Economics and Politics in Selecting Federal Reserve Cities: Why Missouri Has Two Reserve Banks

David C. Wheelock

Missouri is the only state with two Federal Reserve Banks, and it has long been alleged that political influence explains why Reserve Banks were placed in both St. Louis and Kansas City. Both the Speaker of the U.S. House of Representatives and a powerful member of the Senate Banking Committee hailed from Missouri, which at the time was a solidly Democratic state. The committee charged with selecting cities for Reserve Banks and drawing the boundaries of Federal Reserve Districts claimed that its decisions were based solely on economic grounds, including existing banking and business ties, transportation and communications networks, and the convenience and preferences of the Fed's future member banks. Both St. Louis and Kansas City were among the top choices of bankers, many of whom had established correspondent relationships with banks in the two cities. St. Louis and Kansas City also served distinct markets—St. Louis to the south and east, and Kansas City to the west and southwest. Moreover, Kansas City dominated its rivals for a Reserve Bank serving western states, especially in terms of banker preferences and railroad connections. Thus, while it is impossible to rule out a role for politics in the selection of either city for a Reserve Bank, let alone both of them, both cities were reasonable choices for Banks on the basis of the stated criteria of the System's founders.
(JEL E58, G21, N22)

Federal Reserve Bank of St. Louis *Review*, Fourth Quarter 2015, *97*(4), pp. 269-88.

Missouri is unique in being the only state with two Federal Reserve Banks. The Federal Reserve Act, which President Woodrow Wilson signed into law on December 23, 1913, appointed a Reserve Bank Organization Committee (RBOC) to determine the number of Federal Reserve Districts (at least eight, but no more than twelve) and the location for a Reserve Bank in each District. After evaluating requests for Reserve Banks from 37 cities and holding hearings in 18 cities, the RBOC announced on April 2, 1914, that twelve Districts would be formed and that both Kansas City and St. Louis would have Reserve Banks (Figure 1). No Reserve Bank has ever been relocated to another city, and except for a few minor adjustments, District boundaries remain essentially as the RBOC specified them in 1914.

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SOURCE: *St. Louis Republic*, April 4, 1914.

The RBOC's announcement brought outcries from several cities that had unsuccessfully sought Reserve Banks and charges that political considerations—especially Democratic Party interests—had unduly influenced the committee's decisions. The RBOC was composed of political appointees of President Wilson—the secretary of the Treasury, secretary of agriculture, and the comptroller of the currency. The Federal Reserve Act required only that Districts be "apportioned with due regard to the convenience and customary course of business and shall not necessarily be coterminous with any State or States" (Federal Reserve Act, 1913, section 2). In response to the outcry following its announcement, the RBOC issued a report on April 10 listing its criteria for selecting cities for Reserve Banks and District boundaries. The report focused on three of its most controversial decisions: (i) the selection of Kansas City for a Reserve Bank, rather than Denver, Omaha, or Lincoln; (ii) the selection of Richmond over Baltimore; and (iii) why New Orleans, which had widely been expected to get a Bank, was passed over (RBOC, 1914a). The report, not surprisingly, claimed that economic considerations alone had guided the committee's decisions.

Despite the RBOC's effort to defend its choices, the view that politics had unduly influenced the selection of cities for Reserve Banks has remained widely held ever since. This article describes the process by which the RBOC determined the boundaries of Federal Reserve Districts and locations for Reserve Banks and, in particular, examines the selection of both Kansas City and St. Louis for Reserve Banks. The Federal Reserve Banks were intended to serve as bankers' banks—that is, to hold the reserve deposits of their member banks, lend to them in emergencies, furnish them with currency, and provide services for check-clearing and various other payments. The Reserve Banks would best serve their customers if they were located in cities where their member banks normally conducted business. In drawing District lines and placing Reserve Banks, the RBOC seems to have relied heavily on the preferences of bankers, as inferred from a survey conducted to gauge support for different cities. The survey shows that both Kansas City and St. Louis were among the top choices of bankers for the location of Reserve Banks. Moreover, both cities drew support from across several states, unlike other cities in neighboring states that sought Reserve Banks.

In the decades preceding the founding of the Fed, commercial banks in Kansas City and St. Louis had built up substantial business serving as correspondents for banks in outlying cities and towns.[1] Newly collected data on correspondent links show that the support for Kansas City and St. Louis in the RBOC survey reflected established correspondent relationships that defined the two cities as important banking centers and plausible locations for Reserve Banks. Moreover, the cities served distinctive geographic markets—Kansas City to the west and southwest and St. Louis to the south and east. Thus, while I cannot disprove a role for politics in the selection of either city, both Kansas City and St. Louis were reasonable choices for the headquarters of a Federal Reserve District.

The next section discusses why the Federal Reserve System was established and, in particular, why it was set up as a system of semi-autonomous districts. The subsequent section describes the process and stated criteria of the RBOC for selecting Federal Reserve District boundaries and Reserve Bank cities and the possible role of politics in the selection of those cities. The article then presents information about the preferences of bankers for the location of Federal Reserve Banks as reflected in an RBOC survey and shows that those preferences

reflected preexisting correspondent banking connections. Both St. Louis and Kansas City were established correspondent banking centers and among the top choices of bankers in their regions for Reserve Banks. Further, as the final section of this article shows, both cities were among the nation's largest banking markets and transportation centers, which also favored their selection for Reserve Banks.

THE PURPOSE OF REFORM

The Federal Reserve System was established to overcome flaws in the U.S. banking system that reformers blamed for frequent banking panics, seasonal strains in money markets, and expensive (and slow) collection of checks, drafts, and other payments between banks in different locations (Bordo and Wheelock, 2013). Branch banking had long been prohibited in most states, and federal statutes prohibited branching across state lines. In the absence of branching, an interbank network of correspondent relationships developed to move funds between banks and between regions with surplus funds to those with deficits (James, 1978, and James and Weiman, 2010).

