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Theodore Roosevelt, the Election of 1912, and the Founding of the Federal Reserve

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This paper examines how the election of 1912 changed the makeup of Congress and led to the Federal Reserve Act. The decision of Theodore Roosevelt and other Progressives to run as third-party candidates split the Republican Party and enabled Democrats to capture the White House and Congress. We show that the election produced a less polarized Congress and that new members were more likely to support the Act. Absent the Republican split, Republicans would likely have held the White House and Congress, and enactment of legislation to establish a central bank would have been unlikely or certainly quite different.

Keywords: Federal Reserve Act, Progressive Party, central bank, Aldrich plan
JEL Codes: N42, G28, P43

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1. Introduction

The election of 1912 was among the most consequential, and interesting, in U.S. history. Upon failing to secure the Republican nomination for president, former president Theodore Roosevelt ran under the Progressive Party banner and led a revolt that split the Republican Party and opened the door for Democrats to capture the White House and both houses of Congress. With Democrats firmly in control, the 63rd United States Congress enacted such landmark bills as the Federal Trade Commission Act, the Clayton Antitrust Act, the Revenue Act of 1913 (which sharply lowered tariff rates and instituted a federal income tax), and the Federal Reserve Act. These acts revolutionized U.S. industry and commerce and would likely have been substantially different or not enacted at all without Democratic control of the White House and Congress.

The Federal Reserve Act established the Federal Reserve System – the nation's central bank – with the goals of preventing banking panics and providing a more efficient payments system. Banking instability had been a recurrent problem in the United States throughout the 19th and early 20th centuries. Dissatisfaction with the banking system brought numerous proposals for reform over the years, but none gained much traction in Congress until the 1908, following a major banking panic (the Panic of 1907). Congress then enacted the Aldrich-Vreeland Act of 1908 which sought to alleviate panics by enabling associations of national banks to issue emergency currency in crises.[1] The Act, which passed with only Republican votes, was intended to be temporary while a National Monetary Commission studied the defects of the U.S. banking system and put forward recommendations for permanent reforms. The Commission's chair, Republican Senator Nelson Aldrich, ultimately proposed legislation in 1911 to establish a central bank but, despite an organized campaign of support, his bill was not voted out of committee and did not receive a floor vote.

The election of 1912 ended any chance that the Aldrich bill or any other Republican plan would be enacted by the 63rd Congress, whose term began on March 4, 1913. Democrats took up the reform mantel, however, and the Federal Reserve Act was passed and signed into law by President Woodrow Wilson in December 1913. The Federal Reserve Act included features of the Aldrich plan, notably a mechanism by which commercial banks could obtain currency or

[1] The Panic of 1907 was perhaps the quintessential panic of the National Banking era (the period from enactment of the National Banking Acts of the Civil War to the Federal Reserve Act of 1913). See, for instance, Bruner and Carr (2007), Moen and Tallman (1992, 2000), and Jaremski and Wheelock (2023).

reserves by borrowing from a government-sponsored lending facility. However, unlike the Aldrich plan, which envisioned a central bank largely controlled by commercial bankers, the Federal Reserve Act set up a system of regional bankers' banks with a public board appointed by the President to oversee the system.

This paper examines how the Democratic sweep in the election of 1912 led to passage of the Federal Reserve Act and shaped the System's key features. The Republican split and strong showing of both Democratic and Progressive Party candidates in the 1912 election were consequential for passage of the Federal Reserve Act. Previous studies describe how the act was the outcome of compromises between various public and private interests (e.g., Greider 1987; Broz 1997; Meltzer 2003; Lowenstein 2015). Further, although Democrats controlled the White House and had majorities in both the Senate and House of Representatives after the election of 1912, a lack of internal unity forced them to compromise with Republicans and Progressives on important aspects of the Federal Reserve System's structure. In an analysis of Senate roll call votes on key features of the act, Jeong et al. (2008) find that Republican and Progressive views were reflected in the Fed's political independence and locus of authority within the System. This analysis would seem to suggest that the Federal Reserve Act owes much to the Republican Party split and strong showing of Progressive candidates in the 1912 election. Although many studies have emphasized the political compromises that shaped the Federal Reserve Act and led to its passage, the literature has generally taken the makeup of Congress in 1913 as given and not considered fully the ramifications of the Republican-Progressive split in 1912. In this paper, we delve deeper into the election's role by studying how the election changed the political makeup of Congress and voting for the Federal Reserve Act among newly-elected members. With a simple counterfactual, we also attempt to quantify the importance of the Progressive revolt on the outcome of the election.

