Transcript
FedTalk: Nothing the World Had Ever Seen: The Origins of America's Central Bank
Federal Reserve Bank of Cleveland
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Presentation

Panelists:

- Owen F. Humpage, Economist Emeritus, Federal Reserve Bank of Cleveland
  On the Origins of the Federal Reserve System and Its Structure
- Thomas Veider, Architect, Federal Reserve Bank of Cleveland

Moderator:

- William D. Fosnight, Senior Vice President and General Counsel, Federal Reserve Bank of Cleveland

William Fosnight:

Okay, good afternoon, and thank you for joining us. Welcome to today's *FedTalk*. This is the bank's first in-person *FedTalk* since the pandemic. My name is Bill Fosnight. I am general counsel and senior vice president here at the Federal Reserve Bank of Cleveland. It's my pleasure to kick off our August *FedTalk* session, Nothing the World Had Ever Seen: The Origins of America's Central Bank. *FedTalk* is the Cleveland Fed's speaker series in which we share research that is relevant to our community. Past events have covered such subjects as the racial wealth gap, access to the labor markets, and financial literacy. All of our events can be found on our website, clevelandfed.org, or on our YouTube channel.

Today's program is timely and very appropriate because August 2023 marks the 100th anniversary of the Federal Reserve Bank of Cleveland's home at the corner of East 6th and Superior, this building. The work that happens within these walls is critical to the nation's financial health. From economic research to bank supervision to running the payment system, the Federal Reserve has evolved to meet the needs of the country. Today's presentation will look at the creation of a decentralized central bank in the building where our role in this unique central bank structure took root in Cleveland in the Federal Reserve's Fourth District.

Owen Humpage, economist emeritus here at the Cleveland Fed, will begin our program with his research on the origins of the Federal Reserve System and its unique structure. Following our presentation, Thomas Veider, architect here at the Cleveland Fed, will look at the building where the structure developed and evolved and its place in the architectural history of the city of Cleveland. Before we begin, I have a few housekeeping items. For those of you who are joining us virtually during this event, your microphone and camera are disabled, so please insert any questions that you have into the chat feature. In the event that the Zoom meeting drops, please use the dial in information that was provided to you in your email when you received the invitation for the call. Again, thank you for joining us. I'd like to introduce our two panelists. First, Owen Humpage, economist emeritus at the Federal Reserve Bank of Cleveland, and Thomas Veider, architect at the Federal Reserve Bank of Cleveland. Thank you.

Owen Humpage:

Thank you. Welcome. I've worked at this bank for 44 and a half years, and I always thought this was a beautiful, beautiful building and not just because of the architecture, because of the people that I got to work with and the people that I met inside the bank. It was an honor, and it's an honor to be here, to be asked to participate in the centennial program. I wrote a paper on the origins of the Fed, and I wrote it like more of a narrative style than an academic style because I was hoping that a lot of people who normally wouldn't read such a paper might pick this paper up and give it a shot. I spent a lot of time explaining things in the text and there are a lot of footnotes that wouldn't be in an academic paper, but are there just to help you to understand what it's all about. Excuse me.

I'm going to start my... I'm going to give you a condensed version of the paper in hopes that I inspire you to read the whole thing. I'm going to start in 1863, in the middle of the Civil War. In 1863, there were about 1600 banks in the United States, commercial banks, and all of these banks had charters from the state that they operated in and all of these banks issued their own bank notes. There are all sorts of different kinds of bank notes, different colors, different images on them, different sizes, different configurations of the currency, the units, and stuff like that. In 1863, the federal government tried to get all of these banks to switch from state charters to federal charters, but it didn't go so well. Very, very few banks gave up their state charters and took national charters. Most of the banks that took national charters were new banks. Almost all of these banks were small banks, generally located in rural areas.

The secretary of the treasury at the time and the comptroller of the currency at the time realized that this was going to be a colossal flop unless they did something. They needed to get the large banks involved to switch to national charters, and specifically the large banks in New York City. So the next year, what they did was they redid the act and they mandated that banks hold part of their reserves in other banks, and I'll explain this in a second, or in New York City. Now, just to keep everyone on the same pages, banks have deposits, right? They have a big pot of deposits, funds come into the bank, funds go out of the bank, but any prudent banker is going to have a bunch of currency that they could meet any net withdrawals of funds on a given day. That percent as a percent of deposits is actually pretty low, but that's okay in normal times.