The structure of reserve requirements imposed on national banks—that is, commercial banks with federal charters—further encouraged growth of the correspondent system. Under the National Banking Acts, national banks located in designated *central reserve cities* (New York City, Chicago, and St. Louis) were required to hold cash reserves in their vaults equal to 25 percent of their deposit liabilities. National banks in designated *reserve cities* were also required to hold reserves equal to 25 percent of their deposit liabilities, but a portion could be held as deposits with national banks in central reserve cities. National banks in all other cities and towns could satisfy a portion of their reserve requirements with deposits in national banks in reserve or central reserve cities, and because those deposits usually bore interest, many banks preferred to hold surplus funds with correspondents rather than as vault cash.

This structure of reserve requirements economized on the need for cash reserves to back the liabilities of the banking system, but in so doing made the system more vulnerable to panics (Sprague, 1910; Calomiris and Gorton, 1991; Wicker, 2000).[2] Moreover, money center banks invested correspondent deposits in short-term loans to finance the purchase and holding of stocks. This practice exposed the banking system to instability in equity markets. The concentration of banking system reserves in the money centers, especially New York City, also gave rise to concerns that Wall Street bankers had excessive influence over the distribution of the nation's banking resources.[3]

Dissatisfaction with the performance of the banking system had led to calls for reform by the 1880s. After a particularly severe banking panic in 1907, Congress established the National Monetary Commission to study the banking system and propose reforms.[4] Ultimately, a consensus emerged around a plan to establish a system of bankers' banks that would hold the reserves of their member banks, lend to them on the basis of short-term commercial and agricultural loans, supply a new currency, and operate the payments system. That system was embodied in the Federal Reserve Act, which called for the establishment of eight to twelve Federal Reserve Districts and Reserve Banks and a government-appointed Federal Reserve

Board to oversee the System. It was hoped that the individual Districts would be largely self-sufficient in the sense of mobilizing funds internally to alleviate seasonal shortages of money and credit, fund a growing economy, and enhance the efficiency of the payments system.

SELECTING RESERVE BANK CITIES AND DISTRICT BOUNDARIES

The Federal Reserve Act provided little guidance about the location of District boundaries and Reserve Banks. However, the Act required that each Reserve Bank have a minimum capitalization of $4 million, paid by the member banks in its District. This requirement was easily met in the Northeast, where many banks, including most of the nation's largest banks, were located. However, in the West and South, it was necessary to form Districts covering large areas to amass enough capital to establish a Reserve Bank. Thus, the RBOC was able to form four geographically small Districts in the Northeast (headquartered in Boston, New York City, Philadelphia, and Cleveland) but only four others (headquartered in Minneapolis, Kansas City, Dallas, and San Francisco) to serve most of the western two-thirds of the country. Four other Districts (headquartered in Richmond, Atlanta, Chicago, and St. Louis) covered the Midwest and South. Figure 1 shows the original District boundaries. Other than a few minor adjustments to District boundaries made early in the System's history, the boundaries (as well as the locations of Reserve Banks) today are substantially the same as designated by the RBOC in 1914.

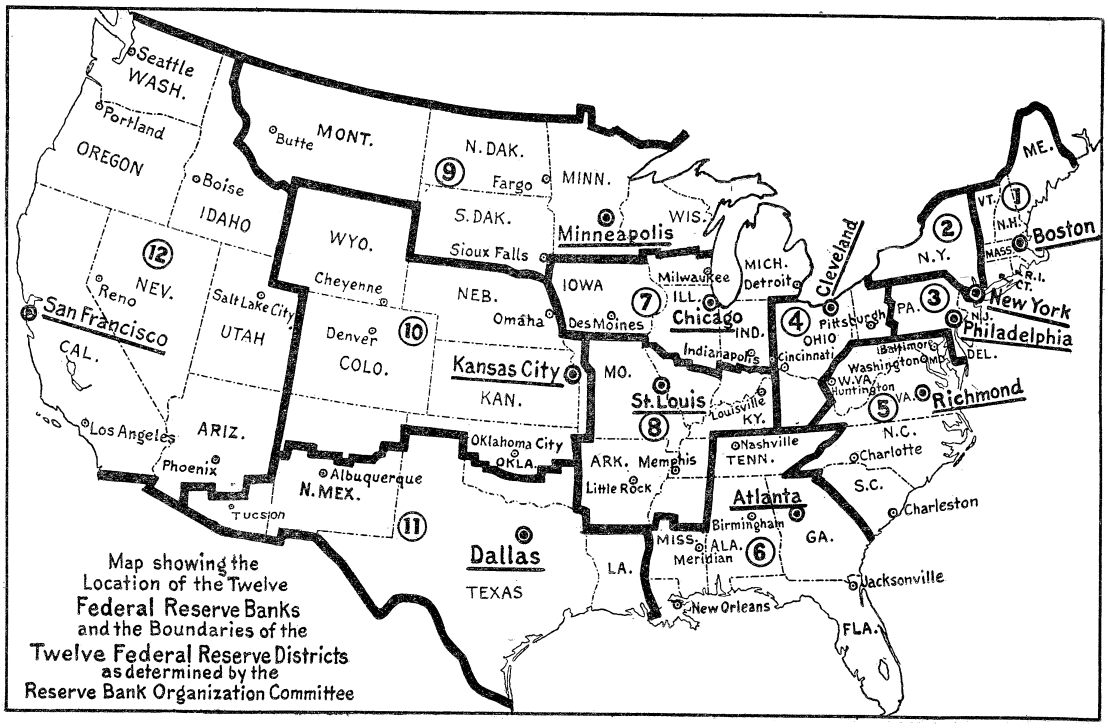
In announcing its decisions, the RBOC listed several criteria that had guided its selection of Reserve Bank cities and District boundaries. In addition to noting that each District must include enough member banks to furnish the minimum $4 million required to capitalize a Reserve Bank, the RBOC sought to provide a "fair and equitable division of the available capital for the Federal Reserve banks among the districts created" (RBOC, 1914a, p. 4). The RBOC further stressed the importance of the "mercantile, industrial, and financial connections existing in each district and the relations between the various portions of the district and the city selected for the location of the Federal Reserve bank" and "the general geographical situation of the district, transportation lines, and the facilities for speedy communication between the Federal Reserve bank and all portions of the district" (RBOC, 1914a, p. 4).[5]

Most cities requesting Reserve Banks furnished the RBOC with evidence of the strength of their local banks, the size of their commercial markets, and the quality of their communications and transportation infrastructures. Usually, a city's effort was coordinated by its local bank clearinghouse. Clearinghouses, which were cooperative organizations set up to collect checks and bank drafts among their member banks, recruited bankers and other businesspeople to provide letters and testimony supporting their city's bid for a Reserve Bank and a District covering a large territory.

