

A historical black and white photograph of a busy street intersection in Cleveland. In the background, a tall, ornate building with many windows stands prominently. To the right, a large monument with a statue on top is visible. The street is filled with people, horse-drawn carriages, and early 20th-century automobiles. A large, semi-transparent number '2' is overlaid on the image, partially obscuring the building and the monument.

Why Cleveland?

How, against great odds,
Cleveland was chosen as the headquarters
of a Federal Reserve District

FEDERAL RESERVE BANK *of* CLEVELAND

This article tells how, against great odds, Cleveland was chosen as the headquarters of a Federal Reserve District. The article draws on historical documents to explain the reasons why.



Sixty-third Congress of the United States of America;

At the Second Session,

Begun and held at the City of Washington on Monday, the first day of December, one thousand nine hundred and thirteen.

AN ACT

To provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this Act shall be the “Federal Reserve Act.”

Wherever the word “bank” is used in this Act, the word shall be held to include State bank, banking association, and trust company, except where national banks or Federal reserve banks are specifically referred to.

The terms “national bank” and “national banking association” used in this Act shall be held to be synonymous and interchangeable. The term “member bank” shall be held to mean any national bank, State bank, or bank or trust company which has become a member of one of the reserve banks created by this Act. The term “board” shall be held to mean Federal Reserve Board; the term “district” shall be held to mean Federal reserve district; the term “reserve bank” shall be held to mean Federal reserve bank.

FEDERAL RESERVE DISTRICTS.

SEC. 2. As soon as practicable, the Secretary of the Treasury, the Secretary of Agriculture and the Comptroller of the Currency, acting as “The Reserve Bank Organization Committee,” shall designate not less than eight nor more than twelve cities to be known as Federal reserve cities, and shall divide the continental United States, excluding Alaska, into districts, each district to contain only one of such Federal reserve cities. The determination of said organization committee shall not be subject to review except by the Federal Reserve Board when organized: *Provided*, That the districts shall be apportioned with due regard to the convenience and customary course of business and shall not necessarily be coterminous with any State or States. The districts thus

Designation of Federal Reserve Cities

On December 23, 1913, President Woodrow Wilson signed the Federal Reserve Act after years of contentious debate about whether or not the United States once again needed a central bank. A key issue in this debate was how the Federal Reserve System should be structured. Would there be only one large bank, as has been standard practice throughout the world, or would the nation break new ground and use a decentralized organization of several regional banks distributed throughout the country?

At the end of the legislative process, the bill that President Wilson signed named Secretary of the Treasury William G. McAdoo, Secretary of Agriculture David F. Houston, and Comptroller of the Currency John Skelton Williams, to the Reserve Bank Organization Committee (RBOC). The Committee undertook a monumental assignment: to “designate not less than eight nor more than twelve cities to be known as Federal Reserve cities”... “with due regard to the convenience and customary course of business.”

The RBOC took a two-step approach to the task of designating Federal Reserve cities. In early 1914, it took the first step when it polled the 7,471 national banks that had agreed to the terms of the Federal Reserve Act and asked them to name their first, second, and third choices for their district’s Federal Reserve city. The second step involved a whirlwind tour of the country, stopping in 18 cities and hearing more than 200 presentations. After their tour, the RBOC members were left to decide among 37 candidate cities.

On April 2, 1914, they announced the 12 cities they had named as Federal Reserve locations. Their announcement noted that the nominated cities were judged according to the following criteria:

- Minimum capital requirement of \$4 million (total capital of all banks in the proposed District)
- Pre-existing mercantile, industrial, and financial connections within each district
- Ability to meet the legitimate demands of business, whether normal or abnormal
- Fair and equitable division of capital among Federal Reserve districts
- Transportation and communications within each district
- City’s record of growth and development, along with its future prospects.

Interestingly, 11 of the 12 cities chosen by the RBOC were also the preferred locations of the 7,471 national banks surveyed. The lone exception was Cincinnati, which was the first choice of local bankers; in fact, both Cincinnati and Pittsburgh garnered more support from local bankers than Cleveland did.

Nonetheless, the Committee chose Cleveland as the home of the District’s Federal Reserve Bank. Indeed, many cities across the country were disappointed that they had not been chosen. It has been said that Cincinnati had little claim to the honor of being a Federal Reserve city and the real competition was between Pittsburgh and Cleveland. Thus, Pittsburgh’s outrage was especially high, as expressed in an op-ed piece in the *Pittsburgh Gazette-Times*:

“We must look for some other reason than a desire to promote the efficiency of the new banking system as the animus for the selection of Cleveland rather than Pittsburgh as the home of a regional bank. It is a fair assumption that political considerations played a principal part in the action of the administration and this city was made victim....Pittsburgh is naturally not in favor with the powers that be. The picayunish policy that would put politics first in the decision of such an important matter should be condemned by all right-thinking men, irrespective of party.”