All right, so what they did with the new act, and I'll give you an example, suppose you lived in Huron, Ohio and you took $100 and you put that into your bank in Huron, Ohio, a small bank. By the new law, that bank had to hold $15 of that $100 as reserves against withdrawals, but it only had to keep $6 of that 15 in its own vault. It could ship $9 off to a big city, including New York. There were 17 of these big cities, including Cleveland and Cincinnati. Now, if you lived in Cleveland and you deposited $100 in a Cleveland bank, that bank had to keep $25 as reserves with them, but it was allowed to put half of that in a New York bank. Only a New York bank. They had to do this.

Now, banks generally like this arrangement. New York banks love it because they get more deposits, they can loan them out, they can make profits, but the small banks like it. In fact, they've been doing this since about 1820. They like it because if they hold reserves in their vaults, earns no interest, but if they hold the reserves in New York or another big city, they often almost always got paid interest. So it made everyone happy. Now, I'll tell you one other thing. Back after the Civil War through the 1870s, a lot of these banks held what is called excess reserves, reserves over and above what was legally mandated for them to hold.

All right, so now let's jump a few decades ahead because what I'm going to argue is that the Federal Reserve came out of this, was established because structural changes in the banking system increased the risk of banking, especially if there was a financial crisis. That's the underlying thesis of the paper. Now we're going to jump to 1890, 1900, and the banks that existed in 1860s now have changed structurally, and there are three ways. First of all, when the law of 1864 was passed, the idea was to either get all the state banks to hold national charters or drive them out of business. Now, at first it didn't work the way they were hoping, so they put a whopping tax on these bank's notes, 10%. That drove them out. Then they either went out of business or got national charters, and by 1868 in the entire country there were less than 250 state-chartered banks.

Okay, now we go forward again. Now, in the late '70s, these state-chartered banks that still existed got their customers instead of using bank notes to write checks, kind of like we did. Before that, checks existed and they were important in the financial system, but they were generally written by businesses, often for large amounts. They certainly weren't used in retail establishment. Bank notes were. But now these state banks get them to use checks. The state banks that still existed weren't regulated as hard as the national banks. They could do things that national banks couldn't do. For example, they could make loans based on real estate, which national banks weren't allowed, so out in the rural areas where land and real estate is good collateral, these banks were making money.

Also what comes along are trust companies. These are a different kind of animal. They have even less regulations, they hold far fewer reserves, and they can invest in lots of different things. By 1894, these state banks and trust companies, there is as many of those in the country as there are national banks. By 1913, there are virtually twice as many state banks and trust companies in the United States as national banks. These things, because they're less regulated, they kind of increase the risk of banking just a little bit, but what also happens at this time are those large banks in New York start to blur the line between traditional commercial banking and investment banking.

To understand this, think of 1890s. You have guys like J. P. Morgan consolidating businesses. It's the age of the robber barons. He's bringing together real estate, he brings together railroads, he brings together the steel companies. Lots of corporations are moving their headquarters to New York. Rockefeller, whose headquarter was just a couple blocks down here, moves to New York in 1885, and they're issuing all sorts of securities and stocks in order to consolidate these business. These guys think competition is bad because it reduces their profits. That's what they're doing.

Then banks in New York, though, start helping them out. They start helping them issue, they act as brokers for stocks and bonds, they make loans for stock purchases of different types. The rural banks, the traditional commercial banks, start getting nervous. For a commercial bank, generally they only made short-term loans, one month, three months, maybe nine months, based on commercial paper that represented the shipment of goods, maybe this inventory of goods, possibly the production of goods if a contract was signed for the goods, just things that they thought would sell right away and then liquidate the loan that they made. They made no loans to make plant and equipment expand for corporations, they generally didn't make loans for stock companies. That was the anathema of proper banking.

Now these traditional commercial banks are getting nervous about these banks in New York that are now tying their balance sheet to the stock market and risky stuff. Remember, these New York banks are holding a lot of those reserves for those traditional rural banks, so you can see why they're a little nervous about this. The last thing is sort of technical, but I have to bring it up.