The Federal Reserve Act required all national banks to purchase stock in and become a member of the Reserve Bank in their District (state-chartered banks were permitted, but not required, to become members). The RBOC asked national banks to name their top three choices for the location of their Reserve Bank, as well as to recommend eight to twelve cities for Banks throughout the country. Of the 7,471 national banks contacted, the RBOC received

Figure 1

Original Federal Reserve District Boundaries



SOURCE: Reserve Bank Organization Committee (1914a).

6,724 first-, 5,504 second-, and 4,179 third-choice votes. In responding to criticism of its decisions, the committee cited the preferences of bankers as a dominant consideration in the selection of Reserve Bank cities. For example, in explaining why New Orleans was not selected as a Reserve Bank city, the committee noted that "out of 4,576 cards suggesting New Orleans as a proper location for a Federal Reserve city, only 222 banks making this suggestion were located in the territory contiguous to New Orleans." Further, "Generally speaking, the only banks which desired to be connected with New Orleans…were 25 of the 26 banks reporting in Louisiana, and 19 of the 32 in Mississippi." The committee went on to note that both Atlanta and Dallas had more support than New Orleans from banks in the region that had been proposed for a New Orleans-based District (RBOC, 1914a, p. 19).

Several studies have found empirical evidence that banker preferences weighed heavily on the selection of Reserve Bank cities and District boundaries (e.g., Odell and Weiman, 1998; McAvoy, 2004, 2006; Binder and Spindel, 2013; Jaremski and Wheelock, 2015). The influence of political or other considerations on the RBOC's decisions is less clear. Most empirical studies attempt to gauge the effect of politics by including such variables as membership on congressional banking committees in models of Reserve Bank location that control for banker

preferences and other economic considerations that the RBOC cited as important for its decisions. However, the empirical tests of such studies tend to lack statistical power and their results have proved sensitive to modeling choices.[6] Moreover, variables commonly used to capture political interests or influence, such as membership on relevant congressional committees, might reflect unobserved conditions that justified the selection of particular cities for Reserve Banks on economic grounds. For example, Jaremski and Wheelock (2015) find that the odds of a city receiving a Reserve Bank increased with the number of representatives a state had on congressional banking committees. However, the estimated effect of banking committee membership is small and statistically insignificant when New York, which had three banking committee members, is dropped from the analysis. Since New York City was perhaps the most certain location for a Reserve Bank, the apparent effect of banking committee membership on the selection of Reserve Bank cities is likely spurious.

Of course, the absence of firm empirical support does not rule out the influence of politics on the selection of at least some Reserve Bank cities or District boundaries. H. Parker Willis (1923), who headed a committee of experts to advise the RBOC on setting up the Federal Reserve System, viewed some of the RBOC's choices as dubious at best on economic grounds: "There was a serious error in the attempt to insert a Richmond district. No call for such a district existed or could be deduced from the evidence." Further, "[T]here was considerable ground for question as to the wisdom shown in the selection of Cleveland, the home of Secretary of War Baker, as the site for the Reserve Bank of the Great Lakes district." And, "the influence of Senator Hoke Smith was generally regarded as having turned the scale in favor of the inclusion of Atlanta among the twelve cities; indeed, there was a prevailing impression that the designation of Atlanta was part of a kind of political understanding covering a number of subjects" (Willis, 1923, p. 588).[7]

More recent studies have also suggested that political considerations weighed on the RBOC. West (1977, p. 211), for example, argues that some of the selections for the locations of Reserve Banks had "decidedly political overtones: Richmond was located in the state represented by [Representative] Carter Glass; Colonel E.M. House, the president's closest personal confidant, was from Texas. Both of these men were in a position to influence the deliberations of the organization committee."[8] Similarly, Primm (1989, p. 45) argues that "the [RBOC's] selection of reserve cities and district boundaries reflected a combination of city size, preference ballots, some banking realities and a lot of politics." It was rumored that Denver's bid for a Reserve Bank was traded away by a Colorado senator who landed a spot for his son-in-law as assistant secretary of the Treasury (Primm, pp. 48-49). Further, Primm (p. 50) notes that Missouri was solidly Democratic and that Missouri Senator James A. Reed's "late conversion had broken the deadlock in the Senate Banking Committee, allowing the Glass-Owen bill [i.e., the Federal Reserve Act] to pass. Reed was a powerful friend and a dangerous enemy, he had the administration's attention, and he had given the Organizing Committee the benefit of his views."[9] Reed, who was from Kansas City, and Oklahoma Senator Robert Owen, who as chairman of the Senate Banking Committee had sponsored the Federal Reserve Act in the Senate, appealed directly to the White House for the placement of a Reserve Bank in Kansas City (Todd, 2008, p. 43).

In addition to having a powerful senator supporting placement of a Reserve Bank in Kansas City, the Speaker of the House of Representatives, James "Champ" Clark, also hailed from Missouri, which may have also weighed in the state's favor. Still, Binder and Spindel (2013, p. 12) contend that "partisan connections at best smoothed the way for selecting two Missouri cities. In this case, the choice more likely reflected the region's political economy (with Kansas City looking westward and St. Louis to the east) and the desire to curry support of the most active banking communities (given St. Louis's status as a major financial center)." Further, Binder and Spindel (2013, p. 12) argue, "Kansas City stood out on a key dimension: Financial activity and popularity with the bankers. It far outstripped its rivals in terms of financial business, and bankers preferred it overwhelmingly—even compared to St. Louis." Thus, apart from political connections, it seems conceivable that strong cases could be made for both St. Louis and Kansas City on the basis of economic considerations and the preferences of the Fed's future member banks. The following sections present information from the RBOC survey of national banks on established correspondent relationships and other data that could have been used to support the placement of Reserve Banks in St. Louis and Kansas City.