One of the primary reasons Cleveland was chosen was simply that the executive committee did their homework and put together the best presentation possible.

“Political considerations” refers to the relationship between President Wilson and Newton D. Baker, Cleveland’s mayor. Baker had campaigned for Wilson, his fellow Democrat, during the 1912 Democratic National Convention; in 1916, Wilson would appoint Baker Secretary of War. While the political link between them cannot be ignored, this article will argue that Cleveland was chosen over Pittsburgh to be a Federal Reserve city for several reasons unrelated to politics. Historical documents and personal accounts provide insights that support the choice of Cleveland over Pittsburgh.



Cleveland's Campaign for a Federal Reserve Bank

Cleveland's campaign to become a Federal Reserve city was led by an executive committee consisting of Colonel John J. Sullivan, president of the Cleveland Clearing House; Newton D. Baker, mayor; Warren S. Hayden, president of the Cleveland Chamber of Commerce; Elbert H. Baker, a founder of the *Cleveland Plain Dealer*; and Frank Goff, president of the Cleveland Trust Company. Congressman R.J. Bulkley, an influential member of the House of Representatives' Committee on Banking and Currency, advised the Cleveland campaigners about the factors that would influence the RBOC's decision. Edwin Baxter, secretary of city's campaign Committee, wrote an article called "How the Federal Reserve Bank Came to Cleveland."

One of the primary reasons Cleveland was chosen was simply that the executive committee did their home-work and put together the best presentation possible. Executive committee members travelled extensively to attend many of the presentations in order to gain a better understanding of what was expected of them and what kinds of questions the RBOC would ask.

As a financial center, Cleveland was distinctly overshadowed by Pittsburgh, shown here (circa 1910–20).



Mayors H.T. Hunt of Cincinnati and Newton Baker of Cleveland pictured with Mayor Brand Whitlock of Toledo (center).

Baxter recorded questions that Secretary McAdoo was fond of asking so they would have the answers ready. It may also have helped that Cleveland was the last stop on the RBOC's tour of the country. As a result, Cleveland's brief was said to be "one of the most impressive arguments laid before the committee at any of the hearings throughout the country." (*Cleveland Plain Dealer*)



Cleveland's brief proposes an 11-district system that happened to include 11 of the 12 cities named. Pittsburgh's brief never refers to other parts of the system. Remember, the Federal Reserve Act was enacted to distribute banking resources equitably across the country. So the "nation-wide view of the new banking law which was taken by those who appeared before the committee [RBOC] on behalf of Cleveland left a decided impress[ion] upon members of the committee." (*Cleveland Plain Dealer*)

By considering the ROBC's larger task, "Cleveland avoided the mistake by several cities contending for regional banks inasmuch as its representatives approached the problem from a national rather than a local viewpoint." (*Cleveland Plain Dealer*) In other words, the Cleveland committee saw themselves as a small part of a larger system, which was rare in the RBOC's experience.

11 of the 12 cities chosen for Federal Reserve Banks were also the preferred locations of the national banks surveyed, the lone exception was Cincinnati (left, circa 1907), which was the first choice of local bankers.

Most of the cities vying to be named only did so as a matter of local pride. Most glossed over the intention of the Federal Reserve Act, citing local statistics one after another in an attempt to outdo rivals. As noted in a *New York Times* editorial, "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." Pittsburgh's brief used condescending rhetoric when it said that Cleveland was "in no sense a 'center' within the meaning of this act," noting that "there is nothing north of her but water." Cleveland's brief avoids such remarks and even undertakes to "try to avoid mere local pride and present only the facts."

Cleveland's brief demonstrates an understanding of these two observations when presenting the facts and figures necessary to evaluate potential Federal Reserve cities. It recognizes that "no city in this district can substantiate the claim, as Chicago can, for instance, that the great bulk of the trade of the proposed district centers there." Because the brief shows a good understanding of Cleveland's role within the system, the campaign leaders realized that its competition would

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come from Pittsburgh and Cincinnati. Thus, they compared the trio of cities instead of simply spouting facts and figures with little context, as the Pittsburgh's brief does.

