient point, for instance, to hear Omaha and Lincoln, just as Kansas City was a convenient point to hear representatives from many places, just as Houston, Texas will be. But it does not imply that the Committee have prejudged the case in any way, or that we have made up our minds as to what ought to be the location of a bank."²²

²⁰ *The Baltimore (Maryland) Sun Almanac for 1909*, Baltimore, Maryland: A.S. Abell Co., 1909.

²¹ <http://www.presidency.ucsb.edu/ws/?pid=29590>

²² Stenographer's Minutes, Reserve Bank Organizing Committee hearing at Lincoln, Neb. Jan. 24, 1914.

During the hearing's break, McAdoo and Houston were luncheon guests of the Lincoln Commercial club. More than 400 members attended the event where both spoke briefly. McAdoo jokingly told members that, if Lincoln was not selected they should blame Houston.²³

Omaha

The hearing reconvened after lunch to hear the Omaha presentations.

The Omaha proposal appears to be based in part on the idea that Kansas City was likely to receive a Reserve Bank with Omaha serving a distinct territory of its own. Omaha's supporters made a case to the committee that their city was far more closely aligned with Chicago than Kansas City, despite the closer proximity of its southern neighbor.

For example, Ward Burgess, a drygoods wholesaler from Omaha was asked about business relationships, he noted that people in Kansas City "are very friendly in a social way, but when it comes to trade relations we do not want in any District which Kansas City would serve."²⁴

Later, Henry W. Yates, president of the Nebraska National Bank of Omaha made certain to cast his city in a favorable light against its potential rival to the south.

"...Omaha has always been a banking town," Yates said. "I have been in the business in Omaha myself for 50 years. In the old days, before we had any railroads business ... banking business came as naturally to Omaha as water comes down hill. We were the banking center of the whole Western country when Kansas City had comparatively little banking capital."²⁵

Omaha's supporters suggested a Reserve District encompassing western Iowa; southern South Dakota; a northern tier of Kansas, stopping short of Kansas City; parts of Montana and Idaho, as well as all of Nebraska, Wyoming, Colorado and Utah.

"(W)e would state that from the earliest settlement of this western country, Omaha has always been an important banking town," the Omaha contingent said in a written submission to the Committee. "Every bank which came into existence in the territories ... west of us found it necessary to keep an account in Omaha.

²³ *Lincoln (Neb.) Daily News*, Jan. 24, 1914.

²⁴ Stenographer's Minutes, Reserve Bank Organizing Committee hearing at Lincoln, Neb. Jan. 24, 1914.

²⁵ Stenographer's Minutes, Reserve Bank Organizing Committee hearing at Lincoln, Neb. Jan. 24, 1914.

“This was occasioned not only because it was the end of overland travel before the railroads came into being, but also for the fact that the first overland railroad made its start from Omaha, at an initial point fixed by President Abraham Lincoln.”

Unlike the Lincoln contingent, the Omaha group surveyed bankers in the region they believed would be included within an Omaha Federal Reserve District, with bankers asked to select their preference for Reserve Bank city from three candidates: Omaha, Lincoln and Denver. Yates noted that Omaha fared well in the survey, even in areas of western Nebraska that were actually closer to Denver.

That claim, however, became the focus of an awkward exchange. While Yates continued to his presentation about Omaha, McAdoo reviewed survey documents presented to the committee and noticed a telegram sent to some banks urging their support for Omaha in the survey and claiming “political influence (is) strong for Denver. Would be a calamity for Nebraska banks.”

McAdoo asked him for an explanation.

Yates said he knew nothing of the telegram, which was signed by the Omaha Clearing House Association, but the response did nothing to address the concerns of McAdoo and Ag Secretary Houston, who asked for evidence of such influence.

After some back and forth, Yates finally said that there had been talk that politics were playing a role in the process but, he pointed out, not affecting McAdoo or Houston “in the slightest degree.” Yates said that there was a belief that Colorado senators had been convinced to vote in favor of unrelated legislation in exchange for a Reserve Bank being located there. He said that the Omaha group never officially sent the telegram and that it must have been sent “by some enthusiastic member getting up the dispatch.”

McAdoo and Houston pushed the matter further and demanded evidence. Yates finally said that he had been involved in discussions with William Jennings Bryan that led him to believe Bryan also favored a Reserve Bank in Denver, which he could not understand.

McAdoo defended his fellow cabinet member, saying Bryan had not expressed any views related to Reserve Bank cities. He then told Yates that he wanted an investigation regarding the source of the telegram and, absent a sufficient explanation, suggested that he would be willing to subpoena witnesses and have them testify under oath – something the Committee had not done and a step that McAdoo said he did not want to take.

