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Before the Federal Reserve Board

IN THE MATTER OF APPLICA-
TION OF BANKS IN EASTERN
WISCONSIN TO BE DETACHED
FROM FEDERAL RESERVE
DISTRICT NUMBER NINE
(MINNEAPOLIS) AND AN-
NEXED TO FEDERAL RESERVE
DISTRICT NUMBER SEVEN
(CHICAGO)

**ABSTRACT OF TESTIMONY BEFORE
ORGANIZATION COMMITTEE AND
BRIEF AND ARGUMENT ON BEHALF
OF PETITIONERS.**

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Before the Federal Reserve Board

IN THE MATTER OF APPLICATION OF BANKS
IN EASTERN WISCONSIN TO BE DETACHED
FROM FEDERAL RESERVE DISTRICT NUM-
BER NINE (MINNEAPOLIS), AND ANNEXED
TO FEDERAL RESERVE DISTRICT NUMBER
SEVEN (CHICAGO).

BRIEF AND ARGUMENT FOR PETITIONERS

NATURE OF THIS PROCEEDING.

The petition herein was filed for the purpose of obtaining a review of the action of the Organization Committee in placing the eastern part of the State of Wisconsin in Federal Reserve District Number Nine and to obtain an order attaching said territory to Federal Reserve District Number Seven.

ERRORS ASSIGNED.

That the Organization Committee in placing the petitioning banks in Federal Reserve District Number Nine instead of Federal Reserve District Number Seven, acted:

First: Without due regard to the convenience and customary course of business; and,

Second: Contrary to the evidence submitted at the hearing before said Organization Committee.

FACTS THE EVIDENCE TENDS TO PROVE.

All the testimony taken before the Organization Committee tended to prove that this Wisconsin territory should be attached to the Chicago District.

Insurance losses in Wisconsin are paid by draft on Chicago.

Testimony of Harry A. Wheeler, Page 1220.

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The location of Chicago, its proximity to the Canadian line, fixes the northern line naturally.

Testimony of A. C. Bartlett, Page 1233.

I prepared a brief statement of the conditions of our business as it applies to this territory around Chicago. Illinois ranks first, Iowa second, Wisconsin third, Michigan fourth.

Testimony of John G. Shedd, Page 1242.

Illinois, Iowa and Wisconsin are our first three states.

Testimony of John G. Shedd, Page 1243.

Taking in Wisconsin we would get \$6,621,000.00 added to the deposits and \$1,553,000.00 added to the capital. Now we think that there would rest our district probably if there are to be more than eight banks.

Testimony of James B. Forgan, now President of the Federal Advisory Council, Page 1264.

The territory which Mr. Forgan indicated as belonging properly to Chicago, we should feel that, however large a number or small a number of banks should be established, that that ought to be by all means in our territory. So summing up our territory under these rules, it might probably be regarded to consist of Indiana, Illinois, Iowa, Michigan, Wisconsin and possibly a little of the southern part of Minnesota.

Testimony of G. M. Reynolds, Page 1291.

Asked by the Secretary of the Treasury to name the states that should go into the Chicago District, Mr. J. G. Rounds included Wisconsin. Testimony, Page 1334.

Asked by the Secretary of Agriculture to name the states that should go into the Chicago District, Mr. Frank Epperson included Wisconsin and Upper Michigan.

Testimony, page 1355.

In response to another question he included Wisconsin and all of Michigan. Page 1356.

The claims of Minneapolis, covering one hundred pages of the testimony, is without intimation or request that any part

of Wisconsin be attached to the Minneapolis District. A map was presented including part of Wisconsin, but it was stated in response to a question of the Secretary of the Treasury that Wisconsin was excluded for the purpose of presenting the matter to the Committee.

Testimony of Joseph Chapman, Pages 1373 and 1374.

The written statement for Minneapolis, read into the record, concedes Wisconsin to the Chicago District.

Testimony of F. A. Chamberlain, Page 1452.

In the summary of banks' capital and surplus to go into the Minneapolis Reserve Bank there is no mention of a single bank in Wisconsin. Testimony, Page 1436.