Section 2 briefly describes the election of 1912 and its outcomes. The election brought nearly 200 new Democrats, Republicans and Progressives to Congress and resulted in a somewhat less polarized Congress in that the newly-elected Democrats were generally more conservative politically than incumbent Democrats while newly-elected Republicans and Progressives were somewhat more liberal, on average, than incumbent Republicans.

Section 3 discusses the evolution of reform legislation that culminated in the Federal Reserve Act, noting key similarities and differences between the Federal Reserve Act and the

Aldrich proposal. This section includes an analysis of voting on the act by Republican and Progressive members of Congress where we show that newly-elected members were more likely to vote for the act, even controlling for various characteristics of their districts.

Respecting the authority of their leaders, nearly all Democrats in Congress voted for the Federal Reserve Act and their votes alone would have been sufficient to pass the act without any Progressive or Republican support. It seems unlikely, however, that Democrats would have been in the majority were it not for Roosevelt's third-part candidacy and the Republican Party split. In Section 4, we consider a counterfactual in which Roosevelt does not run and other progressive Republicans do not bolt from the Republican Party to run as Progressive Party candidates. If Republicans then garnered most of the votes that had gone to Progressives, the Republican Party would likely have captured both houses of Congress as well as the White House. Any legislation to establish a central bank under Republican control would undoubtedly have been quite different than the Federal Reserve Act and probably more like the Aldrich plan, though it is by no means certain that any central banking legislation would have been enacted at the time.

2. The Election of 1912

After encouraging William Howard Taft's successful presidential candidacy in 1908, Theodore Roosevelt grew disillusioned with Taft and challenged him for the Republican nomination in 1912. Roosevelt won the primaries in nine of eleven states that held them, but the Republican leadership denied him the Party's nomination. Roosevelt then bolted from the party to run under the Progressive Party banner and encouraged disaffected Republicans to run as Progressive Party candidates in Congressional districts across the country.[2] Whereas only one candidate had run under a Progressive banner in 1910, Progressive candidates ran in 220 House districts in the election of 1912. Roosevelt captured 27 percent of the popular vote in the general election while Taft garnered 23 percent. The Democratic Party nominee, Woodrow Wilson, won the presidential election with less than 42 percent of the popular vote. Thus, if Roosevelt had not run but instead thrown his support behind Taft, it is conceivable, and probably likely, that Taft would have been reelected president. Like Wilson, nearly 40 percent of successful Democratic House candidates were elected with less than half the popular votes as Progressive candidates siphoned off substantial numbers of votes from Republicans.

[2] The Progressive Party in 1912 is sometimes referred to as the Bull Moose Party as a result of Roosevelt's statement that he felt "strong as a bull moose" after losing the Republican nomination in June 1912.

The 1910 Census of Population resulted in an increase in the number of seats in the House of Representatives from 393 in 1912 to 435 in 1913, and thus many new seats were in play in the 1912 election. Democrats were elected in many of the new districts but also captured seats held by incumbent Republicans. Democrats picked up several seats in the Northeast that typically were Republican strongholds as well as a few in the Midwest and West where Progressive Party candidates often had success. Many of the Progressives were former (or future) Republicans. For example, Senator Miles Poindexter of Washington had been a Republican when appointed in 1911, switched to the Progressive Party in 1912, and returned to the Republican Party in 1915. Even the single Independent congressman elected in 1912, William Kent (CA), had been a progressive-leaning Republican when first elected in 1910.