The committee then heard a few additional brief presentations before ending the session at 3:30.

To resolve the telegram matter, and avoid the messy subpoena process, Yates later provided the Committee with a written response regarding the telegram, explaining that the Clearing House had ordered a follow up telegram be sent to bankers who had not responded to their initial survey. According to Yates, the wording was left to be written by someone on the staff, but there had been a desire to “impress on banks in Nebraska and elsewhere ... the possibility that Denver could be named for a Reserve Bank.”²⁶

Regional rivalries were evident in many areas of the country and, as might be expected, emerged in Nebraska.

The *Lincoln Trade Journal*, in its issue published the day of the hearing, made a clear attack on its neighbor to the East.

“It is not generally regarded that Omaha will be seriously considered in the matter at all,” the paper wrote. “Its antagonism to its own neighbors, as evinced by its ridicule and belittlement of Lincoln as an applicant, will alone cause the locaters of the regional banks to question whether a community with a commercial spirit of that kind could or would do justice to its surrounding territory were it designated as a bank location.”²⁷

Field later said that he and Hall had agreed prior to their remarks that, if the Committee asked, both would voice support for Omaha as their second choice. Field later said, however, that he may not have kept the agreement.

“I don’t know that I would have said it ... after I got up there and witnessed the attitude of the Omaha men,” Field said in the newspaper’s April 3, 1914 edition. “All reference to Lincoln was made with an open sneer and I didn’t like it. I am not usually a man who will turn the other cheek when I have been slapped and I interpreted Omaha’s attitude as a slap. There is no other conclusion. Omaha’s attitude hurt Lincoln’s chance to be considered and I think Lincoln’s failure to join hands with Omaha hurt that city.”

²⁶ U.S. Reserve Bank Organization Committee Exhibits and Letters Submitted at Hearings (Lincoln, Neb. and Omaha, Neb.)

²⁷ *Lincoln (Neb.) Trade Review*, Jan. 24, 1914.

The selection

Although the telegram was a significant issue in the hearing, it likely had no impact on the Reserve Bank Organizing Committee's decision to include Nebraska within the Tenth Federal Reserve District with the headquarters Bank in Kansas City.

Omaha supporters were outraged by the decision which they believed to be heavily influenced by politics. Nebraska Sen. Gilbert Hitchcock quit the Democratic Caucus the previous July amid a dispute related to his proposal to institute a progressive excise tax on tobacco firms.²⁸

"The rejection of Omaha's superior claims as a banking center was apparently foreordained when our United States senator got in bad with the administration by bolting his party caucus and exposing himself to discipline," The *Omaha Daily Bee* wrote in an editorial titled "Just Politics—That's All."²⁹

Omaha banker Yates, meanwhile, pointed a finger directly at Bryan.

"It is disgraceful – it is outrageous," Yates told a reporter. "In my judgment, the outcome will have decided political effect. I can't see any other result but that Mr. Bryan has killed himself in Nebraska. There is no question that but Lincoln was raised up as a candidate for a place to be knocked down, carrying Omaha with it."

Within a matter of days, the city's Clearing House Association passed a resolution asking for Nebraska and Wyoming to be transferred to the Chicago Fed District. A petition seeking redraw the District lines in that manner was filed with the Fed's Board of Governors. The request was rejected.

Lincoln's supporters, meanwhile, moved on a different track, sending a congratulatory telegram to the Kansas City Clearing House and reminding the organization that Lincoln would like to be considered for a Branch office when those decisions were made.

Meanwhile, new rivals for Branches were emerging, with bankers in Oklahoma City, Tulsa and Muskogee, Okla., as well as those in Wichita, Kan., all reaching out to Kansas City to express their interest. Kansas City bankers, meanwhile, predicted that the Federal Reserve Bank

²⁸ Unlike modern day tobacco taxes, Hitchcock's measure had no connection to health-related concerns and was instead proposed as a measure against the dominance of "big tobacco" producers over their smaller competitors. The tax was designed to curtail the production of only a handful of the nation's 2,700 tobacco companies and 20,000 cigar manufacturers by making production unprofitable above certain specified levels. For details, see New York Times, June 6, 1913. Pg. 1. Tobacco Tax Aimed at a Few Big Firms.

²⁹ *Omaha (Neb.) Daily Bee*, April 4, 1914.

of Kansas City, once operational, would move quickly to open branch offices in Omaha and Denver.