St. Paul made some pretension to part of northern Wisconsin, but this was based solely upon the theory that only eight districts are established.

Testimony of John R. Mitchell, Page 1472.

The western and northwestern portion of the State of Wisconsin, consisting of La Crosse, Trempeleau, Buffalo, Pepin, Eau Claire, Pierce, St. Croix, Dunn, Chippewa, Rusk, Barron, Polk, Burnett, Washburn, Sawyer, Bayfield and Douglas Counties, are not joined in the petition herein.

ARGUMENT.

The Secretary of the Treasury stated at the hearing in Chicago: "That is one of the purposes we have in mind in having these hearings, to see what would do the least violence to the ordinary course of business and exchange and commerce in the different parts of these states, in creating this system."

Testimony, Page 1292.

We assume that Chairman Glass spoke officially on April 4th, 1914, regarding the Federal Reserve Banking Law, and therefore quote from him as follows:

"For practical purposes the branch banks are the real working elements of the system. It is these branch banks which, in most instances, do the rediscounting. Under the

terms of the bill the branch banks are to be administered by duly appointed Boards of Directors and the management of these branch institutions will be distinctive and more nearly relate itself to local business interests of the regional banks. * *

“In the operation of the system no business center will lose its identity nor have its business relations seriously disturbed. The banking operations and the commercial transactions of any given territory will be practically maintained as they exist today, for the reason that such territory will transact its business with the branch bank, instead of the Regional Reserve Bank, if more convenient. There is no earthly reason why any large financial or commercial community should be in the least degree uneasy over the prospect of losing any business which it now commands.”

We feel that we have a right to rely upon these declarations, sustained as they are by the plain terms of the law that provides for a division unto districts, “provided that the districts shall be apportioned with due regard to convenience and customary course of business.”

When the Federal Reserve Act was passed it was assumed by bankers in Wisconsin, that a reserve bank would be established in Chicago, that a branch of that bank would be located in Milwaukee and the portion of Wisconsin described in the petition herein would be attached to the Chicago District. This assumption seemed to follow so logically the plain terms of the law and the declarations above quoted that bankers of this section did not regard it as necessary to appear before the Organization Committee and occupy their time with testimony. In failing to appear and give the Organization Committee the benefit of their views and to present to the Committee all the facts, these bankers admit that they were negligent. They assume their full share of responsibility for the mistake they believe has unintentionally been made. They feel that had it been shown more fully by the testimony that the trend of the business of this District was almost wholly with Chicago and Milwaukee, as in fact it is, that the peti-

tioning territory would have been attached to the Chicago District by action of said Committee.

No branch of the Minneapolis Reserve Bank can be placed in Milwaukee, where the business of the state of Wisconsin centers, as Milwaukee is in the Chicago District. We agree with Mr. Glass that for practical purposes the branch banks are the real working element of the system and will be more nearly related to local business interests. Chicago is much nearer than Minneapolis to nearly all the petitioning banks. Railroad fares, telephone and telegraph rates are much less with Chicago than Minneapolis for nearly all said banks. The establishment of a branch bank in Milwaukee, Wisconsin, would bring the benefits of the Federal Reserve Bank system almost to our doors. If our territory is to remain with the Minneapolis District, a branch of the Chicago Reserve Bank located in Milwaukee cannot serve the territory directly tributary to it, although every business interest requires that it do so.

That mistakes in judgment might be made by the Organization Committee in assigning territory to certain districts was foreseen by the framers of the law. Congress expressly provided that the action of the Committee should be subject to review.

The matter of investigation and initial division of the United States into districts was confided by the law to the Organization Committee with the express command that the districts established should be "apportioned with due regard to the convenience and customary course of business." This declaration of the law was intended to control the officials charged with the duty and responsibility of establishing these districts in the first instance. But the decision of the Organization Committee was not intended to be final. That every detail of the ponderous machinery would be without flaw was not anticipated. That errors would be made that would disturb the customary course of business was expected, and therefore Congress provided that the including of any speci-

fied division of territory within any district should be subject to review by the Federal Reserve Board. This matter is of great importance, as a proper division of territory is in our judgment vital to the success of the system.

