

INTRODUCTION

Since its opening in 1918, the Denver Branch of the Federal Reserve Bank of Kansas City has provided a direct link between the nation's central bank and the Mountain States, including Colorado, Wyoming and northern New Mexico. 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 the communities it serves, the Branch and the Federal Reserve both have 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 daily. Today, the Branch is led by an economist focused on providing Fed policymakers with important insight and analysis on the regional economy, with staff that performs other important functions such as bank supervision, financial services, community development, public outreach and economic and financial education, in addition to providing Fed policymakers with important insight and analysis on the regional economy. Through a network of numerous relationships with businesses and communities across the region, the Fed closely monitors banking, economic conditions and concerns, ensuring that the region's voice is heard in the Federal Reserve's policy deliberations.

The Branch also hosts a number of public events 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.

Cover image: The entrance to the Denver Branch of the Federal Reserve Bank of Kansas City's previous facility. The building at 1111 17th St. was used from 1925 until the Branch moved to its current location in 1968. The older building was demolished in conjunction with an urban renewal project shortly after the Fed offices were relocated.

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 many 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 were opposed. The approved bill then lingered on George Washington's desk. The first president, a farmer who was understandably sympathetic to the agricultural interests, was believed to be strongly influenced by Jefferson's views. Eventually, Hamilton wrote a 15,000-word report about the bank that eventually convinced Washington to sign the bill.

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

²M. 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.

The First Bank of the United States opened Dec. 12, 1791, in Philadelphia with a 20-year charter. When it came up for renewal in 1811, those who had opposed the Bank 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 at that time could issue their own currency, 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 wrote 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 then was 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 stockholders appointed all of the First Bank's directors, the government appointed five of the Second Bank's 25 board members. The Bank opened Jan. 7, 1817, in Philadelphia with a 20-year charter.

³M. 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.

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 also was 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 once again were 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 was not set to expire for 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 force Jackson either to back down on his promised veto or follow through and likely doom his re-election bid.

⁴H.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 U.S. Senate while getting through the House of Representatives 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 July 4, 1832. Vetoes then 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, however, was not intimidated. The Bank bill promptly was 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.

A NEW CENTRAL BANK

The end of the Second Bank had significant 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 Panic of 1837 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 economic overexpansion following the Civil War. The collapse largely was caused by the failure of Jay Cooke & Co., then a massive investment bank that was deeply involved with the Northern Pacific Railroad. The bottom fell out when the market for railroad

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

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

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

bonds collapsed after revelations of corruption emerged in the building of the Union Pacific Railroad.

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 new Bank's structure in a way that assured broad representation and mitigated the risk of potential abuse.

While other countries had successful central banks that operated under tightly consolidated authority, it was believed that 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 U.S. Sen. Robert L. Owen of Oklahoma, 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

⁸Robert Craig West, *Banking Reform and the Federal Reserve 1863-1923*. (Ithica, N.Y.; Cornell University Press, 1974) p. 107

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 of 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

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 as a home for one of the nation’s new Federal Reserve Banks. However, 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.

The Act included only about 300 words—essentially a lengthy paragraph—regarding the establishment of Federal Reserve Districts and the locations of the Banks, that covered a few key points:

- 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.”

⁹Carter Glass, *An Adventure in Constructive Finance*. New York: Doubleday, Page and Co., 1927, p. 82.

- 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 new Reserve Bank Organizing Committee. With Wilson still considering who to nominate for Comptroller of the Currency, the Committee was a two-member panel, but it quickly forged ahead with 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 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*.

He also wrote: “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 its preference 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 had 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 Washington, D.C. for hearings. The tour could also be scheduled on short notice with the contingent embarking on its 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, it often found itself 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 news 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 its 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 became 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 Colorado

Colorado’s economic potential was evident well before the state itself was established. Reports of small gold discoveries in the region date to at least the early 1800s with the first major gold find near Denver in 1858. Colorado was organized as a territory in 1861.

While the initial gold finds may have lured the early prospectors, the Colorado’s population started to boom after it achieved statehood in 1876. According to U.S. Census

records, between 1870 and 1880 the number of Coloradoans increased nearly fivefold, the early years of a boom that saw the state’s growth substantially outpace the national rate for decades to come.