The Committee's view

Faced with challenges from other regions, including bankers in Baltimore and New Orleans regarding the Committee's decision to not locate regional Banks in those cities, the Committee issued a written statement explaining that its primary focus had been not on the cities that should host the Reserve Banks, but on the task of drawing Federal Reserve Districts in a manner that met the requirements of the Act.

“The committee realized that the division of the country into districts was far more important and complex than the designation of reserve cities, and that the latter duty was subsidiary and relatively simple, waiving considerations of local pride or prestige,” the committee said.³⁰

Many people, the committee said, appeared not to understand the nature of the institutions nor what the Act was hoping to accomplish.

In many areas, the committee was confronted by conflicting claims and “somebody had to judge.” The committee was that “somebody.”

In a report detailing their decision, the Committee said there were “problems of difficulty” in drawing the Tenth Federal Reserve District. In many instances, bankers simply preferred to have the Reserve Bank located within their own state. For example, Omaha and Lincoln received support in Nebraska but virtually none in the other states they included in their proposed Federal Reserve Districts. Kanas City, however, had more broad-based support, including being selected as the first choice by bankers in Missouri, Kansas, Oklahoma and New Mexico.

“It seemed impossible to serve the great section from Kansas City to the mountains any other way than by creating a district with Kansas City as the headquarters,” the Committee wrote, noting that Kansas City was also a larger city in terms of its business and banking relationships. For example, as of June 1913, loans and discounts of all reporting banks and trust

³⁰ Statement from the Reserve Bank Organizing Committee, April 10, 1914.

companies in Kansas City totaled more than \$91 million, compared with a total of about \$84 million for Omaha, Denver and Lincoln combined.³¹

³¹ *Location of Reserve Districts in the United States*, letter from the Reserve Bank Organization Committee, April 29, 1914.

THE FED COMES TO NEBRASKA

Nationally, speculation about which cities might be home to Branch offices for the nation's new regional Federal Reserve Banks started as soon as the Reserve Bank Organizing Committee announced the boundaries of the 12 Federal Reserve Districts on April 2, 1914.

And with that speculation came a second round of campaigns. Cities that had been unsuccessful in their previous bid to win one of the regional offices retooled their efforts.

Although it would be seven months before the Federal Reserve Bank of Kansas City opened, and another three years before the Federal Reserve System began the widespread opening of Branches, newspaper accounts suggest the Tenth District Branch cities were fairly obvious.

An article about the characteristics of the Tenth Federal Reserve District published by *The Wall Street Journal* soon after the Reserve Bank Organizing Committee's announcement identified all three of the District's eventual Branch cities.

"Bankers who made a study of the probable operation of the new Federal Reserve System generally agree that the Federal Reserve Bank to be established in Kansas City for District No. 10 will open two branches, one at Omaha and another at Denver, soon after the parent institution is in operation," reads an article in the newspaper's April 25, 1914 edition.

The Branch question

The issue of Branches raised a somewhat difficult question for the nation's new central bank. Some of the public expected to see Branch locations opening almost immediately after the Federal Reserve System became operational. The new regional Banks, however, were uninterested in opening additional offices, and taking on increased costs, without a clear demonstration that the Branches were necessary to serve their Districts.

The Federal Reserve Act offered little guidance. Although the Act does spell out some provisions for Branch governance, it offers no criteria or requirements for opening Branch offices. Instead, it offers only a sentence that was often pointed to by those urging a quick opening of Branch offices:

"Each Federal Reserve Bank shall establish Branch Banks within the Federal Reserve District in which it is located."

It is clear that the issue of Branch offices was a concern from the System's opening.

The first Branch of a Federal Reserve Bank opened on Sept. 10, 1915, in New Orleans – a city that many were surprised was not selected for a regional headquarters. The Branch of the Federal Reserve Bank of Atlanta was almost immediately successful, according to the Federal Reserve Board's 1915 annual report. The report, however, follows its comments about New Orleans with a paragraph suggesting Branches would not be viable elsewhere in the near future:

“Investigation and experience have seemed to show that, at least for some years to come, the organization of Branches with completely equipped offices, vaults, and the like, and with a full staff of salaried officials, will be too heavy an expense for most of the Reserve Banks.”

That position changed in the following years.

In his 1922 paper, “The Establishment and Scope of the Branches of the Federal Reserve Banks,” E.R. Fancher, then-governor of the Federal Reserve Bank of Cleveland, says that the Bank's increased responsibilities after the United States entered World War I boosted earnings and provided funding that allowed for the opening of Branches.

There was, perhaps, another reason that contributed to the decision.

Increasing public frustration about the Branch issue meant the Federal Reserve also faced the potential for legislation that would require Branch openings. Instead, the Federal Reserve Act was amended to clarify some of the Branch issues in June 1917, and Branch openings soon followed with five Branch openings, including one in the Tenth District.