Table 1 shows the political makeup of the House and Senate in the 61st, 62nd, and 63rd Congresses. Democrats had captured the House in the election of 1910, but Republicans held a majority of seats in the Senate. The 1912 election significantly increased the Democratic majority in the House and gave the party a majority in the Senate, while Progressive Party candidates won 11 seats in the House and picked up one seat in the Senate with Poindexter's switch in party.

The political ideology of the 63rd Congress (1913-15) was decidedly more progressive or "liberal" than the 62nd Congress (1911-13) had been. Table 2 reports average political ideology scores from Lewis et al. (2022) for the House and Senate in the 62nd and 63rd Congresses. Lewis et al. compute Congressional session and lifetime scores for every congressman, with the former called the "Nokken-Poole" score and the latter the "Nominate" score. Scores range from –1 (most liberal) to +1 (most conservative).[3] As shown in Table 2, members of both houses of Congress were, on average, more liberal in 1913 than in 1911, as indicated by both the Nokken-Poole and Nominate scores. Interestingly, Democrats were, on average, more conservative in the 63rd Congress than in the 62nd, whereas Republicans and Progressives were more liberal.[4] Hence, at least by these measures, the 63rd Congress was less polarized than the 62nd had been.

[3] Lewis et al. (2022) use a dynamic weighted nominal three-step estimation procedure to determine how likely congressmen were to vote together on various bills. The foundational paper for these data, Poole and Rosenthal (1985), has been cited over 1,300 times spanning papers and books in economics, politics, and science, and the current version of the database used here has over 300 citations.

[4] Most of this swing is driven by Progressives because many Republicans in 1913 were incumbents. However, the average scores for Republicans were slightly lower in 1913 than in 1911.

3. The Federal Reserve Act

The debates over the Aldrich-Vreeland Act of 1908 illustrate the intense political conflict over banking issues at the time. Sponsored by Republican Senator Nelson Aldrich of Rhode Island and Republican Representative Edward Vreeland of New York, the Aldrich-Vreeland Act allowed associations of national banks to issue currency in exigent situations without the usual backing of U.S. government bonds. Democrats, whose base of power was in the South, were suspicious of any legislation that seemed to favor big city bankers, voted unanimously against the legislation.[5] Northeastern Republicans generally represented the interests of businesses and bankers and favored the bill, while more progressive Republicans in the Midwest and West were more disposed toward middle class workers and consumer protections and were less enthusiastic about the legislation. Republican Senator Robert LaFollette of Wisconsin, who was perhaps the most strident progressive voice in Congress, opposed the Aldrich-Vreeland Act and carried out a long filibuster against it.[6]

Aldrich left the Senate in 1911 to chair the National Monetary Commission. Vreeland, who remained in the House but did not run for reelection in 1912, served as the Commission's vice chair. Aldrich later put forward a proposal that would have created a central banking organization owned and operated primarily by the nation's commercial banks. The main feature of his proposal, which was also incorporated into the Federal Reserve Act, was a lending facility where the association's member banks could obtain currency or reserve deposits by "rediscounting" commercial paper.[7] The Aldrich plan called for a three-tiered organization. At the base were local associations of participating banks like the associations allowed under the Aldrich-Vreeland Act. The local groups would approve member bank requests to rediscount commercial paper. Above the local associations was to have been a National Reserve Association with 15 regional branches. The branches would make discount loans and carry out the system's other functions while leadership of the National Reserve Association at the organization's top would determine policy, including the discount rate, for the entire system.

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[5] Democrats later staged a series of public hearings in 1912 and 1913 to determine whether a "money trust" was to blame for the Panic of 1907. The hearings, commonly referred to as the Pujo Hearings after House Banking Committee Chair Arséne Pujo, continued to cast a public shadow over the New York City bankers.