Under date of August 28th, 1914, the Federal Reserve Board sent out a circular entitled, "Proceedure In Appeal From Decision Of The Reserve Bank Organization Committee." One of the declarations of that circular is that, "the Board will not hear testimony, but the parties will be limited to the record before the Organization Committee." We have already stated why no greater volume of testimony was submitted before the committee by bankers from this section. However, we have shown that all the testimony in fact submitted, throwing any light upon the subject, was to the effect that the petitioning territory was tributary to the Chicago District, and that the customary course of business of the petitioning district was to Chicago. If the rule of this Board, above cited, means anything, it means that Federal Reserve District Number Nine is foreclosed from maintaining that the action of the Organization Committee should stand. The record does not contain a word to indicate that the petitioning territory should be attached to the Minneapolis District. The action of the Organization Committee was contrary to all the evidence. If the representative of the Minneapolis Reserve Bank is limited to the record before the Organization Committee, his brief and argument will be a blank.

The Organization Committee can be compared to a trial court and this Board to a court of appeals. This matter should be considered by this body as a court of appeals, and this Board, under the rule prescribed by itself, should give its independent judgment. Every person, lawyer and layman, understands that a judgment of the trial court unsupported by the evidence, or contrary to the evidence, will be reversed on appeal. What then must be the result of this appeal when we point out that the decision of the trial body was not only unsupported by evidence but contrary to all the evidence? What

must be the decision of this body, charged with reviewing the division of territory into districts, with due regard to the convenience and customary course of business, when it must know from the record that the controlling feature of the law was ignored by the trial body? We ask that this petition be granted not as a favor but as a matter of right. We say it should be granted in compliance with the plain declaration of the law creating the Federal Reserve Districts and this Board. Territory should not be attached to a district and compelled to do business through a Federal Reserve city with which it had no customary course of business. That would be in direct violation of the law. Such a course would disrupt business, penalize the banks by putting them to inconvenience and expense and can result in no good. The course of business cannot be interrupted and diverted without injury, and any attempt to divert the business of this petitioning section from Milwaukee and Chicago will be as ineffectual as legislating that water run up hill. The banks in this section will be inconvenienced, business will be delayed, greater expense will result if this part of Wisconsin remains attached to the Ninth District, and it will naturally reflect upon the success of the entire system. Denial of this petition will be a declaration that the quoted statements of the Secretary of the Treasury and of Chairman Glass are misleading and false.

Attaching this territory to the Minneapolis district must have been as much a surprise to Minneapolis as to Wisconsin. Minneapolis did not ask for a single bank in Wisconsin. Made no pretense that the business of the petitioning territory was tributary to Minneapolis. It was conceded by the representatives of Minneapolis before the Organization Committee that Wisconsin belonged with the Chicago District.

Railroad fares, telegraph and telephone rates from almost every part of the petitioning district are much higher to Minneapolis than to Chicago. The difference in these rates compared with doing business with a branch bank in Milwaukee would be far more pronounced.

That the greater part of Wisconsin is so closely allied with Milwaukee and Chicago, both commercially and financially, that the banks of that section should be assigned to the Chicago district has already been acknowledged by order of the Treasury Department.

When the Treasury Department suggested that every national bank identify itself with an already organized currency association, many Wisconsin banks located in Federal Reserve District Number Nine asked to join the Milwaukee Currency Association, and that Association was notified by the Secretary of the Treasury, under date of Aug. 31st, 1914, as follows:

"That portion of Wisconsin in Federal Reserve District No. Nine lying east of a line forming the eastern boundary of Monroe, Jackson and Clark Counties and south of a line forming the southern boundary of Taylor, Lincoln, Oneida, Forest and Marinette Counties is hereby attached to the territory of your Association."

This communication was equivalent to an acknowledgment of the justice of our contention that the petitioning territory should be included with Milwaukee, in the Chicago District, in accordance with the customary trend of business.

The designation of Chicago as one of the twelve reserve bank cities and the inclusion within the radius of this reserve district of that fraction of the state of Wisconsin in which Milwaukee is situated, is logical and inevitable.