Remember those excess reserves I talked about? As the decades go by, banks started getting rid of those excess reserves, bringing their reserves down to the bare minimum. This even happens with New York banks who generally didn't hold much excess reserves but now hold far fewer. Now, what happens when they do this is the amount of deposits in the economy relative to the amount of currency in the economy expands. That ratio was 2:1 in 1879. It grows to 6:1 by 1913. Also, the ratio of deposits to vault cash grows from four to nine.

Now, what this means is if there's a banking problem, what's going to happen is the depositors in the bank are going to rush into this bank, demand to take out their deposits and receive currency, but now there's a lot less currency around in the economy to accommodate all these deposits. When people go into a bank en masse and they want to withdraw their deposits, it's generally because there's a financial crisis, and that's generally referred to as a banking panic. Banking panics generally didn't start recessions. They generally was a response to a recession. What would go on is the economy would start to contract, bank customers, depositors, would read their newspapers, hear about people being laid off, about businesses cutting production, about some businesses closing down, and they would start getting nervous about their deposits because they knew their banks were loaning to these same businesses.

Then as the depositors rush into these banks and demand their currency back, the bank can't accommodate all of them, so what they do is they suspend the payment out of cash for deposits. Now, it wasn't complete. They would give you some of your money, but not all of it, and they'd draw it out and while they draw it out, they would call in their loans, they would stop making loans, they would sell assets that they have on their books to get more cash. They would do anything they could to get cash. But when they did this, they reduced the money stock in the economy, interest rates would rise, and those businesses that are experiencing bad times find it even harder to get loans. So while they don't cause recessions, they certainly add to the recessions.

The recession in 1907 and the banking panic that followed it was the worst on record for the United States up to that date. In March of 1907... Oh, and if you read the newspaper you can see how this is related to the San Francisco earthquake. Just a little sidebar there for you. In March of 1907, the economy goes into a recession, businesses are closing. At first it's not a very bad recession. It looks like people can get out of it pretty easily. Some banks get in trouble because of some guys that do some shenanigans with the copper market. There are runs on those banks, but the banking industry in New York doesn't get too upset about it. They think it's just related to this copper deal and not a big deal. But then the bank runs turn on the trust companies and situation gets really, really bad, and it stays bad until February of 1908.

Now, bankers actually had a way of dealing with these runs, and they did this through the clearinghouse. Clearinghouses were established in 1850s, and they were established to help banks clear checks. In 1853, there were 60 banks in New York City. If those banks cleared checks bilaterally, there was potentially 1,770 different transactions they'd have to engage in. But if they operated through a clearinghouse where they brought all their checks, the clearinghouse would net them out, tell some banks, "Well, you owe money," and other banks, "You're getting money." They reduced those transactions to 60. It was very efficient for banks to do this.

In 1907, any bank could become a member of the clearinghouse. You had to apply for membership. All the membership of the clearinghouse had to agree to accept you. The clearinghouse made very strict rules that you had to follow. You had to reveal parts of your balance sheet, publish it once in a while. The clearinghouse could monitor what you do and say, "That's too risky. You're not allowed to do that." Things of that nature. Essentially, the clearinghouses were like central banks of their time. They kind of monitored the banking situation. They were all over the country, but the key clearinghouse was in New York City. It was bigger than all the rest. It was the central bank in a sense.

In 1907, though, this clearinghouse kind of screws up. The clearinghouse would easily allow state-chartered banks to be members of the clearinghouse, that was fine, but they didn't want trust companies because trust companies they thought were risky and had too much of a competitive advantage. They didn't let trust companies join the clearinghouse, but if you weren't a member of the clearinghouse, you could clear your checks through a member of the clearinghouse, so state-chartered banks that didn't join the clearinghouse generally cleared their checks through a national bank that was a member of the clearinghouse. Trust companies were doing the same, but the clearinghouse made it very, very difficult for them to do it so very few cleared through banks.

Now the trust companies are the ones that this panic of 1907 is focused on. The clearinghouse doesn't like them, doesn't have a lot of information on them, and the panic turns very, very severe. Now, the clearinghouse had ways to deal with panics in similar events, but suffice it for time just to say that in 1907, the clearinghouses reacted to events late in the game. They didn't favor the trust at all, though they ended up making some loans to trust, and they didn't do... They just didn't do a very good job, so when the panic ended, people started thinking of the current existing situation of the banking structure and they wanted reform. Even some of the big bankers in New York realized this was a problem now, and they were willing to go along with reform.