RESULTS OF THE RBOC SURVEY

Table 1 lists all cities that received at least 10 first-choice votes in the RBOC survey of national banks and identifies the cities that requested a Reserve Bank. The 12 cities selected for Reserve Banks were all among the 18 cities (or city pairs) that received at least 100 votes.[10] Both Kansas City and St. Louis were among the top 10 in first-choice votes and both also received substantial numbers of second- and third-choice votes. St. Louis received votes from more states than any other city except New York City and Chicago, with first-choice votes from 11 states and first-, second-, or third-choice votes from 25 states. Kansas City did almost as well, receiving first-choice votes from 9 states and first-, second-, or third-choice votes from 17 states.

Widespread support for St. Louis, the nation's fourth largest city and a designated central reserve city, was not surprising. In fact, RBOC member David Houston expressed surprise that St. Louis had not received even more support, especially from banks in Oklahoma and Texas (Primm, 1989, p. 43). The extensive support for Kansas City, however, was viewed as something of a surprise. Kansas City had the fifth highest first-choice vote total if votes for Minneapolis (370 votes) and St. Paul (94 votes) are combined (as in Table 1) and the fourth highest number if those twin cities are treated separately.[11] Kansas City received far more first-choice votes than any of its chief rivals for a Reserve Bank, including Denver (136 votes), Omaha (218 votes), and Lincoln (22 votes). Furthermore, Kansas City received votes from more states than any of its rivals and had the highest number of first-choice votes in four states (Kansas, Missouri, New Mexico, and Oklahoma). By comparison, Denver was the top choice in only two states (Colorado and Wyoming) and Omaha was the top choice in only one (Nebraska). The breadth of support for Kansas City seems to have impressed the RBOC. Whereas many more bankers had recommended Denver than Kansas City, the committee

Table 1

RBOC Survey Votes by City

City	Requested a Reserve Bank	Total first-choice votes	States won by city	No. of states providing first-choice votes	Total no. of votes (first-, second-, and third-choice)	No. of states providing any votes
Chicago	Yes*	906	IL, IN, IA, MI, WI	14	2,321	37
New York City	Yes*	672	CT, NJ, NY	14	1,692	39
Philadelphia	Yes*	508	DE, PA	3	1,055	18
Minneapolis/St. Paul	Yes*	508	MN, MT, ND, SD	8	1,140	14
Kansas City	Yes*	506	KS, MO, NM, OK	9	885	17
Pittsburgh	Yes	355	WV	4	566	8
Dallas/Fort Worth	Yes*	322	TX	4	662	5
Cincinnati	Yes	299	OH	7	674	13
St. Louis	Yes*	299	AR	11	1,292	25
Boston	Yes*	290	ME, MA, NH, RI, VT	9	521	14
San Francisco	Yes*	259	AZ, CA, NV	7	436	12
Omaha	Yes	218	NE	5	437	13
Richmond	Yes*	170	NC, VA	6	327	9
Baltimore	Yes	141	MD	7	428	14
Denver	Yes	136	CO, WY	5	222	16
Atlanta	Yes*	124	FL, GA	4	275	14
Louisville	Yes	116	KY	3	250	8
Cleveland	Yes*	110	None	2	324	9
Houston	Yes	97	None	1	268	4
Portland	Yes	75	OR	3	167	5
Birmingham	Yes	55	AL	3	85	5
New Orleans	Yes	51	LA, MS	4	192	12
Seattle	Yes	40	WA	1	121	5
Columbus	Yes	36	None	1	112	2
Salt Lake City	Yes	31	ID, UT	4	46	6
Spokane	Yes	30	None	4	63	5
Columbia	Yes	28	SC	1	37	3
Washington, DC	Yes	28	DC	8	259	17
Los Angeles	No	26	None	2	124	5
Nashville	No	25	TN	1	55	5
Savannah	Yes	24	None	3	110	4
Detroit	No	23	None	1	58	2
Lincoln	Yes	22	None	1	116	4
Charlotte	Yes	19	None	2	42	2
Indianapolis	No	19	None	1	96	4
Des Moines	No	17	None	1	69	3
Memphis	Yes	16	None	2	56	7
Buffalo	No	14	None	2	50	3
Jacksonville	No	14	None	1	18	2
Milwaukee	No	13	None	1	55	4
Chattanooga	Yes	11	None	1	34	4
Albany	No	10	None	1	129	7
Sioux City	No	10	None	3	59	4

NOTE: Yes* indicates that a city requested and received a Federal Reserve Bank. City pair first-choice vote totals include votes for each city of the pair plus votes specifying that either city would be acceptable. For example, the first-choice vote total for Minneapolis/St. Paul (508) includes the total of 464 votes for Minneapolis (370) and St. Paul (94) plus the 44 votes indicating either city as a first choice. Similarly, the votes for Kansas City include votes for Kansas City, MO, and Kansas City, KS, plus the votes specifying that either city would be an acceptable first choice.

SOURCE: Reserve Bank Organization Committee (1914b), pp. 350-51.

noted that most of the recommendations for Denver had come from outside the western states (RBOC, 1914b, pp. 356-57). The RBOC (1914a, p. 22) seems to have put far more weight on the first-choice votes of bankers in the states that would be included in a Denver- or Kansas City-based District:

> Careful consideration was given to the claims of Omaha, Lincoln, Denver, and Kansas City, which conflicted in this region…[Banks in] the greater part of New Mexico asked for Kansas City. Western Texas, Kansas, and Nebraska [banks] unanimously protested against going to Denver. Kansas [banks] desired Kansas City; Nebraska [banks] preferred Omaha or Lincoln; and Texas [banks] wanted either a Texas city or Kansas City or St. Louis…With Montana, Idaho, Arizona, Texas, Kansas, and Nebraska [banks] in opposition, it was clearly impossible to make a district with Denver as the location of a bank…It seemed impossible to serve the great section from Kansas City to the mountains in any other way than by creating a district with Kansas City as the headquarters.