The attachment, however, of over two-thirds of the state of Wisconsin to the Minneapolis district is, in our judgment, extremely unwise, contrary to the established course of trade, and in violation of the spirit and the express terms of the Federal Reserve Act.

With the exception of a small strip to the Northwest, the state of Wisconsin is tributary to Milwaukee and to Chicago. These two cities are the distributing centers for the territory named, and in a broad sense they, together with the territory named, form a natural and fixed trade unit. Their com-

mercial and financial operations have developed a strong mutuality of interest, which gravitates to the same centers and radiates over the same territory.

One of the basic principles in the law guiding the apportionment of the territory is that, "The districts shall be apportioned with due regard to the convenience and customary course of business." In attaching a great part of the state of Wisconsin to the Minneapolis District this principle has apparently been grossly violated. The trend of commerce in this territory, ever since it became settled, has been southward, making Milwaukee and Chicago the logical and recognized trading and banking centers for the same.

The division, therefore, will prove a disturbing factor to the natural course of trade, and harmful to established commercial relations in the territory.

The commercial business of the petitioning territory with Milwaukee and Chicago is many times as much as the commercial business of that section with Minneapolis, and throughout the petitioning section the ties, commercial, financial and social, are almost entirely with Milwaukee and Chicago. The industrial enterprises of this section do a much greater volume of business with Milwaukee and Chicago than with Minneapolis. The relations existing between the banking institutions of the petitioning territory and the banks of Milwaukee and Chicago have always been most intimate, and the transactions have been carried on in a very large degree through personal contact, resulting in mutual advantage. On account of the close relationship no artificial barriers should be erected and if they are erected will prove injurious to the banks of this section.

The volume of business of this section has always been with and tributary to Milwaukee and Chicago.

The train service and the mail service between this section and Milwaukee and Chicago is far superior to that with Minneapolis. Chicago mail is delivered in all the eastern portion

of Wisconsin in the morning. Minneapolis mail in the afternoon. The railroad fares, telegraph and telephone rates are less to Chicago than to Minneapolis.

The banks in this section have done business for many years with Milwaukee and Chicago banks, which banks are well acquainted with the needs and securities of this section, and when accommodation is needed furnish it quickly.

The rate of discount for re-discounting with the Federal Reserve Bank of Minneapolis is higher than with the Federal Reserve Bank of Chicago, and no doubt will always remain so until the western country is as well settled as the east and interest rates in the west decrease.

The character of the business of this section would necessitate doing business with Milwaukee and Chicago banks in any event.

If the reserves of the banks in this territory must be kept at Minneapolis it will necessitate carrying larger accounts with Milwaukee and Chicago not only at a loss of earnings, but to the detriment of the manufacturing industries of this section, because of decreased loaning power.

It has been suggested that the injury occasioned by being put in a Reserve District with which we have no customary course of business may be overcome by some method of clearing checks. Why inflict an injury to be overcome? Why not adopt the simpler and absolutely sure method of placing this territory where it belongs through common association, natural trend of business, both banking and commercial, and by physical contiguity? Why make it necessary to overcome difficulties growing out of opposition to the natural flow of trade? Why not follow the plain terms of the law and put this territory where it naturally belongs with due regard to the convenience and customary course of business?

It is most desirable for the success of the Federal Reserve System that the state institutions should become affiliated as members. If this petitioning territory remains with the Min-

neapolis District it is very improbable that any state institutions will become members. This should carry weight, as the reserves of these banks are freed by legislation from restriction to any one locality and follow the natural channels of business. If the state institutions of this section remain out of the system the member banks will be at a serious disadvantage in competition with them under present conditions.

If the petitioning banks are continued in the Minneapolis District it will very seriously interfere with the smooth conduct of their business under the Federal Reserve Act and prevent the fullest development of the system in this territory. The present division is directly contrary to the currents of trade and banking and must be injurious to this section and its industries. It will place the national banks at a disadvantage in their competition with state institutions and prevent the greatest development of banks under national charters.

The banking business of a section does not originate with the banks themselves, but arises out of the commerce of their section and follows the course of trade, and anything which tends to disturb the flow of banking business along with the natural flow of general business cannot but be injurious.