The issue then was, well, how do you go about reform? This was not controversial. Everyone knew what you had to do in order to have reform. Basically, you had to make a king-size clearinghouse. You had to have some place where banks put their reserves. It might be one place, given that the country was not completely financially integrated at the time you may have a couple places around the country. You put the reserves in those banks, you lend them out in a panic time, you charge a very high interest rate so the banks that are part of this organization don't abuse it. If things get really, really serious, you issue emergency fiat money, you put it out into the public and the banks, but you tax it after a few months, and you tax it really high so it's brought back in, doesn't expand the money supply, and no one abuses that opportunity.

Where the problem came in, though, was on the structure. How do you structure these organizations? Generally there were two views. One view was to centralize it and keep government out of it. The other view was to decentralize it and have some government in it. You can imagine the banks in New York wanted it centralized, and they wanted it centralized because they figured if it was centralized they would dominate the stuff. Those rural banks and even the large banks out west wanted a decentralized structure. Out of this come two plans. One plan is the Aldrich Plan. Nelson Aldrich is a Republican, he's tied into big industry, he's tied into big banks, and a lot of people in Congress hate him. One article I read referred to him as toxic. He was toxic. The Democrats couldn't stand him.

Aldrich's plan worked like this, basically: he would have regional institutes, he called them district associations, located across the country, and he would have a national association located I would guess in Washington. Even those regional institutions, they were branches of the central institution, which means they had no discretion on how they behaved. The national institution and the regional institutions were completely in the control of bankers only. Now, they allowed the president of the United States to pick the head of the central association, but he had to pick from a set of names given to him by the bankers. They allowed the secretary of the Treasury, the Secretary of Agriculture, and the Comptroller of Currency to be directors of the central organization, but the two secretaries weren't allowed on the executive committee, only the comptroller who was bank sympathetic, and that was who made all the decisions so it was completely under the control of bankers.

The next one that came up, the next plan, was the Glass-Owen Plan, which became the Federal Reserve Act. This plan also envisioned regions across the country, eight to 12, but these would be semi-autonomous. They would have a board in Washington who would oversee them. It also had a role for the president, so the president of the United States. The board would consist of the secretary of the treasury, the comptroller of the currency, and the president would pick five governors to serve on the board of governors in Washington. The president had a big say in it. The regional banks would be technically owned by the banks in the region. The bankers in the region could pick six of their directors, but the board could pick three other directors. The structure of the Fed then starts with concern about the riskiness of banking in the early 1900s, but the structure comes out of concern, a kind of fear among the rural banks about how the big banks in New York would behave.

I see I have one second. A red light has come on. I will try to answer any questions you may have, and I hope you'll read the paper. I think it's interesting. Read it a couple of times. Okay, thanks.

Thomas Veider:

Good evening, everybody. I'm Tom Veider. Unlike Owen, I'm not a researcher or a historian. I'm an architect. I just happen to like working on historic buildings and have really focused my career the last 30 years working on historic buildings that incorporate modern architecture. To that end, I ended up going back to school in 2018 for a graduate certificate in historic preservation at CSU. During that time, I started at the bank in the middle of that class, and three months after starting at the bank COVID happened so everything was remote, work and school. I had to figure out a way to fulfill a class assignment and also get to know the bank.

For the last assignment of that course, which was called Contemporary Issues in the Historic Preservation, I took on the main bank building of Cleveland as my subject matter. What you're seeing is really the presentation of that paper edited after three years of learning more after I presented this paper. I'm going to go briefly through the history of the project or the presentation because actually the focus of my paper wasn't the history of the building, it was more about the preservation of the building. It's really why we're here to celebrate the centennial. The district has really taken great care of this building over the last a hundred years and continues to do so.

Coming out of Owen's discussion about the context of how the system was developed or built, I decided to keep this slide in as a way to illustrate the panics that Owen had mentioned, as well as a bank run at Society for Savings Bank in Cleveland. I can see the bottom photo, that building is still there now, KeyBank. Out of that is what the Federal Reserve Act was created from. A year later, 1914, Cleveland was awarded the headquarters for the Fourth District. At the time, it was the sixth-largest city in the country, growing financial center. By the time they moved, the offices were originally in the Williamson Building on Public Square, 23 people grew to several hundred in five years, as well as opening a branch in Cincinnati and Pittsburgh, so by 2018 they knew they needed to find a place to expand and build a purpose-built building.

