

## HISTORY OF FEDERAL RESERVE BANK OF CLEVELAND

This narrative records important facts and happenings in connection with the establishment of the Fourth District Reserve Bank at Cleveland; the important events in the organization of the bank prior to its opening; and matters which are considered of importance or of interest in the affairs of the institution. The narrative has been compiled largely from published sources, supplemented by suggestions and incidents mentioned by the few remaining people in the organization who were "in the know" in the early stages of the bank's life. It is inevitable that in a record of this nature much that is of interest will be overlooked. On the other hand the reader may be assured that, while what is of interest or of historical value is largely a matter of opinion, no really important happening or occasion which is a matter of record or of recollection has been overlooked.

When the Reserve Banking Act was passed in December of 1913, the organization of the System, including the determination of the number of banks to be established and the location of such banks, was left to the Organization Committee, consisting of the Secretary of the Treasury (William Gibbs McAdoo), the Secretary of Agriculture (David Franklin Houston), and the Comptroller of the Currency (John Skelton Williams).

Early in 1914, the Organization Committee held hearings in various parts of the country to permit cities to present their claims as candidates for the location of a Federal Reserve bank. Each city was requested to present its suggestions as to the number of districts that should be created, the territory to be included in each, and the reasons for its own selection as a Federal Reserve City.

Following announcement of the procedure to be observed, a committee was organized in Cleveland under the leadership of the Cleveland Chamber

of Commerce, which represented also eight other organizations headed by the Cleveland Clearinghouse Association. This committee selected an executive committee consisting of Colonel John J. Sullivan, then president of the Cleveland Clearinghouse Association; the Honorable Newton D. Baker, then Mayor of the City of Cleveland; Warren S. Hayden, then president of the Cleveland Chamber of Commerce; Elbert H. Baker, then president of the Plain Dealer Publishing Company; and Frederick H. Goff, then president of The Cleveland Trust Company. Edwin C. Baxter, then assistant secretary and industrial commissioner of the Cleveland Chamber of Commerce, was assigned as secretary of the committee, which proceeded at once to map out the eleven districts which it proposed. District Number Five was to include all of Ohio, twenty-five counties of western Pennsylvania, nine counties of western New York (including the City of Buffalo), four counties in the panhandle of West Virginia, and nine counties of southeastern Michigan (including the City of Detroit), with the Federal Reserve bank to be located at Cleveland. The views of the Cleveland Committee were presented to the Organization Committee at a meeting which was held in Cleveland on February 17, 1914.

Applications for the location of the Federal Reserve bank likewise were filed by representative organizations in Cincinnati and in Pittsburgh. The report of the Reserve Bank Organization Committee, transmitting to the United States Senate in response to a request from that body the briefs and arguments filed by the thirty-seven cities which asked to be designated as Federal Reserve bank cities, includes the Cities of Wheeling, West Virginia, and Columbus, Ohio. Apparently the brief filed in behalf of Columbus was submitted by the Ohio National Bank. The Committee also refers to "statements in behalf of Wheeling, West Virginia," without reference to who filed the statements, and we can find no record of publication of such statements. It is entirely possible that, as was the case with Columbus, the brief was filed by a bank, or possibly the Chamber of Commerce. In the tabulation of votes cast, indicating

first, second, and third choice for Reserve bank cities by States, Columbus received thirty-six first choice, and Wheeling one second choice vote. There is no evidence that the claims of Columbus and of Wheeling were at any time given serious consideration.

The brief filed by Cincinnati was prepared under the direction of Frederick C. Hicks, professor of economics and commerce at the University of Cincinnati, for the Joint Committee on the Regional Bank, which represented the Cincinnati Clearinghouse, the Chamber of Commerce, and the Businessmen's Club. The material presented was very elaborate and complete. The territory to be covered by the Cincinnati bank included the States of Ohio, Indiana, West Virginia, Kentucky, and Tennessee.