[6] LaFollette was recorded as having voted for the Act. However, the Senate Record makes clear that he initially voted against the bill, then changed his vote so that he could move for reconsideration. He then changed his vote back to nay upon that reconsideration.

[7] At the time, most commercial loans were made on a discount basis. Hence, the process by which a bank obtained funds against a commercial loan was known as rediscounting.

Although the National Reserve Association was to have been headquartered in Washington D.C., Aldrich sought to limit political influence on the system by specifying that 39 of the Association's 45 directors would be bankers. The other six would include the Secretary of the Treasury, Secretary of Commerce and Labor, the Comptroller of the Currency, and a governor and two deputies appointed by the President from a list submitted by the member banks.[8]

The Senate Banking Committee considered but did not report out the Aldrich plan and the bill was never taken up by the House of Representatives which, following the 1910 election, had a Democratic majority. As the Democratic platform rejected the idea of a central bank generally and the Aldrich Plan specifically, the Democratic Party sweep in the 1912 election eliminated any chance of the Aldrich bill being reconsidered in the 63rd Congress. With the support of the newly elected Woodrow Wilson, Democrats put forward an alternative plan spearheaded by Carter Glass, who chaired a legislative subcommittee of the House Banking and Currency Committee. Democrats were far from united, however, about how to structure any central banking organization (except that they scrupulously avoided calling the proposed system a "central bank").

Glass, like most southern Democrats at the time, was predisposed to be suspicious of centralized control, whether in the hands of Wall Street banks or the federal government. He initially proposed a system comprised of 15-20 regional reserve banks owned and controlled by their local member commercial banks. The reserve banks would resemble the branches in the Aldrich plan except that each bank would set its own discount rate and there would be no central authority over the system. The individual reserve banks would be subject to supervision by the Comptroller of the Currency like ordinary commercial banks with federal charters (i.e., national banks). Glass was forced to compromise, however, when Wilson and his powerful Secretary of State, William Jennings Bryan, insisted on stronger federal oversight of the system in the form of a board made up of government officials and members appointed by the President. Still, under the compromise, the individual reserve banks would retain the power to set their own discount rates and the majorities of their boards of directors would be elected by their member banks. The number of reserve banks was reduced as Glass' bill moved forward, with the final bill specifying at least eight but no more than twelve reserve banks (the final number and locations of the banks

[8] See Broz (1997, pp. 176-93) or Lowenstein (2015, pp. 107-46) for more information about the Aldrich Plan and the efforts to build support for the plan.

being determined by a Reserve Bank Organizing Committee).[9] The Federal Reserve System was thus somewhat more centralized and the reserve banks somewhat less autonomous than Glass had desired, but the System was also less centralized and less dominated by bankers than Aldrich and most Republicans had wanted.[10]

The Federal Reserve Act was enacted and signed into law by President Wilson in December 1913. Summarized in Table 3, the vote on the act was largely along party lines: only two Democrats and no Progressives voted against the bill. Democratic votes alone would have been enough to pass the bill even if no other congressman had voted in favor. However, 41 Republicans in the House and three Republicans in the Senate voted for the bill.[11] Shown in Table 4, the multi-party support mainly came from newly-elected Republicans and Progressives. Many of these new Republicans had progressive leanings and had been encouraged to run by Roosevelt. Even though their votes were not needed to pass the bill, they still helped shape the eventual compromise between the House and Senate (Jeong et al. 2008).