Right around that time in 2019, they selected the site, they bought the Masonic Auditorium at the corner where we are now. The Masons were planning their new building on Newport Avenue. It's an interesting site because it's basically a corner that kind of bridges the two districts, the Mall plan, which you see in the illustration there, which was a planned collection of government buildings, and then on the other side were all the commercial buildings and banks. It was kind of a bridge between those two worlds. It was a very busy, active intersection at the time. The Superior building was being built as a bank at the time. The Hollenden Hotel was across the street, perhaps the hotel of its era. The Leader Building and the Plain Dealer were diagonally across the street, both newspapers, and the Walker and Weeks'...

Cleveland Public Library was being planned as well. Three of these buildings that you see are actually all Walker and Weeks. Well, the Hollenden Hotel was renovated by them later. Then speaking of Walker and Weeks, the preeminent firm of the day, based in Cleveland, their work spanned several types, as you can see. They did Severance Hall, Public Auditorium, the library, but they were really known for their expertise in bank design. That's one of the reasons that they were hired. They would go on to do a hundred banks in their entire career. The Cleveland bank was unique in that most other banks at the time were designed as sort of a Greco-Roman, lots of columns design. The Cleveland bank was modeled after a Italian palazzo, like a Florentine Palazzo, palace fortress, if you will.

The idea was to really symbolize stability and security with the bank architecture. That was also expressed in their sculpture. The literally Security and Integrity flank the main entrance of the building, which was the original public's entrance, and the sculpture Energy in Repose oversees what was originally the staff entry. It was supposed to inspire the staff, apparently, to work hard with the hammer in hand. All these sculptures were done by Henry Herring, and he had gone on later working with Walker and Weeks to do the Guardians of Traffic pylons of the Lorain-Carnegie Bridge, which are now basically the inspiration for our baseball team's image, if you will.

I just thought this was interesting doing the research. Our bank is very unique in the pink Etowah marble that we have. Walker and Weeks used Georgia Marble Company for a lot of their banks, it seems like most of their banks, including the Public Library. The marble for that building also comes from Georgia Marble Company. Again, they worked with them so much so that the Tate family that owned Georgia Marble asked Walker and Weeks to design their estate house just north of Atlanta, and from the same stone that our bank has made from. Apparently the quarry is right behind the house. It's currently a national landmark available for weddings and referred to as the Pink Palace in Atlanta.

Just to go into the construction, John Gill & Sons were the main contractors, a family in Cleveland, and Norris Brothers was the movers and erectors. They still exist as a contractor. They started with the construction of the concrete vault in the lower levels. It's essentially a two story, six foot thick concrete building of its own, and then they built the actual office building, if you will, above that. They're really very individually built. As you can see from the images, the construction is very modern for that time and still... I mean, the building behind that you can see through the windows, the Sherwin-Williams building, isn't really being built all that differently, just with glass as opposed to marble.

Then what most people always ask about is the vault. The vault door was... The vault assembly was actually made in York, Pennsylvania. At 300 tons, it took about a month to bring it here from York, Pennsylvania. They routed it to avoid hills and bridges at that weight. They were very worried that... What the damage it would do. They offloaded it at the Pennsylvania rail freight yard that was where the FBI building is right now. It took them two days to unload and four days to get it here for that one mile to this building. You can see the photo of it finally parked in front of what would become the main entrance. From how we speculate, it must have been lowered through an opening where the stairs are now because it basically does line up with where the vault door is right now because you can see the building was actually finished by the time they brought the vault door in.

In honor of the almost a hundred years since the building opened, did try to do some research of this event. Apparently 40,000 people lined up to come see the main lobby of the building August 23rd. Big news, at least in the headlines, but going through archives and research I could not find one photo of that crowd. You'd think with three newspapers across the street that there would be one, but apparently not. Then what they would've seen was the black and white photo that you see here, which really is very similar to what you'll see after this presentation. Siena marble lines the building, gold-gilted ceiling. The metal ironwork is actually from Rose Metal Iron Works there, still exist in Cleveland. They also did the grillwork of the arched windows. Then there's the main art mural by Cora Holden depicting steel production. Again, the only real difference with this building or this space is the reception desk has been removed and replaced with a security entrance desk.