Cleveland's brief is a well-thought-out and remarkably straightforward piece of political prose. Its style is far more academic than the booster-ism of Pittsburgh's brief, and "the tone of the Pittsburgh brief was definitely impolitic and the tenor of the entire document was to ridicule any claim that Cleveland might entertain as a possible site for a new bank." Cleveland's brief was much more diplomatic; moreover, "no exaggerated claims were made for the city, but due emphasis was placed on such points as was thought might appeal to the organization committee." Interestingly, Cleveland used 13 charts and tables to make its case as the superior location of a Federal Reserve city, while Pittsburgh did not offer a single chart or table.



Cleveland (above, circa 1916) had been expanding at a much more rapid rate, furthermore, Cleveland gave every indication of continuing to grow and develop.



A Contemporary Point of View

A simple comparison of the two briefs presented to the RBOC would result in a decision of Cleveland over Pittsburgh. Some may argue that this point of view reflects a lack of historical perspective on the political environment of the time. However, as Frederick Bradford wrote in his 1926 doctoral dissertation, Recent Banking Developments in the City of Cleveland, “a more careful examination of the situation reveals other important, although less tangible, evidence of a non-political sort on which the committee may have based, and very likely did base, its decision.”

Bradford’s first nonpolitical reason why the RBOC chose Cleveland over Pittsburgh had to do with the banking atmosphere of each. Although he conceded that “as a financial center, Cleveland was distinctly overshadowed by Pittsburgh,” the banking atmosphere in Pittsburgh was less than ideal. In the years leading up to 1914, there had been several national bank failures in Pittsburgh; as Cleveland’s brief points out,

Cleveland was “unique among these three cities in having reported not one single failure of a national bank.” Moreover, Bradford observed, Pittsburgh’s banking environment was “controlled by a small compact group of men largely dominated by the Mellon interests.” On the other hand, Cleveland’s less-concentrated banking structure “made for a highly competitive” environment. He noted that “it could scarcely be doubted that a Federal Reserve Bank would be likely to be better off when located in such surroundings than in a city where the financial control was highly concentrated in a few hands.” In addition, “Cleveland could properly be considered superior as an industrial center, chiefly on the basis of the greater diversity of her manufacturers.” Bradford believed that Cleveland’s wide range of industries was an advantage because the “wider diversity of loans and investments of the local banks which is likely to prevail in such a center almost invariably means smaller losses to banks and greater safety for depositors and patrons.”

10-year growth	Time Period	Cleveland	Pittsburgh
Population	1900–1910	46.9%	18.2%
Post Office receipts	1904–1913	116.4%	107.5%
Value of manufacturers	1899–1909	95.1%	11.1%
Clearing-house exchanges	1904–1913	57.8%	23.9%
Deposits, all banks	1904–1913	66.1%	36.2%

Bradford’s second nonpolitical reason why Cleveland beat Pittsburgh was the recent growth and future prospects of each city. After all, the Federal Reserve System was designed for the future rather than the present. “Pittsburgh, like most old established centers, had been developing rather slowly along most lines in the previous decade, while Cleveland has been expanding at a much more rapid rate. Furthermore, Cleveland gave every indication of continuing to grow and develop while a continually decreasing rate of growth in Pittsburgh appeared probable.” The chart above, from Cleveland’s brief, reports growth rates for five different series, covering the most recent 10-year period for which data was available. Indeed, the chart clearly supports the belief that Cleveland had better future growth prospects and so was the better location for a Federal Reserve city.

The Federal Reserve Bank of Cleveland opened on November 16, 1914 in the Williamson Building (left). In August of 1923 the Bank moved into the Federal Reserve Bank Building, designed by the architectural firm of Walker and Weeks, at the corner of Superior Avenue and East Sixth Street.

Conclusion

The notion that Cleveland was chosen over Pittsburgh as a Federal Reserve city for strictly political reasons is based on the relationship between President Wilson and Mayor Baker. However, there are several credible nonpolitical reasons for choosing Cleveland: the contrast between the content and tone of the two briefs; Cleveland's competitive banking environment; its diverse industrial structure; and its future growth prospects.

“We did not ask for the location of a bank here for any other reason than Cleveland's fitness for it. The decision to place one of the reserve banks here calls deserved attention to Cleveland's industrial and commercial prominence.”

—Mayor Newton D. Baker,
Cleveland Plain Dealer, April 3, 1914

On April 2, 1914, the Reserve Bank Organization Committee announced the 12 cities they had named as Federal Reserve locations. The 12 Federal Reserve Districts are shown on the map with dotted lines denoting district boundaries.



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To learn more visit www.clevelandfed.org/learningcenter.



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