Omaha

According to an unpublished history of the Federal Reserve Bank of Kansas City authored by early Bank employee Jess Worley, the Omaha Clearing House banks sent a letter to the Federal Reserve Bank of Kansas City officially seeking a Branch in June 1917.

Jo Zach Miller, Bank president and Charles Sawyer, chairman of the Bank's Board of Directors, traveled to Omaha on July 10 to explore the issue.³² The pair arrived in Omaha in time for dinner and met with bankers for two hours before returning to Kansas City by train that evening.

³² Miller's title at the time was actually “governor.” The title of the position was later changed to president. President is used here for clarity.

Despite the hopes of some, Miller did not use the July 10 meeting to announce the formation of an Omaha Branch. The city's bankers, however, left the meeting encouraged.

"I feel that our meeting was a success, and although nothing was definitely determined, I think several questions which have been bothering us are satisfactorily settled," Luther Drake, president of the Merchants National Bank, told *The Omaha World-Herald* for its July 11, 1917 edition. "I think Omaha, an important rail hub in its own right, made a strong case for winning a regional Bank office in 1914, so it was not surprising when the city was selected for the first Federal Reserve Bank of Kansas City Branch office.

It would come quickly. The Federal Reserve Bank of Kansas City's Board approved the Omaha Branch during a meeting two days later. The Federal Reserve Board in Washington, D.C., signed off on the Kansas City decision on July 18.

"I am naturally delighted to know the Branch bank will be located in Omaha," J.H. Millard, president of Omaha National Bank and a senator at the time, told *The Omaha World-Herald* for its July 12, 1917 edition. "All the Omaha bankers think it will be of great benefit to this city and to the entire state as well as the state of Wyoming. It is just the thing we needed."

The Branch's first Board of Directors included Drake, Hall, who had spoken to the Reserve Bank Organizing Committee on Lincoln's behalf during the hearing; J.C. McNish from McNish Cattle Loan Co. in Omaha; W.B. Hughes from the Omaha Clearing House; and R.O. Marnell, a banker from Nebraska City.³³

The Branch opened on Sept. 4, 1917, in what was then known as the old First National Bank Building at 1219 Farnam St. The Federal Reserve later purchased the building, which became known as the Farnam Building, for \$165,000 in 1920. The Branch, however, soon needed new space and began construction on a new building at 1701 Dodge Street, which opened in November 1925. The building, which stood on the site that has since become home to the U.S. District Court, included what was called a "round house" with an 18-foot round moving platform that armored trucks would pull onto and then be rotated for currency and coin delivery.³⁴

That delivery area may have been its most active in August 1931 amid a run on Nebraska banks caused by the closing of four institutions over the span of a week. The Federal Reserve sent an additional \$3 million in currency from Kansas City to the Omaha Branch to meet

³³ Press Statement from the Federal Reserve Board, issued July 18, 1917.

³⁴ Sally A. Kitt Chappell, *Architecture and Planning of Graham, Anerson, Probst and White, 1912-1936*, Chicago, Ill. University of Chicago Press, 1992

possible withdrawal demands. The city's leading banks, meanwhile, announced they would extend hours to accommodate those seeking to withdraw funds.

“With the announcement that the larger banks were prepared to meet the emergency with plenty of cash on hand, the crowds milling about the entrances thinned a little and the tension seemed broken,” reads an Associated Press report.³⁵

The Omaha Branch expanded its headquarters, including its vault space, with a two-story addition in the mid-1950s. The Bank considered future Branch expansion with nearby property purchased in the 1960s and 1970s that would have provided room for further additions. Rather than expand, however, the Federal Reserve purchased property at 22nd and Farnam Streets in 1981 and, in 1984, began construction on the current Omaha Branch office. The facility opened in 1986.

Less apparent from the outside have been the evolution in Branch operations reflecting developments in the financial system and the economy. Initially, the Branch served banks in both Nebraska and Wyoming. Wyoming banks were transferred to the Federal Reserve Bank of Kansas City's Denver Branch in 1971. Operationally, as consumers moved away from the use of written paper checks to electronic payments, the Federal Reserve reduced its check processing capabilities across the Federal Reserve System. The Omaha Branch processed its last check on April 23, 2004. The Omaha Branch's Cash operation consolidated to Kansas City with the opening of the new headquarters in 2008.

While the consolidations in operations resulted in a decrease in staff at the Omaha Branch, the Branch's engagement in the region has continued to expand.

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³⁵ *Lincoln (Neb.) Star*, Aug. 15, 1931.