From the 244 banks, national and state, located in the territory of Wisconsin assigned to the Ninth District, the committee has received statements from 234 as to whether their general business is in Chicago or Minneapolis.

200 say Chicago.

34 say Minneapolis.

10 no response.

The 34 banks that give Minneapolis as the place where they did more business than in Chicago are with few exceptions in that part of Wisconsin not included in our petition for a change.

The petition herein is signed by 53 out of a total of 61 national banks in the section asking to be transferred to the Seventh District. Of the eight not signing the petition some gave

as a reason for not signing, that they were making farm loans in North Dakota and if in the Seventh District they could not make such loans. The rule allowing mortgage loans to be made only within the Federal Reserve District where the bank is located is one of the best possible reasons for granting this petition. Northern and Northeastern Wisconsin is being rapidly settled by farmers and there is a great demand for loans on farm mortgages. The southern part of Wisconsin in the Seventh District has money to loan on such security, but can not loan in Northern Wisconsin, where it is badly needed. It is only permitted to loan on farm mortgage securities where there is little or no demand for such loans.

The testimony before the Organization Committee disclosed the fact that the entire Ninth Federal Reserve District, with the exception of Wisconsin and Northern Michigan, is a grain producing country, and that at the time of moving crops, the Reserve Bank at Minneapolis will have great demands upon it. Wisconsin, whose industries are diversified, will be at a disadvantage in obtaining loans and will be compelled to rely upon Milwaukee and Chicago, which places are familiar with the wants of this section.

If it was the purpose to provide additional capital for the Minneapolis Reserve Bank, regardless of the convenience of business or location of the member banks, if it was the purpose to ignore entirely the natural course of trade and exchange and the customary course of business, then that purpose has been fulfilled to the letter by placing this territory in the Minneapolis District.

The purpose of the law as we view it was not to benefit Minneapolis at the expense of Wisconsin. The law was not enacted to penalize Wisconsin in favor of some other locality. We concede that the present arrangement may be of benefit to Minneapolis, but we think it must also be conceded that the benefit to Minneapolis must be at the expense of the petitioning territory.

There are well defined rules of law that apply to a review of the action of Boards similar to the Organization Committee. These rules, we say, should be applied by the Federal Reserve Board. If it clearly appears that Board actions have been in disregard of the evidence, then their action is set aside on appeal. The testimony cited in the brief shows that the petitioning territory should be attached to District Number Seven. There was no testimony to the contrary, and if the rules of law are to be applied on this review of the action of the Organization Committee then their action must be corrected to accord with the testimony.

The Federal Reserve Act contemplates that the welfare of the various sections of our country shall be first considered, and that it is the duty of this Board to correct mistakes made in the division of territory. The law commands that the convenience of trade and of regular course of business must control. Any deviation from the plain terms of the law, for the purpose of benefiting any reserve city at the expense of the member banks, should be condemned in unmeasured terms.

CONCLUSION.

The petition should be granted for the following reasons:

1. Because it will carry out the plain terms of the law that the districts be apportioned with due regard to the convenience and customary course of business.
2. Because the undisputed evidence taken before the Organization Committee showed that this portion of Wisconsin should be attached to Federal Reserve District Number Seven.
3. Because of the fact that rail communication of the petitioning territory with Chicago is much better and cheaper than with Minneapolis.
4. Because telephone and telegraph rates between the petitioning territory and Chicago are much less than with Minneapolis, and the mail service far superior.

5. Because the natural location of a branch bank of the Chicago District is Milwaukee, where Wisconsin business centers, and where the advantage of the Federal Reserve System will be at the door of this section.

6. Because banks in this territory asking for the change will not go to the Federal Reserve Bank at Minneapolis to borrow money, but will borrow from their regular correspondents with whom they are in closer relationship. The capital invested in Minneapolis and the reserves kept there by the petitioning banks will in no way benefit them.

7. Because it is the duty of this Board, in the exercise of its powers, to review and correct the action of the Organization Committee where such action has been contrary to the testimony and the terms of the Federal Reserve Act.

Respectfully submitted,

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Counsel.



- Petitioning District
- Chicago District
- Minneapolis District