FEDERAL RESERVE
HISTORY

Reserve Banks Open for Business

November 1914

The twelve locations of the decentralized component of the Federal Reserve System opened for business on November 16, 1914, just seven months after the locations were selected.

Newly formed Federal Reserve Board with Federal Reserve Bank governors and bankers (Harris & Ewing photograph, 1914, via Library of Congress Prints & Photographs Division, LC-DIG-hec-04846)

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by Sandra Kollen Ghizoni

"The opening of these banks marks a new era in the history of business and finance in

> this country. It is believed that they will put an end to the annual anxiety from which the country has suffered for the past generation about insufficient money and credit to move the crops each year, and will give such stability to the banking business that the extreme fluctuations in interest rates and available credits which have characterized banking in the past will be destroyed permanently."
> – Treasury Secretary William McAdoo's Press Announcement

Some seven months after the Reserve Bank Organization Committee announced which cities and districts were selected, all twelve Reserve Banks opened on the same day, Monday, November 16, 1914. There was a sense of urgency to open the Reserve Banks, as World War I was affecting commerce and banking, but there were many organizational hurdles to overcome.

The first organizational challenge was to select members for the Federal Reserve Board in Washington, DC, and boards of directors for each of the twelve Reserve Banks. Under the Federal Reserve Act, five of the seven members of the Board were appointed by President Woodrow Wilson and confirmed by the Senate. Treasury Secretary William McAdoo and Comptroller of the Currency John Skelton Williams were automatically ex officio members. President Wilson appointed Wall Street financier Paul M. Warburg, economics professor Adolph C. Miller, Boston attorney Charles S.Hamlin, railroad executive Frederic A. Delano, and Birmingham banker W.P.G. Harding to the Federal Reserve Board. Hamlin served as governor (the counterpart to today's chairman), and the Federal Reserve Board took over the task of organizing and chartering the Reserve Banks.

The Reserve Banks answered to both the Federal Reserve Board in Washington and to a local board of directors. The Federal Reserve Board had authority over certain activities of the Reserve Banks, but, in general, the Reserve Banks had considerable independence in their day-to-day operations. The Banking Act of 1935 subsequently gave the Federal Reserve Board more authority over the Reserve Banks.

As is true today, the board of directors of each Reserve Bank was composed of nine members. Three are appointed by the Federal Reserve Board (Class C directors), and six are elected by the Reserve Bank's member

RESERVE BANKS OPEN TO-DAY TO AID BUSINESS

Panic Dangers Will Not Occur Under New System, Officials Believe.

END OF CROP MOVING STRINGENCY EXPECTED

WASHINGTON, Nov. 15.—Marking a new era in the financial history of the United States, the twelve Federal reserve banks of the new currency system will open their doors to-morrow morning. It is the belief of the authorities that the new banking system will instil confidence in business and have a large influence in restoring good times.

The new system permits the expansion and contraction of the money supply of the country in keeping with the actual needs of business, whereas the old system maintained the same amount of the circulating medium for all seasons and all financial situations. It authorizes the issuance of currency upon the security of commercial paper, with a generously broad definition fixed for this collateral.

It provides twelve reserve banks around which the banks of the country are grouped, with a central directing authority vested in a governmental body at Washington, the Federal Reserve Board, which can mobilize the resources of any or all of the individual districts to meet any extraordinary need for the circulating medium in any one district. No adequate method of mobilization was provided by the old system. It releases automatically, by decreased reserve requirements, more than $400,000,000 cash and credit reserves.

Summarized, the effect of the newly organized system, according to officials in Washington, will be to prevent panics. Its meaning as interpreted by students of

New Era Near, Say Bankers Praising Federal Reserve

United States May Become Creditor Nation, Not Borrower, if Hopes of Leaders in Finance Are Fulfilled in Wise Management of Bank.

BUSINESS TO EXPAND; PANICS NO LONGER FEARED

A new era in the business and banking of the country begins to-day, in the opinion of the greatest bankers and business men of New York, with the opening of the Federal reserve banks.

The most striking summary of the probable effect of the reserve system that has yet been heard in Wall Street is a quotation from the director of the Bank of France made during one of the financial crises in this country.