CORRESPONDENT RELATIONSHIPS

What explains the preferences of bankers for the location of Federal Reserve Banks? Because the Federal Reserve Banks were established to provide services to their member commercial banks, bankers likely wanted their Reserve Bank located in an easily accessible city where they already were accustomed to doing business. In many respects, the Reserve Banks would perform and expand upon the services previously provided by private correspondent banks. Commercial banks typically established correspondent relationships in cities where they had the most need for making and receiving payments, where they could obtain currency or borrow conveniently on favorable terms, and where they could hold deposits to satisfy legal reserve requirements.

New York City and Chicago were the principal hubs of the interbank network, and most national banks had correspondents in those cities. As of January 1913, 84 percent of national banks had at least one correspondent in New York City and 35 percent had at least one in Chicago. A bank with a New York City or Chicago correspondent had an agent to receive, collect, and make payments in those cities as well as in other locations throughout the country (indeed, throughout the world) through the interbank network. Correspondents also provided their customers with access to the nation's central money markets for investing surplus funds and obtaining cash and loans.

In addition to a New York City or Chicago correspondent, most banks also had one or more correspondents in larger cities in their own region. Correspondents in nearby cities provided banks access to payments and other services in markets where they or their customers frequently conducted business; banks could also obtain cash or loans more quickly from these correspondents than they could from distant centers. In addition, national banks located outside designated reserve cities could satisfy a portion of their reserve requirements by holding deposits with correspondents in reserve cities, as well as in the central reserve cities (New York City, Chicago, and St. Louis).

Table 2 reports the number of national bank correspondent relationships ("links") for every city with at least 10 such relationships, based on information from Rand McNally (1913).

Table 2

Total Number of Correspondent Relationships (Links) and First-Choice Votes for Cities with at Least 10 Relationships

Location	Links	Votes	Location	Links	Votes
New York City	7,109	672	Lincoln	46	22
Chicago	3,080	906	Seattle	44	40
Philadelphia	1,552	508	Pueblo	42	0
St. Louis	1,137	299	Washington, DC	40	28
Minneapolis/St. Paul	721	508	Oklahoma City	39	3
Kansas City	691	506	Buffalo	38	14
Pittsburgh	645	355	Salt Lake City	37	31
Boston	623	290	Columbus	37	36
Cincinnati	449	299	Jacksonville	28	14
Albany	412	10	San Antonio	20	1
Omaha	392	218	Birmingham	20	55
Baltimore	380	141	Wilmington	20	0
San Francisco	361	259	Fargo	19	1
Dallas/Fort Worth	240	322	Peoria	18	0
Cleveland	201	110	Waco	15	2
Indianapolis	176	19	Wichita	14	3
Denver	156	136	Macon	14	0
Des Moines	142	17	Chattanooga	14	11
Louisville	139	116	Knoxville	12	0
Portland	127	75	Muskogee	12	0
Houston	119	97	Fort Smith	12	0
Los Angeles	115	26	Galveston	11	2
Milwaukee	100	13	Norfolk	11	0
Sioux City	94	10	Helena	11	0
Spokane	82	30	Toledo	11	1
St. Joseph	73	0	Decatur	10	0
Cedar Rapids	71	2	Duluth	10	0
New Orleans	69	51	Sherman, TX	10	0
Detroit	64	23	Tampa	10	0
Nashville	62	25	Boise	10	0
Richmond	59	170			
Atlanta	55	124			
Savannah	50	24			

SOURCE: Table 1 and Rand McNally (1913).

For example, national banks from across the United States had a total of 7,109 correspondent links to banks in New York City and 3,080 links to banks in Chicago.[12] Large numbers of national banks also had correspondents in St. Louis or Kansas City, with 1,137 correspondent links to St. Louis banks and 691 to Kansas City banks. National banks had far fewer correspondent relationships with banks in Omaha (392 links), Denver (156 links), and Lincoln (46 links).

As shown in Table 2, many cities that received large numbers of first-choice votes in the RBOC survey of national banks also had large numbers of established correspondent relationships. Although a few cities with many correspondent connections received few votes (e.g., Albany, Indianapolis, and St. Joseph), generally they were near a larger city that received even more votes (New York City, Chicago, and Kansas City). In addition, two cities—Richmond and Atlanta—with relatively few correspondent links stand out for having received more than 100 first-choice votes. However, across all cities, the number of first-choice votes received and the number of correspondent links are highly correlated (rank correlation coefficient of 0.84). In addition, after controlling for other influences on a city's vote total, the number of correspondent links has been found to have exerted a strong, positive impact on the number of votes a city received (Jaremski and Wheelock, 2015).

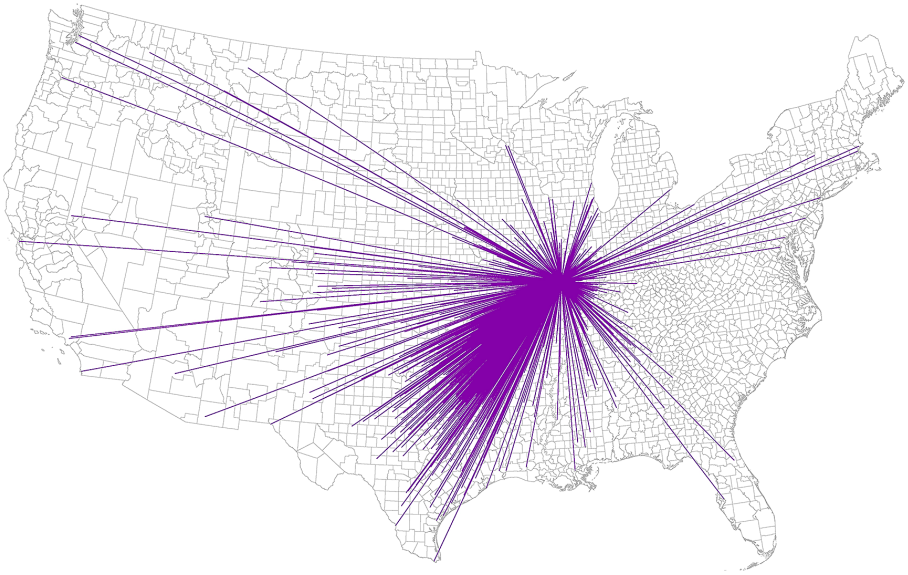
State- and county-level vote totals indicate that cities received most of their support from the regions where their respondent banks were located.[13,14] Figures 2 through 5 show the locations of national banks with correspondents in St. Louis, Kansas City, Denver, and Omaha. St. Louis banks drew correspondent business from throughout the United States, reflecting the city's status as a central reserve city and major commercial center, with particularly heavy concentrations of respondents in Missouri, Arkansas, southern Illinois, western Tennessee, Oklahoma, and Texas. Kansas City banks served a somewhat different market, drawing business mainly from western Missouri, Kansas, Colorado, Oklahoma, and New Mexico. Omaha banks drew their business mainly from national banks in Nebraska, Wyoming, and Colorado, whereas Denver's business came mostly from banks in Colorado.