As of the 1910 census, Colorado had nearly 800,000 residents—nearly 50 percent more than the number who had called the state home only a decade earlier. The state’s economy also became more diversified. In addition to miners and gold seekers, Colorado saw a near doubling in the number of farms between 1900 and 1910 and a 30 percent increase in the number of individuals involved in manufacturing and industrial activity.¹⁰

Despite these gains, however, Colorado in 1910 still was a comparatively small state in terms of population. At the time, it ranked 32nd of 48 states—falling just behind Connecticut and its 1.1 million residents—and was a fraction of what it would become. For example, Denver in 1910 had a population of 213,000—a century later, the city was at the heart of a multijurisdictional metropolitan area with nearly 3 million total residents.¹¹

Reflecting the relatively sparse population at the time of the Fed’s founding, the region’s banking resources were not as fully developed as in other parts of the country. For example, in 1913, Colorado was home to 512 banks—about half the number in Nebraska at that time. Banking resources were even more limited in Colorado’s neighboring Mountain States.^{12, 13}

The lack of local banking resources was a significant challenge for Coloradoans who hoped Denver would be selected as home for one of the nation’s new regional Federal Reserve Banks. The only way Denver supporters could muster enough banking capital to deserve a regional Reserve Bank was to propose a massive Federal Reserve District for the Bank to serve, encompassing all or part of 12 states spanning 1,200 miles from Canada to Mexico. Its western edge was near the eastern borders of Washington and Oregon, while on the east, the District was bounded by the 100th meridian that bisects Nebraska and cuts south across western Kansas—the line that was traditionally seen as beginning of the western United States.

“(F)or close to such a line there is a broad belt of country where the density of population is the lightest and where the kind of crops and methods of farming change, where the customary course of business changes, where, with the change of time from ‘Central Time’ to ‘Mountain

¹⁰Economic data from 1910 U.S. census.

¹¹U.S. Census data 1910, 2010.

¹²Stenographer’s Minutes. The Reserve Bank Organization Committee at Denver, Colorado. Jan. 26, 1914.

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

Time,' the people gradually change their sympathies," reads the presentation from the Denver Chamber of Commerce and the Denver Clearing House Association to the Reserve Bank Organizing Committee.

Including the Colorado institutions, this entire region was home to 1,618 banks.¹⁴ However, for Federal Reserve purposes at the time, that number was misleadingly high. State laws in Colorado and at least five other states in the proposed District would have to be modified to allow state-chartered banks to become Federal Reserve members.¹⁵ In Colorado alone, that law impacted more than 200 state-chartered banks.

This was a significant roadblock for Denver to overcome. Banks that are Fed members create the ownership structure in the Fed's system of checks and balances by purchasing stock in their District's Reserve Bank. This is not stock in the traditional sense in that it does not trade on a market, cannot be sold, exchanged or pledged as collateral. Instead, this stock is used to create the private sector component of the Fed's public-private structure as designed by Congress. The Federal Reserve Act required Federal Reserve Districts to have at least \$4 million in subscribed capital but Denver organizers, without a change in the applicable state laws, could come up with just about \$3.4 million. In response, Denver supporters provided the Committee with a list of more than 100 individuals willing to purchase stock, some of them agreeing to spend as much as \$25,000, to generate a total of about \$500,000 in capital they hoped would help offset the shortfall.¹⁶

The Colorado banker

What Denver lacked in the number of banks, it made up for in its support of the Fed's decentralized system.

Three years before approving the Federal Reserve Act, Congress had considered another option for improving the nation's financial stability through the creation across the United States of National Reserve Associations. This system, which was devised under what was known as the Aldrich Plan, would have operated under the coordination of Wall Street bankers—a concept that had drawn especially vocal opposition in Colorado. During a November 1911 hearing in Denver,

¹⁴Stenographer's Minutes. The Reserve Bank Organization Committee at Denver, Colorado. Jan. 26, 1914.

¹⁵U.S. Reserve Bank Organization Committee Exhibits and Letter Submitted at Hearings—Denver.