For evidence on the tendency of newly-elected Republicans and Progressives to vote for the Federal Reserve Act, we estimate the following logit regression that controls for various characteristics of each congressman's district:

$$Yea_i = a + \beta_1 WonNewSeat_i + \beta_2 WonOldSeat_i + \beta_3 \%Roosevelt_i + \beta_4 X_i + Region_i + e_i \quad (1)$$

Where Yea_i is an indicator for whether congressman *i* voted explicitly or through a vote pair in favor of the Federal Reserve Act,[12] $WonNewSeat_i$ is an indicator for whether congressman *i* was new to Congress and won a newly created seat, $WonOldSeat_i$ is an indicator for whether congressman *i* was new to Congress and won an existing seat, $\%Roosevelt_i$ is the share of votes for Roosevelt in 1912 in the congressman's district (for House races) or state (for Senate races)

[9] See Jaremski and Wheelock (2017) for information about the selection of cities for the Federal Reserve banks and location of Federal Reserve district borders.

[10] See Wicker (2005), as well as Broz (1997) and Lowenstein (2015) for detailed comparisons of the Aldrich bill and Federal Reserve Act. Warburg (1930), who was a National Monetary Commission member and proposed a system that influenced Aldrich, pointed out many similarities and wording matches within the two bills. Glass (1927), by contrast, sought to downplay any influence of the Aldrich plan, though Willis (1923), who was Glass's principal advisor, noted similarities among the various plans.

[11] The House Democrats who voted against the bill were Oscar Callaway (TX) and Samuel Witherspoon (MS), both incumbents from traditionally Democrat-dominated areas. Of the three Republican votes for the bill in the Senate, two, John W. Weeks (MA) and George W. Norris (NE), had replaced incumbent Republicans.

[12] Vote pairing occurs when two legislators in the same chamber agree to allow their votes to cancel each other out. Often this occurs when the members are not present to vote but still want their preferences known. Vote pairing provides an indication of the preferences of those congressmen even though they were not officially counted in the vote totals.

from Clubb, Flanigan, and Zingale (2006),[13] X_i is a vector of control variables from Haines (2010) and Jaremski and Wheelock (2020) that include indicator variables for the fraction of the county that was urban, the fraction of the county that was non-white, the number of farms per square mile, the logarithm value of farms per thousand people, the numbers of state and national banks per thousand people, whether there was central reserve or reserve city in their district,[14] $Region_i$ is a vector of indicators for the region of the country in which the congressional district was located, and e_c is the Huber-White standard error. We estimate Equation (1) for just Republican and Progressive congressmen because so few Democrats voted against the Federal Reserve Act.

Table 5 reports estimates of Equation (1). The results fit the general narrative: new Republican and Progressive congressmen were significantly more likely to vote for the Federal Reserve Act even when controlling for economic, financial, and geographic factors. For the House of Representatives, first-term congressmen holding new seats as well as first-term congressmen holding existing seats were both significantly more likely to vote for the act. Notably, this result holds even though we include Roosevelt's share of the 1912 presidential vote as a control to capture the general progressive leaning of a district, suggesting that new congressmen were perhaps even more progressive than the districts they represented.

4. A Counterfactual Election: Did Progressive Candidates Make a Difference?

Roosevelt and other Progressive Party candidates clearly influenced the outcome of the 1912 election. While nearly every Democrat that won a congressional seat in the 1910 election received at least 50 percent of the vote, nearly 40 percent of victorious Democratic candidates in 1912 received less than half the total vote because many House races had at least three candidates who garnered significant numbers of votes.

Suppose Roosevelt had chosen not to run as a third-party candidate or encourage other progressive Republicans to do so. We first consider a naïve counterfactual in which we assume that, in the absence of Progressive Party challengers, Taft and other Republican candidates would have received all the votes cast for Progressive Party (and Republican) candidates in the

[13] Clubb, Flanigan, and Zingale (2006) allocate votes for Roosevelt to the "Other Party" group in Kansas, but we assign them to Roosevelt.

[14] For Senators, we used state-level characteristics, but for Representatives, we used county-level data which we summed across the counties that made up a district using the congressional district shapefiles of Lewis et al. (2013). When there are multiple Representatives located within one county (e.g., in New York City), the county's characteristics are assigned to all Representatives in the county.

actual election. Specifically, to determine the counterfactual outcome for each race, we compare the sum of votes for Republican and Progressive Party candidates with the sum of votes for all Democratic Party candidates.[15] We assign the winner to the party of the aggregate receiving the most votes.