OTHER CONSIDERATIONS IN THE SELECTION OF RESERVE BANK CITIES

The preferences of bankers were an important consideration, but not the only consideration, for the placement of Reserve Banks and District boundaries. In explaining its decision, the RBOC (1914a, p. 24) noted that New York City, Chicago, Philadelphia, St. Louis, Boston, and Cleveland "are *the six largest* cities in the United States; their geographical situation and all other considerations fully justified their selection" (emphasis in the original). Further, "San Francisco and Minneapolis were the first choice of the great majority of the national banks in their respective sections, and their financial, industrial, and commercial relations and other factors entitled them to be chosen" (p. 24). In announcing its decision, the RBOC included several tables showing the populations of the 37 cities that had requested Reserve Banks and various data on the total capital, deposits, and assets of each city's banks. Table 3 reproduces some of those data.

Figure 2

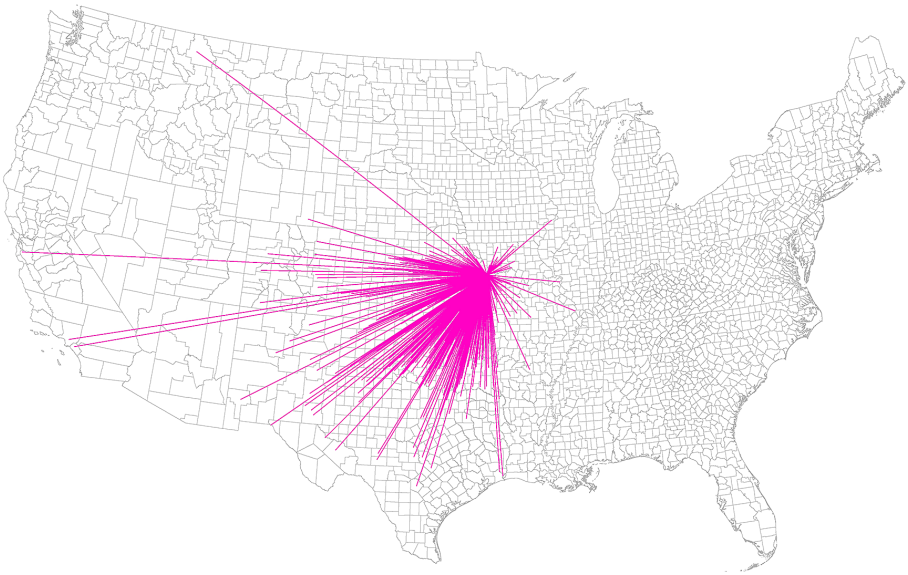
Correspondent Links to St. Louis



SOURCE: Data from Rand McNally (1913).

Figure 3

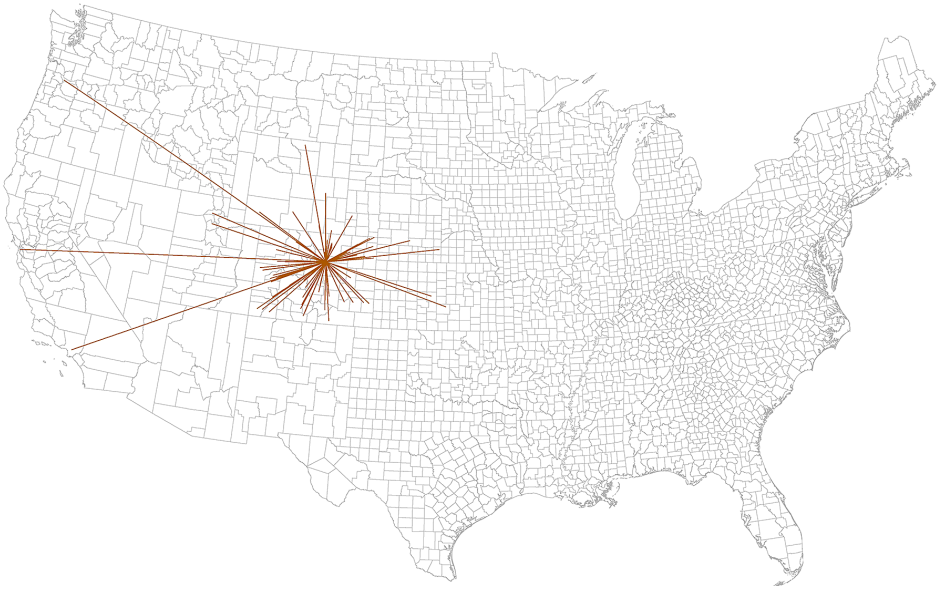
Correspondent Links to Kansas City



SOURCE: Data from Rand McNally (1913).