"If you gathered your reserves and concentrated your banking resources," he said, "your country would not have to seek money from us. That would not be the only result; your country would in fact be lending money to us."

In time and not in the very distant future, said men whose words carry unusual weight in all banking matters, the country has the chance through the concentration of its enormous gold supply in the reserve system of becoming a creditor nation, lending not only in Europe but in the great undeveloped commercial fields of South America and the Orient.

A central bank of the United States, though made up of twelve apparently individual units, has at last been created, in the opinion of the banking community of New York. The fact that the Federal reserve system, starting to-day with the transfer of reserves from the member banks, is a single central bank has been established to the full satisfaction of the leading bankers of this city, despite the effort of the Democratic party to avoid it. This has been achieved in practice,

part in the discussion of the bill during its formulation, when interviewed as to its effect, said:

"Whether the Federal reserve bank system will prove a success or a failure will depend upon the control and management of the Federal reserve banks and upon the action of the several national and State banks throughout the country. No banking system can of itself produce prosperity. The Federal reserve bank system is merely the machinery designed to place banking in the United States upon a sound basis.

"If used wisely this machinery may accomplish great good, but if used unwisely it may produce incalculable harm. A sound banking system under well informed and prudent management is the greatest possible aid to prosperity and is necessary as a safeguard against financial troubles, but the best banking system without well informed and prudent management is unsafe.

"The Federal reserve banks will become the foundation of our financial system. Under wise management they will accomplish an immense amount of good, but if through unwise management they should break down a national catastrophe would result. Conservatism and foresight, therefore, should be the keynote of the management of the Federal reserve bank system.

"If bankers should proceed on the assumption that the Federal reserve bank system will relieve them of the necessity of exercising conservatism and care in extending credits the result will be disastrous. If the managers of the reserve banks should be lacking in conservatism and foresight or if they should proceed on the assumption that they can manufacture prosperity by expanding credits the result likewise will be disastrous.

New York's The Sun newspaper headline reads 'Reserve Banks Open To-day to Aid Businesses' and 'New Era Near, Say Bankers Praising Federal Reserve' [November 16, banks—three bankers (Class A directors) and three others who are not bankers and represent commerce, agriculture, or an industry of the district (Class B directors). The chairman and vice chairman are chosen from among the Class C directors. From the Fed's inception through 1935, the chairman both presided over Reserve Bank board meetings, and, in his role as Federal Reserve agent, was the Federal Reserve Board's representative in the Reserve Bank.

1914]. Image via Chronicling America: Historic American Newspapers, Library of Congress.)

The Federal Reserve Act specified that each Reserve Bank would have a governor to oversee the day-to-day operations of the Bank (the Banking Act of 1935 changed the titles of chief executive officers of Federal Reserve Banks to president). The Reserve Banks were also staffed with bankers; clerks, including a cashier, an auditor, a bookkeeper, a credit manager, and a discount clerk; some currency handlers; as well as support staff, such as stenographers and messengers. On opening day, some Reserve Banks had as few as eight employees (Minneapolis), though most had around twenty. The largest Reserve Banks, located in Chicago and New York, had forty-one and eighty-five employees, respectively, on opening day.

Organizing, staffing, furnishing office equipment, and even finding a building to operate out of had to happen very quickly for most Reserve Banks in order to open on November 16, 1914. In Atlanta, the bank's first location was chosen just sixteen days before opening. Some districts had to arrange temporary offices in established banks, as in Minneapolis, where Reserve Bank staff first operated out of the board room and teller cages of the Minnesota Loan & Trust Company. Treasury Secretary McAdoo instructed the Reserve Banks, "Buy a few chairs and pine-top tables. Hire some clerks and stenographers, paint "Federal Reserve Bank" on your office door and open up. The way to begin is to begin. When you make a start, everything will be smoothed out by practice."

Despite those modest beginnings, the Federal Reserve System was in place and operating. From then on, as McAdoo suggested, the Federal Reserve would learn and adapt in order to serve its purpose of creating stability in the financial system and the economy.

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