¹⁶U.S. Reserve Bank Organization Committee Exhibits and Letter Submitted at Hearings—Denver.

bankers suggested that the creation of regionally-controlled banks was a far more appropriate solution.¹⁷

Gordon Jones, president of Denver's United States National Bank who at the time also was engaged in other small Colorado banks, told the Aldrich Committee that he had several concerns about Wall Street having virtually unfettered leverage over the rest of the financial system—a fear that was supported by the fact that stock trading and financial institutions in New York had been at the heart of the 1907 crisis.

“If it is possible to conceive of such great commercial interests as exist at present, how much more easily would it be for a master mind to conceive and carry out a plan for a clique of men to control enough large banks of the country, and, through those large banks, the smaller correspondent banks?” he asked the committee.¹⁸

Jones was especially concerned that the large eastern banks would be in a position to quickly deplete Association resources during a financial crisis, leaving banks across the rest of the nation vulnerable.

“It appears to me that there should be some manner whereby the banks of the West should be protected.”

Jones, who proclaimed himself “a country banker,” had a background that gave him a unique insight.¹⁹ Raised in the Kansas City suburb of Liberty, Mo., he worked at multiple banks in that state before becoming involved in Missouri legislation that led to the creation in the late 1800s of a state bank examiner. Jones was the first individual to hold the state regulatory position. He returned to banking and later moved to Colorado, where he was credited for maintaining the stability of Denver banks during the 1907 crisis—as he later described his bank during the crisis: “We protected our own community.”²⁰

In 1908, Jones was elected president of the Colorado Bankers Association and in 1910 he became a member of the American Bankers Association executive council.²¹

His views on local control were included in a biography published shortly after his death:

¹⁷Stenographer's Minutes. The Reserve Bank Organization Committee at Denver, Colorado. Jan. 26' 1914.

¹⁸The *Commercial and Financial Chronicle*. Nov. 18, 1911.

¹⁹Proceedings of the 39th Annual Convention of the American Bankers Association, Boston, Massachusetts. Oct. 7 to 10, 1913. American Bankers Association. New York. 1913.

²⁰Banking and Currency Hearings before the Committee on Banking and Currency, United States Senate. Sixty-third Congress, first session. Vol. III. Government Printing Office. Washington, D.C. 1913.

²¹Stone, Wilbur Fisk. *History of Colorado Vol. II*. S.J. Clarke Publishing Co. (1918)

“Jones took the position that the West was opposed to any currency reforms which would place the funds of the country under the control of Wall Street interests, and this view was from then on the authorized opinion of the West on the ... Aldrich Plan.”²²

To address this concern, Jones proposed to the Aldrich Committee a number of revisions that would distribute local control of the system outside of the financial sector, including a requirement that the proposed Reserve Associations include directors that not have any role in banking, but instead represent “the agricultural, commercial and industrial interests” of their region.²³

Jones was perhaps even more active as Congress deliberated legislation that created the Federal Reserve. During the American Bankers Association’s 1913 annual meeting in Boston, Jones led a special meeting that exclusively engaged small banks—primarily agricultural lenders—in discussing the potential impact an early draft of the Federal Reserve Act might have on their institutions.

“This will be a conference of bankers that finance the farmers,” Jones told a reporter prior to the meeting.²⁴ “In the formal sessions of a general convention, the small agricultural banker is not likely to be heard from. He is not in touch with others of his class, sits back and hears questions discussed by a few well-informed fluent talkers and usually he says nothing, although he may have views on the question as applied to his own branch of the banking business that should be heard.”

About 300 community bankers took part in Jones’ Boston session—a standing-room-only crowd—which was chaired by Atchison, Kansas banker Willis Bailey.^{25, 26}

“In my judgement, the voice of this meeting will be far more potent in Washington than the voice of Wall Street,” Bailey said in his opening remarks.²⁷ “What the framers of this bill want is to make friends with the country bankers.”

The group adopted a resolution voicing concerns about such issues as national currency, reserve requirements and check collection. Overall, however, the group was firmly in favor of

²²Stone, Wilbur Fisk. *History of Colorado Vol. II*. S.J. Clarke Publishing Co. (1918)

²³Stone, Wilbur Fisk. *History of Colorado Vol. II*. S.J. Clarke Publishing Co. (1918)

²⁴*The New York Times*, Oct. 6, 1913.

²⁵*The Boston Globe*, Oct. 7, 1913.

²⁶Banking and Currency Hearings before the Committee on Banking and Currency, United States Senate. Sixty-third Congress, first session. Vol. III. Government Printing Office. Washington, D.C. 1913.