Figure 4

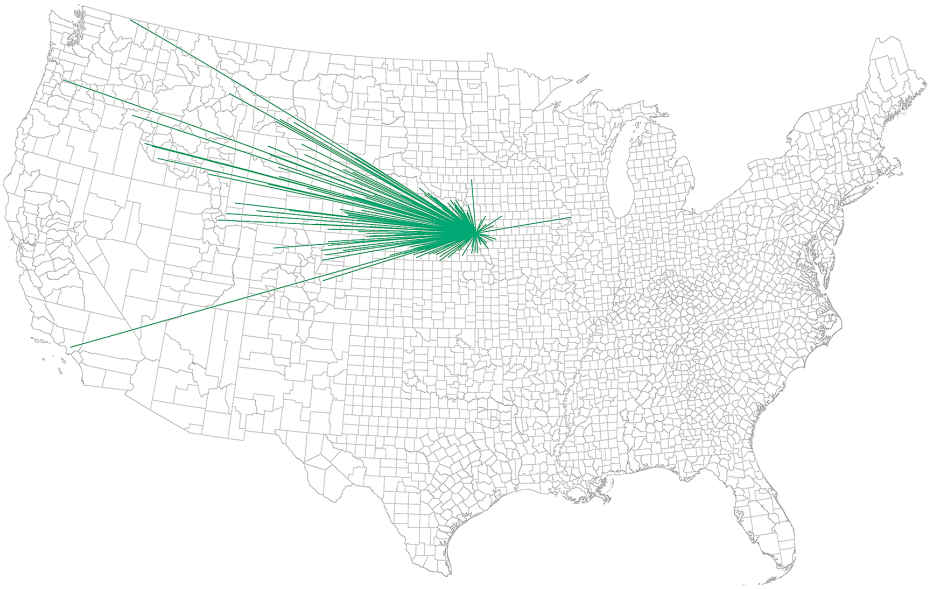
Correspondent Links to Denver



SOURCE: Data from Rand McNally (1913).

Figure 5

Correspondent Links to Omaha



SOURCE: Data from Rand McNally (1913).

Table 3

Population, Numbers of Banks, and Other Banking Data for the 37 Cities that Requested a Reserve Bank

City	Population	No. of national banks	National bank capital ($ thousands)	No. of all bank types	All bank capital ($ thousands)	Correspondent deposits in national banks ($ thousands)
New York City	4,766,883	35	248,505	142	563,222	742,387
Chicago	2,185,283	9	69,050	88	151,883	278,825
Philadelphia	1,549,008	32	62,215	100	177,449	173,585
St. Louis	687,029	7	29,140	44	72,223	90,431
Boston	670,585	15	47,896	60	100,779	97,136
Cleveland	560,663	7	14,400	35	41,635	36,747
Baltimore	558,485	15	19,206	55	47,952	27,422
Pittsburgh	533,905	21	46,714	83	130,037	79,314
San Francisco	416,912	9	45,185	45	73,623	45,859
Cincinnati	363,591	8	20,350	39	31,813	32,593
New Orleans	339,075	4	6,730	19	20,533	7,229
Washington, DC	331,069	11	11,365	36	29,162	5,517
Minneapolis	301,408	6	13,710	33	20,731	31,317
Kansas City	248,381	12	11,660	30	17,416	54,835
Seattle	237,194	6	5,597	32	11,567	7,519
Louisville	223,928	8	8,280	18	15,100	11,750
St. Paul	214,744	5	9,887	20	11,261	16,002
Denver	213,381	6	7,545	31	11,490	N/A
Portland	207,214	5	6,780	22	12,098	8,428
Columbus	181,511	8	4,686	21	7,099	N/A
Atlanta	154,839	6	8,600	28	15,313	4,437
Birmingham	132,685	2	3,300	11	6,686	N/A
Memphis	131,105	3	2,140	22	7,346	2,378
Richmond	127,628	7	9,314	26	16,811	10,970
Omaha	124,096	7	6,570	14	8,165	18,534
Spokane	104,402	5	4,175	18	7,661	N/A
Salt Lake City	92,777	6	3,483	18	7,839	N/A
Dallas	92,104	5	5,900	13	9,997	6,237
Houston	78,800	6	7,125	13	13,599	12,617
Fort Worth	73,312	7	4,275	18	6,668	N/A
Savannah	65,064	2	1,600	16	8,130	N/A
Chattanooga	44,604	3	2,975	10	4,294	N/A
Lincoln	43,973	4	1,330	15	2,042	N/A
Wheeling	41,641	2	1,700	11	4,949	N/A
Montgomery	38,136	4	2,515	9	3,397	N/A
Charlotte	34,014	5	1,850	7	2,680	N/A
Columbia	26,319	5	1,888	9	2,365	N/A

NOTE: N/A indicates that the data are not available.

SOURCE: Reserve Bank Organization Committee (1914a).

In explaining the placement of a Reserve Bank in Kansas City, the RBOC (1914a, p. 23) stated that of the four cities considered for a Reserve Bank serving western states, "Kansas City is the most dominant banking and business center." The committee noted that the banks of Kansas City had more total capital, loans, and deposits than those of Denver, Omaha, and Lincoln and that the total resources of Kansas City's banks had increased by a larger percentage over the previous 10 years than those of the other three cities. As shown in Table 3, Kansas City had more national banks, more banks of all types (i.e., combined total of national and state banks), and more bank capital than Denver, Omaha, and Lincoln. Moreover, Kansas City's national banks held more correspondent deposits than did Omaha's national banks (the RBOC did not provide data on the correspondent deposits of national banks in Denver or Lincoln). Indeed, Kansas City's national banks held more correspondent deposits than those of all but six other U.S. cities, all of which except Pittsburgh were given Reserve Banks.

Kansas City also had better transportation linkages and business connections within its District than its rivals. The RBOC (1914a, p. 4) emphasized the importance of the "Mercantile, industrial and financial connections existing in each district and the relations between the various portions of the district and the city selected for the location of the Federal Reserve bank," as well as the importance of the "geographical situation of the district, transportation lines, and the facilities for speedy communication between the Federal Reserve bank and all portions of the district." The ability of a Reserve Bank to serve its member banks depended crucially on rapid communication and transportation both to points within its District as well as to other Reserve Bank cities.[15] Few cities could boast more extensive transportation facilities and routes than St. Louis or Kansas City. At the confluence of the Missouri and Mississippi Rivers and with service from 26 trunk rail lines, St. Louis was one of the nation's premier transportation hubs. Kansas City was not far behind, served by 16 trunk rail lines, 32 subordinate lines, and 260 daily passenger trains (RBOC, 1914b, p. 177).