The final brief filed by Pittsburgh, on August 12, was very short and concise, containing not more than two thousand words. 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 the new bank. The original brief filed by Pittsburgh was not published by the Organization Committee in its letter transmitting briefs and arguments to the United States Senate.

Cleveland's brief in rebuttal of the Pittsburgh brief, filed October 3, was prepared by the members of the committee who signed the original brief, assisted by S. H. Tolles, a Cleveland attorney. It was stated that Colonel J. J. Sullivan would go to Washington to attend the hearing when the Pittsburgh protest was given final consideration. The hearing was set for January 13, 1915.

Cincinnati was early eliminated from consideration and the contest for the location of the Fourth District bank became very bitter between the organization sponsoring Pittsburgh and that which was championing the cause of Cleveland. The reasons which prompted the Organization Committee to lo-

cate the bank in Cleveland have never been announced. It has been freely charged that the determination was largely the result of the influence of Honorable Newton D. Baker, then Mayor of Cleveland, prominent in national Democratic circles, and later Secretary of War in President Wilson's cabinet. Other arguments run that Pittsburgh was eliminated because of certain banking difficulties through which the City of Pittsburgh had just passed, involving the suspension of large and important banks. Dr. H. Parker Willis in his FEDERAL RESERVE SYSTEM states that the reasons for the selection of the twelve cities determined by the Organization Committee were filed in the form of a confidential memorandum, and so far as is known the contents of this memorandum have never been made public.

The decision of the Organization Committee to locate the Fourth District bank in Cleveland was stubbornly and vigorously contested by the committee presenting Pittsburgh's claim, and the proposal was made that the nineteen counties in western Pennsylvania apportioned to District No. 4 "secede" from the Fourth District and be attached to the Philadelphia district. Based upon an opinion of the Attorney General of the United States that the Reserve Board had no authority in law to change the designation of a Reserve bank city once the determination had been made by the Organization Committee, the Board declined to take action on the Pittsburgh petition to name that city instead of Cleveland as the location for the Fourth District bank. The proposal to transfer the nineteen-county area in western Pennsylvania to the Philadelphia district apparently received scant consideration. It is probable that Philadelphia would have been no more acceptable to Pittsburgh interests than would have Cleveland.

One of the steps taken by the Organization Committee in determining the location of the Federal Reserve banks was to poll the 7,471 national banks throughout the country which had formally assented to accept the

provisions of the Federal Reserve Act, as to their first, second, and third choice preferences. It is interesting to observe that of the three cities in this territory whose claims were given serious consideration, Cleveland received the smallest number of first choice votes. Even in the State of Ohio it received a much smaller vote than did Cincinnati. The tabulation below shows first choice votes for the cities of Pittsburgh, Cincinnati, and Cleveland, set up to show the preference of banks in the district, in the State of Ohio, and in the country as a whole. <sup>1/</sup>

	<u>District Vote</u>	<u>Ohio Vote</u>	<u>National Vote</u>
Pittsburgh	294	31	355
Cincinnati	194	160	299
Cleveland	110	107	110

A substantial part of the out-of-district vote for Pittsburgh and Cincinnati came from West Virginia, which cast 41 votes for Pittsburgh and 26 votes for Cincinnati. The Cincinnati vote likewise was influenced by a substantial vote cast for that city by banks in Kentucky and in southern Indiana. Cleveland, apparently, did not receive a single vote from outside the district, the difference between the district vote and the Ohio vote being the three ballots cast by Pennsylvania banks for Cleveland as first choice. It is likewise of interest to note that Cleveland is the only city in which a Federal Reserve bank was established that did not receive a majority of the ballots cast for the selection of such city by the voting banks in its district.

It may not be entirely without significance that the Organization Committee, on the date that it announced the location of the twelve Reserve banks, commented upon the claims of New Orleans, Atlanta, Dallas, Baltimore, Omaha, Lincoln, Denver, Portland, Columbia (S.C.), Washington, Cincinnati, and Charlotte (N.C.), but made no mention whatever of Pittsburgh.