²⁷*The Boston Globe*, Oct. 7, 1913.

the Act. The resolution noted that, for rural bankers, the “speedy passage into law is desirable” and that this type of legislation “has already been too long delayed.”²⁸

A week later, Jones was among a contingent of country bankers appearing before the Senate Banking and Currency Committee over a two-day period to discuss the resolution and the views of country banks on the central bank proposal.²⁹ Notably, during the deliberations Jones referenced his experiences as a Missouri bank examiner to correct some misperceptions about the financial system voiced by Missouri Sen. James A. Reed.

He also stressed that country banks were “not only the man who sits behind the (bank) counter.

“It is the stockholders and directors. And the stockholders and directors of the country banks are the local farmers, the merchants, women, and often widows of some farmer who has died or children of the deceased stockholders.”³⁰

The overriding theme of Jones’ comments was the importance of making sure that smaller banks had a role in the central bank.

“We are not very large bankers, but we want to give you the benefit of what experience we have,” he said.³¹

Denver’s pitch

Unsurprisingly, Jones was the first speaker during the Reserve Bank Organizing Committee’s hearing in Denver in 1914 and his opening comments alluded to the remarks he had made only a few years earlier.

“We believe you are now in the city that advanced, among the first, the idea of regional banks, instead of a centralized institution with branches,” Jones told the Committee.³² “This ... is only mentioned that you may understand that outside of local interests or financial gain there would be here an especial pride in making a regional bank a success.”

²⁸*The Boston Globe*, Oct. 7, 1913.

²⁹Banking and Currency Hearings before the Committee on Banking and Currency, United States Senate. Sixty-third Congress, first session. Vol. III. Government Printing Office. Washington, D.C. 1913.

³⁰Banking and Currency Hearings before the Committee on Banking and Currency, United States Senate. Sixty-third Congress, first session. Vol. III. Government Printing Office. Washington, D.C. 1913.

³¹Banking and Currency Hearings before the Committee on Banking and Currency, United States Senate. Sixty-third Congress, first session. Vol. III. Government Printing Office. Washington, D.C. 1913.

³²Stenographer’s Minutes. The Reserve Bank Organization Committee at Denver, Colorado. Jan. 26’ 1914.

As a part of its written submission to the Committee, Denver supporters, led by Jones, noted that the importance of a regional Reserve Bank was to gain a “familiarity ... and knowledge of local conditions.

“This is especially true of this sparsely settled section of the country, relatively isolated from the populous portion of the country by time and distance with industries and needs peculiar to itself, and not generally understood by other sections of the country.”³³

As was the case in the other cities on the Committee’s itinerary, testimony heard at the Denver hearing included a nearly mind-boggling array of information, some relevant—the Denver Clearing House banks handled about \$16 million in shipments of currency, gold and silver in 1913—and some details where the banking connection was not quite so clear—Colorado was home to 17 beet sugar factories.³⁴ Also, like in other cities, some at the Denver hearing believed incorrectly that a regional Reserve Bank would be an important source of credit to boost the local economy. A Utah banker at the Denver hearing said a Reserve Bank was needed nearby because the area was “the weakest spot in the United States ... so far as banking capital and banking deposits are concerned.”³⁵

During the hearing, it became apparent that many Denver supporters believed Kansas City would be a suitable choice for the region if Denver was not selected, although one Denver attorney argued that a Kansas City headquarters would leave Denver without a role in the Bank.

The comment drew a sharp response from Treasury Secretary McAdoo.

“It might transpire that with a headquarters bank at Kansas City there would not be a single (Kansas Citian) on the (the Bank’s) board (of directors). That may happen,” he said. “On the other hand, it might certainly happen that a Denver man would be on the board, but just assuming that (the directors) discharge their duty justly and impartially with respect to the whole District – we must assume that we can get American citizens who are impartial and honorable enough to discharge these duties no matter where the headquarters may be.”

³³Letter to Reserve Bank Organizing Committee from The Regional Bank Committee of the Denver Chamber of Commerce and the Denver Clearing House Association, Feb. 9, 1914. U.S. Reserve Bank Organization Committee. Exhibits and letters submitted at hearings (Denver).