In making a case for Denver, the city's boosters argued that "Denver's transportation facilities are…quite as good as those of Chicago, St. Louis, and San Francisco, and because Denver is a terminal point they are in one respect more important than those of Omaha, Kansas City, and Salt Lake…People do not have to change cars to come to Denver, nor is it necessary to transship freight from one line to another to reach Denver" (RBOC, 1914b, p. 138). On the other hand, proponents for Omaha countered that "Denver is off the line of transcontinental travel," whereas nearly half of all transcontinental passenger traffic passes through Omaha (RBOC, 1914b, p. 277). Still, neither Denver, with seven trunk rail lines and 148 daily passenger trains, nor Omaha, with 10 lines and 171 daily trains, could match Kansas City in those terms. Further, in justifying the selection of Kansas City over Denver, the RBOC (1914a, pp. 23-24) noted that "The great preponderance in the movement of trade in [the] district is to the east. In order to place the Federal reserve bank for that region in Denver it would have been necessary to disregard these facts." According to H. Parker Willis, who chaired a committee of experts appointed to advise the RBOC, the "normal course of business" in the intermountain region flows to the north and east and, hence, the placement of the District's Reserve Bank in Denver "would compel various cities which have been in the

habit of acting as reserve holders for others to invert this relationship." Consequently, "the headquarters chosen should be in the northern and eastern portion of the district…[and] Kansas City is superior to Lincoln, Neb., or Omaha, from the standpoint of both the transportation and volume of business."[16]

CONCLUSION

The RBOC's decisions about the placement of Federal Reserve Banks have remained controversial throughout the Fed's first 101 years, and critics continue to charge that politics played a role in the selection of cities for Reserve Banks, including the placement of two Reserve Banks in Missouri. Kansas City and St. Louis both had political advantages and support in their bids for Reserve Banks. The Speaker of the U.S. House of Representatives and a powerful Democratic Party senator hailed from Missouri, and the secretary of agriculture—one of the three members of the committee that selected Reserve Bank cities—had recently been appointed chancellor of Washington University in St. Louis.

In addition to powerful political connections, however, St. Louis and Kansas City had certain economic and financial advantages as Federal Reserve Bank cities. St. Louis was the nation's fourth largest city, one of three central reserve cities, and a major commercial and transportation hub. Kansas City, though neither as large nor as central to the nation's banking system as St. Louis, was growing rapidly and had already become a major railroad hub and correspondent banking center. Moreover, both cities were popular choices among bankers for the location of Reserve Banks and served distinct markets. Whereas St. Louis enjoyed strong support from bankers in eastern and central Missouri and in states to the east and south, most of Kansas City's support came from western Missouri, Kansas, and other states to the west and southwest. None of Kansas City's chief rivals for a Reserve Bank serving western and mountain states had as much support from bankers as Kansas City. We'll never know the extent to which political considerations played a role in the selection of Kansas City, St. Louis, or both cities for Reserve Banks, but on the basis of both the preferences of bankers and the economic criteria for the placement of Reserve Banks, both cities deserved serious consideration. ■

NOTES

[1] Correspondent banks provide services, such as check collection, cash, and loans to other banks. Historically, banks held deposits with their correspondents as compensation for services and for settlement of payments. Some correspondent deposits also paid interest or could be used to meet statutory reserve requirements.

[2] Carlson (2015) describes the history of reserve requirements in the United States, their failure to ensure banking system liquidity, and the decline in their use as a tool for regulating liquidity following the establishment of the Federal Reserve in 1914.

[3] A congressional subcommittee, led by Representative Arsène Pujo of Louisiana, held hearings from May 1912 to January 1913 to investigate the activities of major New York City banks. The committee's reports are available from FRASER®, the digital archive of economic history from the Federal Reserve Bank of St. Louis: https://fraser.stlouisfed.org/title/?id=80.

[4] The Commission's final report and other documents are available from FRASER®: https://fraser.stlouisfed.org/docs/historical/nmc/nmc_243_1912.pdf.

[5] See McAvoy (2004; 2006), Binder and Spindel (2013), or Federal Reserve Bank of St. Louis (2014, pp. 53-81) for additional information about the RBOC and its selection of Reserve Bank cities and Districts.

[6] For example, whereas Binder and Spindel (2013) contend that more Reserve Banks were placed in the solidly Democratic South than could be justified by banker preferences or economic considerations alone, McAvoy (2006) finds no evidence that either the number of Democratic members of a state's congressional delegation or membership on the Senate Banking Committee influenced the selection of Reserve Bank cities.

[7] Hammes (2001) finds, however, considerable similarity between a 12-District plan that Willis proposed to the RBOC in 1914 and the choices made by the committee, including 10 of the 12 cities chosen for Reserve Banks.

[8] Glass sponsored the Federal Reserve Act in the House of Representatives and is sometimes referred to as the "father" of the Federal Reserve System.

[9] Dearie (2015) also suggests that the powerful senator secured two Reserve Banks for Missouri.

[10] The RBOC tallied votes separately for Dallas and Fort Worth; Minneapolis and St. Paul; and Kansas City, Missouri, and Kansas City, Kansas. However, votes for those pairs of cities are combined in Table 1 since it was highly unlikely that the RBOC considered putting two Reserve Banks in a single metropolitan area. Moreover, some banks responded to the RBOC survey by specifying that either city of a pair would be acceptable.

[11] The total for Kansas City in Table 1 includes 8 first-place votes for Kansas City, Kansas; 489 votes for Kansas City, Missouri; and 9 votes that specified either Kansas City, Kansas, or Kansas City, Missouri.

[12] Because some banks had more than one New York City correspondent, the number of relationships (7,109) exceeds 84 percent of the total number of national banks (7,454).

[13] Unfortunately, the votes of individual banks have not been located. However, county-level vote totals indicate that a high percentage of national banks voted for the cities where their principal correspondents (other than their New York or Chicago correspondents) were located. See Jaremski and Wheelock (2015) for more information.

[14] Respondent banks refer to the bank customers of correspondent banks. For example, if Bank A is the correspondent of Bank B, then Bank B is the respondent of Bank A.

[15] Gilbert (1998) argues that the establishment of the Federal Reserve enhanced the efficiency of the U.S. payments system.

[16] Quoted in Hammes (2001).

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