At the presidential-level, the counterfactual is quite clear. Taft would have received 50.5 percent of the popular vote and 377 votes in the Electoral College if all of Roosevelt's votes had instead gone to Taft. To win the presidency, Wilson would have needed all the Electoral College votes from states that he won with at least 41 percent of the popular vote, an outcome that seems highly unlikely without a substantial split of the Republican party.

Republicans would have also obtained a majority in the House if all votes for Progressive Party candidates had instead been cast for Republicans. In a naïve counterfactual, the Republicans would have won 224 seats compared to 211 for Democrats. Of course, the naïve counterfactual probably overstates the votes that Republicans would have received absent Progressive candidates. Republicans would still win the House and hold a one-seat majority 218-217 if we refine the counterfactual to require that Republican candidates receive at least 2 percent more votes than Democratic candidates in contested races where the Republican failed to win a plurality.[16] Table 6 shows the counterfactual outcome by state alongside the actual outcome. If we raise the threshold for a Republican victory above 2 percent, then Democrats would have won a majority.

Determining the counterfactual outcome in Senate races is somewhat more complicated, mainly because at the time most senators were elected by state legislatures, rather than by popular vote. However, only about a third of Senate seats were open in 1912 and many of them were retained by Republicans. To estimate how many open Senate races would have been won by Republicans under the counterfactual assumption that the Republican candidate would have

[15] For the presidential race, there was explicitly only one candidate per major party, and so we added Roosevelt's vote total to Taft's. However, some House races included more than one candidate from the same party. ICPSR (1995) lists the parties of each candidate and sometimes these labels are blends of two parties or simply descriptions of their political views. For instance, many candidates are labeled as "Progressive" while some are labeled "National Progressive," "Bull Moose," or "Roosevelt Progressive." Similarly, there are candidates labeled "Modern Republicans," "Republican and Washington," "Democrat and Independence League," or "Democrat and Keystone." We treat any candidate that is listed with the word "Republican" or "Democrat" in the label as a "Republican" or "Democrat," respectively. For other candidates, we treat those listed with the words "Progressive" or "Roosevelt" as a "Progressive," and those with all other third-party labels separately.

[16] For 29 seats determined by at-large races with multiple outcomes, we assume the seat goes to the party with the highest presidential vote in the state if there is a dominant winner, and we split Colorado's two at large seats because it was a close vote.

received all the votes cast for Progressive candidates, we focus on a local measure of political support using votes for the House of Representatives and only consider seats that Democrats won. Specifically, we compare the combined state-wide total votes cast for Republican and Progressive candidates with the combined total of all Democrat candidates. In this case, both the naïve counterfactual and the more stringent counterfactual where we require that Republican candidates receive at least 2 percent more votes than Democratic candidates yield the same outcome. Republicans would have maintained their previous eight-seat majority in the Senate with 52 seats (See Table 6 for a state-by-state breakdown).

By splitting the Republican vote, Progressive party candidates enabled more Democrats to win seats in Congress. In addition to shifting the ideological balance of Congress toward more liberal political ideology, it likely resulted in a Congress that was less polarized than would have otherwise been the case. Table 7 reports average ideology scores for Republican and Democrats of various types. For Republicans, we compare the political ideology scores of incumbents who retained their seats in the 1912 election with incumbent Republican candidates who lost their seat or chose not to run for reelection. Those who retained their seats were politically more liberal than those who did not retain their seats. For Democrats, we compare candidates that won their seat in 1912 with a "solid" victory and candidates that won their seat in 1912 with a "borderline" victory.[17] "Borderline" winners are those that would not have won our counterfactual election under the more stringent requirement that Republicans receive at least 2 percent more votes than Democratic candidates in contested races. The results show that Democrats who won solidly tended to be more liberal than those who likely won only because of the presence of a Progressive Party candidate in the race. Hence, the presence of Progressive candidates seems to have resulted in a Republican delegation in Congress that was less conservative on average, and a Democratic delegation that was less liberal on average, than would have otherwise been the case.