³⁴Stenographer’s Minutes. The Reserve Bank Organization Committee at Denver, Colorado. Jan. 26, 1914.

³⁵Stenographer’s Minutes. The Reserve Bank Organization Committee at Denver, Colorado. Jan. 26, 1914.

Shortly after this remark, McAdoo clarified that Committee members had challenged speakers throughout the process and had not yet made any decisions regarding Federal Reserve Districts and the cities where Banks would be located.

The Committee's view

After completing its tour and reviewing the evidence, the Committee placed Colorado, Wyoming and northern New Mexico within the Federal Reserve's Tenth District, with the headquarters Bank in Kansas City, Missouri. As required under the Act, Congress had directed the Committee to create Districts with "due regard to convenience and customary course of business."³⁶ Denver's business and economic ties were not as far-reaching as Denver supporters suggested. Banks in Montana, for example, had expressed a preference for Minneapolis and not Denver.

The Committee issued a written statement explaining its work, noting that its primary focus had been not on the specific cities that wanted to host the Reserve Banks, but on the task of drawing Federal Reserve Districts under the Act's requirements and then choosing which cities were the most appropriate to serve as a headquarters for those Districts.

"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.³⁷

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 its decision, the Committee said there were "problems of difficulty" in drawing the Tenth District. In many instances, bankers simply preferred to have the Reserve Bank located within their own state. Kansas City, however, had more broad-based support, including being selected as the first choice by bankers in Kansas, Missouri, Oklahoma and New Mexico, while it was a second choice by many bankers in other areas, including numerous Colorado bankers.

³⁶Federal Reserve Act

³⁷Statement from the Reserve Bank Organizing Committee, April 10, 1914.

“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 companies in Kansas City totaled more than \$91 million, compared with a total of about \$84 million for Omaha, Denver and Lincoln combined.³⁸

When the Bank opened in Kansas City, however, Denver was well represented with Jones and another Denver resident, attorney R.H. Malone, both serving on the Bank’s Board of Directors. They were joined on the Board by Jones’ counterpart from the ABA community banker meeting, Willis Bailey.^{39, 40}

THE FED COMES TO COLORADO

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 efforts 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, some in Denver already were confident a Branch was coming to the city.

³⁸Location of Reserve Districts in the United States, letter from the Reserve Bank Organization Committee, April 29, 1914.

³⁹Bailey later served as the Bank’s governor, the position we today know as chief executive officer and president, from 1922 through 1932.

⁴⁰For Jones, the years that followed were tragic. He survived a fiery 1916 automobile accident, although his son and son-in-law died in the incident. About 12 months later, he was hospitalized with a stomach ailment. After suffering complications, he died April 14, 1917. He was 52. His funeral was covered by the *Rocky Mountain News*: “During the hour of his funeral, banks closed, business men left their desks, workers took leave of their counters, the heart of Denver’s life converged for the moment toward the Central Presbyterian church to pay a rare tribute of love and respect to the memory of Gordon Jones, financier and idealist. To few men does it come to have the public praise of their life reflected to sincerely as at the funeral of Gordon Jones. In the business hours of the day, rich men and poor men, old and young, seized the opportunity to give testimony of their regard for the man who had stood so high in the affairs of this city.” His will stipulated that a portion of his estate be used to purchase a cottage in the mountains near Denver “as a place of rest and recreation” for the employees of his bank.

Almost immediately after the 12 Districts were announced, Jones told a reporter he had been assured by McAdoo that the city would receive a Branch office.⁴¹

It seems unlikely that McAdoo would have made an explicit promise of a Branch. Transcripts from the Reserve Bank hearings across the United States show the Treasury Secretary was extremely careful with his statements and unwilling to make any commitments. His comment to Jones may have been more cautiously worded than Jones suggested and reflected what was already apparent to those who had observed the process. Newspaper accounts suggest the Tenth District Branch cities were obvious.

An article about the characteristics of the Tenth 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.”⁴²

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.

⁴¹*Rocky Mountain News*, April 3, 1914.

⁴²*The Wall Street Journal*, April 25, 1914.

The first Branch of a Federal Reserve Bank opened 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 in June 1917 to clarify some of the Branch issues and Branch openings soon followed with five Branch openings, including one in the Tenth District, in Omaha, Nebraska.