Then, again, the focus of my paper was more about the renovations and how the bank has really kept the building in great shape. The first renovation that I could find evidence of was in '49. This was when they installed air conditioning, so this was 25 years after the building opened. It was also when they cleaned the building. As you can see, it needed it. Lots of soot from 25 years of being in existence. Back then they used sandblasting, which we don't recommend anymore, but thankfully the stone was not damaged from that act, if you will. Then the interior was cleaned as well.

Then I just thought this was a really interesting slide. Of the 12 banks that were originally built for the district, four are still in use, Cleveland being one of them. New York, Chicago, and St. Louis are the others. Again, even overall as a system, the system's been good stewards of their buildings. The only one of these buildings has been demolished, and that was for actually a new Federal Reserve bank in Atlanta. The other ones that aren't bank buildings anymore have been repurposed for other uses. For example, in Pittsburgh the building is a hotel now and Cincinnati is apartments.

Then again in '96, the bank made a decision to... Rather than leave this building, they would stay and add onto it and really address the changes in banking and the need for additional security. Before this addition was built, basically the delivery court and the cash delivery were in the same space. This allowed that to be separated. This also created a new entry off Superior with a separate connection that would connect both the annex and the existing building. We were able to actually use the same Georgia marble, the same quarry, for the new addition as the original.

Then the interior at the time, Van Dijk Pace Westlake was the architect of record for the annex working with HOK, but they also ran the restoration of the building interiors. Here's the images after that restoration. Then they also created that first floor lobby as well as the first floor conference center that we still have now. Then more recently, the bank did a exterior cleaning in the early '00s, this time with soap and water, not sandblasting, thankfully. They also restored the marble statues, as you can see in there. That was probably the last vestige of when the gun turrets that everybody asks about were below the statues. The bases were completely rebuilt and those areas filled in. Then today we're actually in the middle of planning a master plan, if you will, for the exterior renovation in upcoming years in a phased manner.

Then, again, we do have a museum in the building, but we don't work in a museum. The bank makes sure that everything is updated and the work environment is the most modern and latest it can be. Just examples of some of the things that we've done over the last few years with entrance lobbies, collaborative spaces, open-plan offices that offer access to daylight. When we can't give them daylight, say for example in the larger photograph, that's the cash offices that we created, we installed simulated skylights so that it's always sunny in cash, as they say.

Then additional renovations that we've done that really take into account the existing building and being sensitive to the history of it. The Learning Center and Money Museum were renovated during COVID. You'll see those after this meeting as well. We were able to take the old window treatments off and really bring back the light and be able to see the views out and see the grillwork of those windows. We replaced the lighting with round lights that basically mimic the archways but at the same time adding these kind of contemporary colors to kind of really brighten up that space.

Then another project we worked on was a new entry for Rockwell that started out as the need to create a three-person officer's post on Rockwell to replace the single one. There was a struggle of where to put it without demolishing anything. There was discussion about maybe needing to remove the watchman's tower that you can see to the left, but we were able to work with the city and city planning to allow us to bump out into the street and build that in front of the entry. As you can see, it basically slips in that original stone opening so it really doesn't do any damage to the original building.

One more. No. Here we go. Last image. Back to the vault. Also during COVID, we updated the law enforcement offices on the ground level. This was really a back of house level related to the delivery court. We wanted to upgrade it so that it had equity with the other office floors. At the same time, we saw an opportunity to really open up that area in front of the vault and really kind of create a feature space for the vault we call the vault lobby now, and also we were able to lift up the ceiling to expose the vault door more and replace all the flooring with the same Tennessee marble that is in the rest of the office building. Then, again, really the conclusion of my paper was that the Fourth District has been an exemplary steward of the building. It's why it's still around, and it's a very important thing to Cleveland culturally, economically. It's also proof of... The main building shows that a historic building can continue to function and be modernized and not necessarily be torn down to address modern needs.