5. Implications

How would a Republican sweep in the election of 1912 have affected the establishment of a central bank? It is conceivable, perhaps even likely, that the 63rd Congress would not have considered any central banking proposal. Taft appears to have had other priorities and Congress

[17] Because relatively few incumbent Democrats lost in 1912, we do not make the same comparison that we did for Republican incumbents.

might have decided that the emergency provisions of the Aldrich-Vreeland Act of 1910 were sufficient. Indeed, emergency currency was issued and apparently successfully quashed an incipient banking panic after war broke out in Europe in July 1914. Alternatively, the Aldrich plan might have gotten a second look. Although some of the party's progressive members had been hostile toward the Aldrich plan and his bill was not voted out of the Senate Banking Committee when it was considered in 1911, many Republicans were generally in agreement with its key features, notably a centralized, banker-controlled organization where member banks could rediscount commercial loans in exchange for liquid reserves and cash (Broz 1997; Jeong et al. 2008; Lowenstein 2015).

With Democrats in control of the White House and both houses of Congress, the Federal Reserve Act was passed and signed into law on December 23, 1913. Although the System resembled the Aldrich plan in some respects, importantly including the discount mechanism, it was less centralized and less politically independent than the Reserve Association that would have been created by the Aldrich plan. An analysis of Senate roll call votes in 1913 on aspects of the structure of the proposed Federal Reserve System by Jeong, Miller and Sobel (2008) supports the idea that any central bank established by a Republican-dominated 63rd Congress would have been both more centralized and less subject to political control than the Federal Reserve System ended up being. Reflecting the interests of "big city" bankers, Republican Senators tended to vote for amendments that would reduce the number of reserve banks and ensure that Federal Reserve employees were covered by civil service law requirements (and thus less subject to political pressure). Democrats, by contrast, tended to favor having more reserve banks and to support an amendment to exempt Federal Reserve employees from civil service rules. Progressives sided with Republicans in opposing a civil service exemption but took a more neutral position on the number of reserve banks.

From the roll call votes, Jeong, et al. (2008) estimate "ideal points" in two dimensions—centralization and political independence—for each Senator. Their analysis indicates that, despite having majorities in both houses of Congress, the structure of the Federal Reserve System was both somewhat more centralized and more politically independent than most Democrats would have preferred, suggesting that Republicans and Progressives had some influence on the ultimate shape and control of the System. Conceivably, the reduced polarization of the 63rd Congress in comparison with the 62nd Congress, indicated by the political ideology from Lewis et al. (2022)

reported in Table 2, helped Congress make the political compromises necessary to produce legislation that garnered tri-partisan support. Our simple counterfactual suggests that Congress would have been both more conservative and more polarized absent the Republican split, which may have made a compromise outcome, or even any central banking legislation, less likely.

6. Conclusion

The Federal Reserve Act was a remarkable piece of legislation, enacted when both Congress and the White House were in Democratic hands but still a product of political compromises. In part, compromise was necessary because Democrats were not united on how the central banks should be structured or controlled. Whereas Carter Glass put forward legislation to create a system of some 20 autonomous reserve banks, with little federal oversight, Wilson and his Secretary of State, William Jennings Bryan, insisted on a politically-appointed board to oversee the system. Republicans, on the other hand, pushed for a centralized structure controlled mainly by the banks themselves. Progressives favored a strong oversight role for the federal government but insulation from political influence. Both found key allies among Democrats and the resulting Federal Reserve System was somewhat more centralized with more political oversight than Glass preferred but less centralized and less controlled by bankers than big city bankers preferred.[18]