<sup>1/</sup> Location of Reserve Districts in the United States - Senate Document 485 - 63rd Congress - Second Session - Page 349

The final decision of the Organization Committee to establish twelve districts and twelve Reserve banks was announced in Washington under date of April 2, 1914. As originally constituted the Fourth Federal Reserve District included all of the State of Ohio, fifty-six counties in eastern Kentucky, nineteen counties in western Pennsylvania, and four counties in the West Virginia panhandle. Except for the addition of two counties in West Virginia (Tyler and Wetzell, which were transferred to the Fourth District by resolution of the Federal Reserve Board on May 4, 1915), the territory today remains unchanged. <sup>1/</sup>

On May 18, 1914, two representatives each of the five banks which had been designated by the Organization Committee to file an organization certificate for the Cleveland bank met in the City of Cleveland for that purpose. These banks and their representatives were — Phoenix and Third National Bank, Lexington, Kentucky, represented by W. A. McDowell and W. L. Threlkeld; First National Bank of Cincinnati, Ohio, represented by T. J. Davis and R. E. McEvelley; The New First National Bank, Columbus, Ohio, represented by C. R. Mayers and C. R. Shields; The Bank of Pittsburgh, N. A., Pittsburgh, Pennsylvania, represented by Harrison Nesbit and Alexander Dunbar; and The First National Bank of Cleveland, Cleveland, Ohio, represented by T. H. Wilson and C. E. Farnsworth. Mr. J. R. Kraus of The First National Bank, Cleveland, Ohio, was also present on that occasion. The notarial certificate was executed by Joseph A. Royon, a Cleveland attorney. The certificate of organization was signed on the afternoon of that day at a meeting scheduled for 2:00 o'clock.

The Federal Reserve Act provides that the certificate shall be transmitted to the Comptroller of the Currency, "who shall file, record and carefully preserve the same in his office," and that upon the filing of said

---

<sup>1/</sup> This transfer resulted in the addition to District No. 4 of five national banks -- The First of Middlebourne, First of New Martinsville, Farmers and Producers, First, and Peoples of Sistersville.

certificate with the Comptroller as aforesaid, the Federal Reserve bank shall become a body corporate. Since it is manifestly impossible that an organization certificate executed in Cleveland on the afternoon of May 18, 1914, could have been filed with the Comptroller of the Currency "in his office" on that same date, it would seem that there is legitimate question whether the date of the organization of this bank, as given in all published sources and as included in the seal of the bank, is correct. It would appear much more probable that the filing date was May 19, and that the bank became a body corporate on that date.

Following the filing of the organization certificate, interest shifted to the election of Class A and Class B directors. The first election was conducted by the Reserve Bank Organization Committee, acting for the chairmen of the various Federal Reserve banks. In a circular letter dated May 6, 1914, prescribing the mechanics of nomination<sup>1/</sup> and election, the Committee stated that:

"The organization of the Federal Reserve bank in those districts whose member banks act promptly will not be held back or delayed to keep pace with organization of banks in other districts whose member banks are slow in taking action and making returns to the Organization Committee."

Apparently the election was rather loosely conducted. Although there was nothing in the Organization Committee's circular fixing a date for the closing of the polls other than to provide that ballots must be returned within fifteen days from their receipt by the voting bank, FINANCE in its issue of July 11, 1914, stated that national banks in the Fourth Federal Reserve District on Tuesday<sup>2/</sup> received the formal call for election of directors of Federal Reserve Bank of Cleveland. Such being the case the polls should have closed on July 22. Two days after this date, however, the banks

<sup>1/</sup> Complete lists of all candidates for Class A and Class B directors nominated by banks in all three groups may be found in Appendix A

<sup>2/</sup> July 7, 1914

of the country were notified by the Committee that the polls for the election of Class A and Class B directors would be definitely and finally closed on August 1, and that no votes for Class A or Class B directors received thereafter would be counted.