Another part was the comment that I had at the end was preservation is sustainable. We were lucky to have the Cleveland Restoration Society speak to the bank Green Team Resource Network group last year talking about how this building has this embodied energy, if you will, a concept where the energy that was needed to create the material and build the building is actually embodied in the building. Tearing down this building would essentially throw that all away. The Restoration Society calculated that there was 800 million... No, billion BTUs per hour embodied in just the stone and steel alone. That would power I think they said 1500 houses for a whole year 24/7. It's quite a lot of energy there. Then, again, being the good stewards, the bank continues to plan for future renovations so as to make sure that this building has perhaps another centennial to come. Thanks.

William Fosnight:

Thank you very much. That was very, very interesting and I learned a lot today, which I've been here for almost 40 years, 38 years, and I didn't think I'd learn anything and I have. With that, we're going to take some questions. The way we're going to do this is there could be questions on the chat. There are two speakers here, so if you have questions you can come up to the speakers or the microphones. I'll start off with the first question and then I'll go to the chat or any in the room. The first question is for Owen, and it relates to one of the original bills that was introduced by Senator Glass and Owen. The question is, "Was Senator Glass's role the reason that the Richmond Fed got a district bank or were there other considerations? The other 11 locations make pretty good sense, but that one seemed a bit political." Now here's a clue, read Owen's paper because there's a lot of this in there, but I'll let Owen answer.

Owen Humpage:

Yeah. The Federal Reserve Act set up a committee. Excuse me. It set up a committee and told them to go out and draw eight to 12 districts, they went with 12 districts, and pick a headquarter city for each of those districts. As soon as they revealed what they had come up with, there were all sorts of charges, "Oh, this is political. This is all rigged." The district banks... The group that you say were politically rigged changes with different people, but generally included Atlanta, Richmond, Dallas, Kansas City, and Cleveland. Here's the problem with claiming that these districts were politically motivated. I'll tell you, there is some empirical research on it. Very little. Most of the research suggests that the decisions weren't political. The one paper that I thought was really good could predict all 12 of the district banks based on population, population growth, the amount of banking in the region, and on banker's preferences.

To understand that, you have to know that when they started this committee to get the districts, they went to the treasury, and the treasury went to all the national banks and asked them to list the cities that they would prefer in their region as the headquarters, list the top three. Cleveland wasn't on their list, but they sort of captured the issue of the districts. But anyway, so the political thing, here's the problem with it. It's a problem with correlation versus causation. It's very easy to go to a lot of these districts, like the Richmond District, and say, "Well, of course it's the regional headquarters." Wilson, the president, grew up in Virginia. Carter Glass, who wrote the Glass-Owen Bill along with other people, he's a representative from big part of Richmond. The guy that was I think the comptroller of the currency at the time had previously been a banker in Virginia.

You can do that for Cleveland. The argument, and this is in Kyle Fee's article, the argument was, "Well, of course Cleveland was a Democratic city. Newton D. Baker, who became Wilson's secretary of the state, lobbied for him, did all sorts of stuff to help him get elected. Of course it was political." But actually what it turns out, in most of these cities the thing that changes... I'll use Pittsburgh and Cleveland as an example. The same would go for Richmond. Cleveland had a more diversified industrial base. Pittsburgh was pretty much steel. Cleveland had all sorts of industries. The idea with Cleveland in this respect was if the industry's diversified, then the banks that make loans to these industries are going to be diversified in their portfolios and less risky.

The other issue in Cleveland was Cleveland, despite all the problems in banking, had no national bank failures for many years, but Pittsburgh had a few national bank failures. You can go through all this and see even though you can find political relationships, you can find stronger economic relationships that explain why that city is the district headquarter. Now, you might wonder why Cleveland beat out Cincinnati. Actually, Cincinnati in one of the... They had different plans for different numbers. In the plan for 11 Federal Reserve districts, Cincinnati would've been a headquarters and Cleveland a headquarters. Cincinnati basically would've drawn a line up through Western Ohio and taken all of Michigan and chunks of Kentucky. It's a causation versus correlation problem.

William Fosnight:

Okay. Do we have any... Thank you. That was great, very interesting. Any chat questions?

Speaker 4:

We do have one. I think, Owen, this is going to be for you again. Since our creation in 1913, in your opinion what historical event had the greatest impact on the Fed structure and functions?