To the West, it was almost immediately apparent that Denver’s central location in the West would serve as a critical connection point for the nation’s new central bank. Kansas City Fed Gov. Jo Zach Miller Jr. told a group of about 250 Colorado bankers that Denver would be in line for a Branch in remarks he made in Denver only a few months after the Fed had begun operations.^{43, 44}

The Denver Clearing House Association officially submitted a request for a Branch of the Kansas City Fed in July 1917.

“The Denverites were so convinced of the Federal Reserve’s value to Denver that the Association’s member banks volunteered to cover any deficit in operations. The (Bank’s) Board unanimously agreed in August to establish a Branch in Denver,” reads a 1968 account of the Branch’s history.

⁴³Miller’s position as Bank governor was the same position later renamed “Bank president.”

⁴⁴*Denver News*, March 6, 1915.

The Denver Branch of the Federal Reserve Bank of Kansas City opened Jan. 14, 1918, in the Interstate Trust Building at the corner of 16th and Lawrence streets.

“The Denver Branch of ... was formally opened yesterday, and while some business was transacted, the day was given over to receiving callers as representatives of practically every other bank in Denver and many from out of town called to offer their congratulations on the installation of this Branch,” reads an article in the Jan. 15, 1918, edition of *The Rocky Mountain News*.

The Denver Branch was one of 10 Federal Reserve Bank Branches that opened in 1918, giving the System 16 Branches by the end of the year. The System’s relatively quick transition from reluctance toward the idea of Branches to an embrace of the Branch model in only a couple of years is not surprising. The Branches improved the efficiency of the regional Reserve Banks, giving them a direct connection to areas often far from the regional headquarters. The Branches also offered the potential for increased System membership by commercial banks in the area. This increase in membership, in turn, could bring greater stability to the entire System.

Tragedy

Conditions in the Interstate Trust Building were difficult. Former Bank Director Bailey, who became the Bank’s governor in 1922, once noted that when he visited the Denver Branch on a day when the mercury fell to -14 degrees, “...the employees had to wear wraps, as it was impossible to heat the building.”

The building was also too small, forcing the Branch to store some of its currency at member banks and at the nearby U.S. Mint, utilizing an armored truck for transit back and forth. The shortfalls of the arrangement became tragically clear at 10:30 a.m. Dec. 18, 1922, when four men, including two firing sawed-off shotguns, robbed a Federal Reserve truck parked outside the Mint.

It remains one of the most infamous crimes in U.S. history.

“In the five minutes it took the bandits to pull off their record-breaking crime, pandemonium ruled, with the alarm bell in the Mint going continuously, scores of people rushing from nearby buildings, shots ringing out in a drumfire that seemed as if it must take many lives,” reads *The Denver Post’s* coverage of the incident.

Although newspaper accounts say as many as 50 Mint security guards returned fire and both the Mint and numerous nearby buildings were covered with bullet holes, the bandits got away with \$200,000 in \$5 bills. Killed in the attack by a shotgun blast was Denver Branch security officer Charles T. Linton, a Branch employee since its 1918 opening.⁴⁵ Linton, who returned three shots before being fatally wounded, was proclaimed a hero in a drawing on the front page of the Dec. 19, 1922, edition of *The Denver Post*.

Linton's wife told *The Post* that the officer had a premonition he would soon lose his life.

"Only a few days before he told me that he wanted to die on his feet, instantly," Eliza Linton said. "He said he wished the end would come from a shot or heart failure. He did not die instantly, but he did die ... doing his duty."

In the aftermath of the attack, Denver businesses and banks refused to accept \$5 bills, apparently in hopes of discouraging their use. The robbery vehicle, a Buick, was found four weeks later with the frozen and gunshot-riddled body of convicted criminal Nick Trainor inside. A year later, \$80,000 of the missing bills were recovered in St. Paul, Minnesota, but no one was ever arrested or charged.

"We hope the robbery will hasten the building of our bank and vaults so that money shipped to us may be delivered to us directly rather than to the United States Mint first and then to us," Denver Branch Manager Charles A. Burkhardt told reporters after the attack. "We are doing everything we can to have the bank built as soon as possible, for we certainly need it."