It is evident also that the announcement of the election of directors was not made by the Organization Committee at one time. FINANCE in its issue of July 25 announced the election of Robert Wardrop of Pittsburgh, and Thomas A. Combs of Lexington, as Class A and Class B directors respectively. In the same issue another dispatch indicated that "the next announcement from Washington will contain the names of directors chosen by Groups Two and Three." The complete list of Class A and Class B directors was announced on August 10, and there is given below a list of the first Class A and Class B directors of this bank, together with their principal business affiliations.

Robert Wardrop, president, Peoples National Bank, Pittsburgh, Pa.  
 William S. Rowe, president, First National Bank, Cincinnati, Ohio  
 Stacey B. Rankin, president, Bank of South Charleston, South  
 Charleston, Ohio, and secretary of Ohio Bankers  
 Association

Thomas A. Combs, president, Combs Lumber Company, Lexington, Ky.  
 A. B. Patrick, oil producer, Salyersville, Ky.  
 C. H. Bagley, president, Ajax Iron Works, Corry, Pa.

It was common gossip that in the first election of directors the banks in Cincinnati and Pittsburgh "ganged up" to defeat the two principal Cleveland candidates for directorships in Class A and Class B. These were Thomas H. Wilson, vice president of The First National Bank of Cleveland, and Harry Coulby, also of Cleveland. The "deal" apparently contemplated that in exchange for support by banks in the Cincinnati area of the candidacy of Robert Wardrop of Pittsburgh, the banks in the Pittsburgh area would support the election of William S. Rowe of Cincinnati. To secure support of the Kentucky banks it seems to have been agreed that in exchange for their votes



for the Wardrop-Rowe slate the Pittsburgh and Cincinnati banks would support Thomas Combs of Lexington, and A. B. Patrick of Salyersville. That the effort was successful is evidenced by the fact that all four of the gentlemen were elected.

Further than this, it seems that the Pittsburgh and Cincinnati bankers outsmarted the Cleveland crowd in that both Mr. Wardrop and Mr. Rowe were nominated by banks in all three groups whereas Mr. Wilson and Mr. Coulby were nominated by banks in Group One only. Since by the terms of the Organization Committee's circular the electors were permitted to vote on the nominees of their own group only, the possible vote for Mr. Wilson and Mr. Coulby was limited to the banks in Group One. As the number of banks in each voting group was very nearly equal it is obvious that the Cleveland candidates were at a hopeless disadvantage.

Following the publication of nominations for Class A and Class B directors by the three voting groups, Mr. Rowe, in a letter signed by all Cincinnati banks and sent to the voting banks, announced his intention to withdraw as a candidate for Class A director of Group One and to run as a candidate representing Group Two, notwithstanding that Mr. Rowe was identified with a bank which was classified in Group One. Such practice was permitted by the terms of the law in effect at that time. In spite of Mr. Rowe's announced intention, his name appeared on the official ballot as a candidate for Class A director of Group One. Mr. Rowe's action was regarded as open evidence of a deal between Cincinnati and Pittsburgh to elect their two candidates in separate groups.

There appears to be nothing unusual in the election of Stacey B. Rankin of South Charleston, and of C. H. Bagley of Corry, Pennsylvania. Mr. Rankin, at the time, was secretary of the Ohio Bankers Association. A factor in his election may also have been that he was nominated by banks in Group Two and Group Three.

That the System was not entirely free from political pressure early in the organization days appears evident from a Washington dispatch published in FINANCE for July 25, to the effect that the "latest tip" at the Treasury Building was that Cleveland would not get a single one of the three Class C directors of the regional bank to be appointed by the Federal Reserve Board. It was stated that Secretary McAdoo and Comptroller Williams were said to feel that inasmuch as Cleveland was selected as the Reserve city, the plums of the Fourth District bank's organization would fall to cities outside of Cleveland.

Washington gossip, as reported in the dispatch, was that the governor<sup>1/</sup> of the bank would come from Cincinnati, which had a candidate in the person of Ben V. Dale, a lawyer with much experience in banking law, who had been endorsed by the local Democratic organization. It was stated that Dale had been in Washington seeking endorsements, and that both Cincinnati representatives in Congress were for him.