Owen Humpage:

Since 1913? The Banking Act of 1935. That basically changed the Federal Reserve System to what it is today. That did two basic things. It gave the board... The Federal Reserve Act, despite putting the board in charge of the districts, this is not clear. It wasn't written very clearly, so the board and the district banks kept getting in headbutting contests over discount rates and open market operations. The Banking Act of 1935 cleared all of that up. It gave the board clear authority over the district banks for a lot of stuff. It also removed the treasury from having any role in the Federal Reserve, so it centralized control and it gave us more political freedom. Then basically the structure of the Fed today reflects that, so definitely the Banking Act of 1935.

William Fosnight:

Any questions in the room before... Okay.

Speaker 5:

Hi. Thank you, both. I'm just curious... Perhaps this is most for Mr. Veider, although maybe you'll both have thoughts. This being a regional branch of a federal institution, I'm just curious what federal and/or local entities had say in either the design or the functionality of the building, and how did the navigation of those influence the design of the building both in its initial construction and also throughout the renovations? Thanks.

Thomas Veider:

I don't have an answer.

William Fosnight:

That's an interesting question.

Thomas Veider:

Yeah.

William Fosnight:

I mean, I think at the time... The board now currently has involvement in any Federal Reserve Bank construction, and I'm pretty sure at the time they still did have direct involvement and say over it, but there were no other government agencies at the time that would've had the ability to review or have say in it. But it was pretty much up to the bank working with the board of governors even at that time.

Owen Humpage:

I can give you a little weird thing that happened. The Reserve Bank Organization Committee went around the country, and they went around and they interviewed people about what their thoughts on the district banks and stuff like that. Well, Cleveland sent representatives to almost all of those cities, and they sat around and they listened to these guys talk. Cleveland was the last city on the tour, so by the time they got to Cleveland, all the Cleveland reps knew exactly what questions they were going to ask and how to answer. That actually probably helped them. That's, again, from Kyle Fee's very interesting little pamphlet. Kyle's sitting in the back there. Thanks, Kyle. He made me look a lot smarter than I really am.

William Fosnight:

I do have another question for Tom, which I'm going to reform a bit because I think you already addressed some of the things that were in this question. But you mentioned something to me I hadn't realized before about the stone in the building both on the exterior and in the interior, the floors and the lobby and everything. Could you describe that a little bit in more detail?

Thomas Veider:

Yeah, most people don't realize that while the building is mostly pink marble, that Etowah marble from Georgia, the lower level's actually granite from Maine that is almost a perfect pink match. If you look closely at the stone, it's very kind of a speckled granite that you would expect, but it blends very well. I think I mentioned the marble in the main lobby is all Siena marble from Italy and the floors generally are all this pink Tennessee marble. Even in the... We did several renovations of corridors in the last three years and were able to get that same Tennessee marble.

William Fosnight:

Okay. With that, I think we're done. I want to thank our speakers today.

Oh, I'm sorry. Oh, there is another question.

Speaker 6:

I do have one question. Is it true there were tennis courts on the roof of this building?

Thomas Veider:

Yes.

William Fosnight:

Yes.

Speaker 6:
How long did they last?

William Fosnight:
Till they put the air conditioners in.

Thomas Veider:
Yeah. Yeah, that's where they went. Yeah.

William Fosnight:
Could I ask one more question because that reminds me of a question I did have? You mentioned that the air conditioners went in 1949. Do you have any sense for how the building was cooled prior to 1949?

Thomas Veider:
Probably fans and windows, really. I mean, the windows were operable then.

William Fosnight:
Okay. That's kind of what I thought, but I just can't imagine having the window open on the tenth or eighth floor-

Thomas Veider:
Yeah, it's hard to think that now.

William Fosnight:
... and the wind blowing through. That just would be odd. Okay. Well, once again I want to thank our speakers today for their engaging presentations, and thank all of you for joining us. If you've joined in person, we invite you to a reception on the first floor in the Historic Lobby where you can view a special centennial exhibit designed by senior exhibit designer Mike Galka, who's sitting in the second row there. Information about today's program will be sent in a follow-up email. A recording the event will also be posted on clevelandfed.org. I'd like to ask you to join us in our next *FedTalk* on September 5th on banking resilience, and that's at 3:00 PM. Thank you for joining us today and have a wonderful evening.