Moving on

Three years later, the Branch resolved the space problem and moved into its own building at 1111 17th St. The Branch operated at that location through the early 1960s when the Branch sought to move into a more modern facility. In 1968, the Bank completed construction on the current facility at 16th and Curtis streets. It was a prominent location in city history, but one that had fallen on hard times in the years before the Bank purchased the property.

The site had been owned by silver king Horace A.W. Tabor and much of the block was home of his opulent Tabor Grand Opera House, which opened in 1881 on the corner of 16th and Curtis streets. Although it was one of the nation's most impressive theaters when it was built, its heyday was relatively brief. In 1890, the Broadway Theatre opened nearby and soon became the

⁴⁵*Denver Rocky Mountain News*, Dec. 12, 1922.

city's favored performance venue. Tabor, meanwhile, lost his fortune in the Panic of 1893 and was forced to sell the opera house in 1896.⁴⁶ The theater continued to operate, but no longer was the landmark location it had been in the past, staging vaudeville shows and other touring acts before eventually becoming a movie theater. By the early 1960s, when the theater closed, the neighborhood was known as "skid row" and nearby businesses included pawn shops, bars and cheap motels in addition to vacant buildings.⁴⁷ Developers acquired the block, which also was home to the Denver Post Office and Customs House building, and cleared the site for redevelopment in 1964.⁴⁸ The Federal Reserve acquired the land from the developer in 1967.

At about the same time Branch employees were preparing to move into the new facility, Denver voters approved by a 2-to-1 margin a massive demolition project for the entire neighborhood. Under what was known as the Skyline Urban Renewal Project, aging and sometimes historic buildings across nearly a 30-block area of downtown Denver were leveled in a plan city officials hoped would spur private development in the area.⁴⁹ The landmark Daniels and Fisher clock tower, north of the Branch at 16th and Arapahoe streets, is one of the few buildings spared from the wrecking ball.⁵⁰

The new neighborhood

Redevelopment into what is now one of the more popular areas of Denver did not happen overnight. Although planning began in the 1970s, the repurposed 16th Street Mall opened in 1982. Redevelopment throughout the area, and expansion of the Mall, continued into the 2000s.

As a part of a 1988 commemoration of the Branch's move to the facility, one Fed employee wrote in an internal newsletter about how significantly the area had changed over previous 20 years.

"As hoped, the Branch has served as the cornerstone for efforts to rejuvenate the area. Over the past two decades, this section of the Mile-High city has been transformed from a

⁴⁶Colorado Encyclopedia: <https://coloradoencyclopedia.org/article/tabor-grand-opera-house>

⁴⁷"When Downtown Denver was Demolished: The Skyline Urban Renewal Project." Colorado Public Radio. May 1, 2017. <http://www.cpr.org/news/story/when-downtown-denver-was-demolished-a-look-back-at-the-skyline-urban-renewal-project>

⁴⁸Barnhouse, Mark. *Lost Denver*. Arcadia Publishing. Charleston, South Carolina. 2015.

⁴⁹"When Downtown Denver was Demolished: The Skyline Urban Renewal Project." Colorado Public Radio. May 1, 2017. <http://www.cpr.org/news/story/when-downtown-denver-was-demolished-a-look-back-at-the-skyline-urban-renewal-project>

⁵⁰The tower, which opened in 1911 as the city's tallest structure, was built in conjunction with the Daniels and Fisher department store, which was leveled.

blighted area inhabited by seedy businesses and dilapidated buildings to a modern mall area featuring small shops and downtown festivals.”

Today, the Mall welcomes not only downtown workers and residents, but also thousands of tourists annually. Visitors to the area are more than welcome to stop by for an opportunity to tour the Branch’s Money Museum. Recent years have seen more than 60,000 visitors come to the Branch to learn more about the Federal Reserve and its role in the nation’s economy and financial sector.

The Branch also is engaged in each of the Federal Reserve’s three mission areas including financial services, bank supervision and regulation and monetary policy. Recent initiatives include a program launched in 2011 to try to facilitate connections between local community and economic development proposals and potential funding sources. The Branch participates in several nonprofit coalitions and public awareness events across Colorado, New Mexico and Wyoming to support economic and personal finance education efforts. Through these initiatives and others, the Branch remains a critical tie linking the Denver community and the Mountain States with the nation’s central bank.