It was rumored in Washington that one of the other two Class C directors would come from Pittsburgh and the other from Columbus. The only Columbus candidate was Harry Wolfe, owner of the Ohio State Journal and the Columbus Dispatch, a Republican politically, but whose newspapers had been supporting State and national Democratic administrations. He was endorsed by Governor Cox and Senator Pomerene, and was said to be the only Ohio candidate who had the latter's endorsement. When the final appointments were announced, however, one of the directors (D.C. Wills) was from Pittsburgh, one (H. P. Wolfe) from Columbus, and one (L.H. Treadway) from Cleveland.

The CHRONICLE in its issue of September 5, 1914, refers to reports that had been current during the week of the existence of dissention in the Board

---

<sup>1/</sup> It is assumed that the term "governor" in the above dispatch actually referred to the chairman of the board, since the governor of the bank would be elected by the board of directors of the Cleveland regional bank.

on the question of the advisability of putting the new Federal Reserve System into effect at this time, and that pressure was being brought to effect a delay in the appointment of Class C directors. Secretary McAdoo, while not denying that the postponement of the inauguration of the System was favored in some quarters, stated he would be able to announce the Class C directors by October 1, and that the System would then be quickly established. The announcement of the appointment of Class C directors was made on October 8, 1914.

The initial meeting of the Cleveland bank board, at which all members were present, was held in the Federal Building, on Saturday morning, October 17, 1914, at eleven o'clock. S. B. Rankin was elected temporary secretary.

The board, by lot, determined the terms of office of the directors of each class, with the following result:

CLASS A

Robert Wardrop	Three-year term
W. S. Rowe	Two-year term
S. B. Rankin	One-year term

CLASS B

T. A. Combs	Three-year term
C. H. Bagley	Two-year term
A. B. Patrick	One-year term

CLASS C

D. C. Wills	Three-year term
L. H. Treadway	Two-year term
H. P. Wolfe	One-year term

With the "pressure" on to open the banks at the earliest possible date the immediate problems of the Board were concerned with the selection of personnel, the securing of quarters, the purchase of the necessary equipment and supplies, provision for vault space, the selection of the official staff, including the appointment of a governor, and other basic organization details. A committee was appointed to select quarters; another was

authorized to employ counsel. There was also appointed a committee on "nominations for governor," with instructions to report on nominations at the next meeting of the board.

The Federal Reserve Board had extended an invitation to the governor and all directors of the Reserve banks to attend a general meeting to be held in Washington on October 20, to discuss such questions as opening date, by-laws, tentative organization plans, quarters, staffs, what functions the banks expected to undertake at the outset, whether the conversion of emergency currency into Federal Reserve notes could be successfully accomplished, and uniform accounting. Since the governor of the bank would not be selected until the next meeting of the board of directors, the board at its October 17 meeting selected Chairman Wills, Mr. Rowe, and Mr. Patrick as a committee representing the Cleveland bank to attend the Washington meeting. No special mention of the meeting appears in the minutes of the Cleveland board, but a comprehensive report of the meeting is contained in the first annual report of the Federal Reserve Board, in the form of reports rendered by committees which had been assigned to study the various topics proposed for consideration.

On October 22, at the second meeting of the board, which was held in the Statler Hotel and at which all the directors again were present, E. R. Fancher, president of the Union National Bank of Cleveland, was elected governor of the bank. The by-laws approved by the Conference of Directors at Washington on October 20, with amendments relating to the composition of the executive committee, were adopted.

At the meeting of the board on October 30, a proposal of the Williamson Company to furnish space in the Williamson Building under an agreement with considerable elasticity, was accepted. In the informal agreement provision was made for vault space which was considered adequate to meet the modest

demands at that time.

Mr. Edwin C. Baxter of Cleveland was elected secretary of the bank. At this meeting also the design of a proposed seal for the bank was submitted and accepted.

The chairman reported that a four-months' supply of blanks and forms needed for the operation of the system of uniform accounting which had been devised for the use of Reserve banks had been ordered.