The Democratic Party sweep in the election of 1912 was facilitated by the strong showing of Theodore Roosevelt and other Progressive Party candidates, many of whom, like Roosevelt, had bolted from the Republican Party (and many subsequently returned to the Republican fold). An unusually high number of Democrats won seats in the 63rd Congress with less than a majority of votes, and even with conservative assumptions about how many of the votes cast for Progressives would have otherwise gone to Republicans our study suggests that the strong showing by Roosevelt and other Progressive Party candidates put Wilson in the White House and Democrats in control of both chambers of Congress. Moreover, the election appears to have facilitated compromise legislation by pushing both Democrats and Republicans toward the ideological center. Analysis of the ideological tendencies of newly-elected members of Congress in 1912 indicates that newly-elected Democrats were generally somewhat more conservative politically than incumbents while newly-elected Progressives and Republicans were more liberal

[18] Broz (1997) argues that the Act's provisions that promoted use of the dollar in international finance and trade, especially by permitting national banks to issue acceptances, were key to gaining support of big city bankers.

than incumbent Republicans. Consequently, the 63rd Congress was less polarized than the 62nd Congress, which might have facilitated compromise. Hence, the Progressive split from the Republican Party seems to have created a unique situation where, after many decades, a central banking bill could finally become law.

While this paper focuses on the Federal Reserve Act, the effect of Roosevelt splitting the Republican ticket in 1912 likely had significant repercussions for other major legislation enacted during the period. The Federal Trade Commission Act, the Clayton Antitrust Act, and the Revenue Act of 1913 dramatically changed the way the government interacted with business and households. Yet, as with the Federal Reserve Act, many of these laws were likely assisted and shaped by the Progressives in Congress. It seems likely that these laws would have been considerably different, if they had been enacted at all, under a Taft Administration and Republican Congress. That certainly seems to have been true of any legislation to establish a central bank.

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Table 1: Political Composition of Congress

	House of Representatives		
	62nd Congress (1911-13)	**63rd Congress (1913-15)**	**64th Congress (1915-17)**
Democrat	229	291	230
Republican	163	132	197
Other Party	1	12	8
Total	393	435	435
	Senate		
	62nd Congress (1911-13)	**63rd Congress (1913-15)**	**64th Congress (1915-17)**
Democrat	44	51	56
Republican	52	44	40
Other Party		1	
Total	96	96	96

Notes: The table provides a breakdown of Congress in each year by major party. Empty seats are allocated to their first recipient. While John Weeks (R) won election to the House, he almost immediately moved to the Senate with a Democrat taking his seat (we treat the House seat as a Democrat). We, therefore, include his Democrat replacement in the count. Also H. Olin Young (R) was declared winner due to a ballot error in 1912, but since his Progressive opponent was eventually declared lawful winner, we count the seat as a Progressive.

Table 2: Average Ideology Scores for Congress

	House of Representatives					
	All Representatives		**Republicans and Progressives**		**Democrats**	
	Nominate	**Nokken Poole**	**Nominate**	**Nokken Poole**	**Nominate**	**Nokken Poole**
62nd Congress (1911-13)	-0.020	-0.020	0.411	0.433	-0.326	-0.341
63rd Congress (1913-15)	-0.075	-0.072	0.395	0.410	-0.308	-0.311
Diff	-0.055**	-0.052**	-0.017	-0.024*	0.018*	0.030**
	Senate					
	All Senators		**Republicans and Progressives**		**Democrats**	
	Nominate	**Nokken Poole**	**Nominate**	**Nokken Poole**	**Nominate**	**Nokken Poole**
62nd Congress (1911-13)	0.084	0.077	0.415	0.417	-0.307	-0.317
63rd Congress (1913-15)	0.037	0.028	0.402	0.415	-0.285	-0.314
Diff	-0.047	-0.050	-0.012	-0.002	0.022	0.003

Notes: The table presents the average Nominate and Nokken-Poole scores for the groups listed in the column headings. Both variables conceivable range from [-1,1] with lower numbers denoting liberal ideology and higher numbers denoting conservative ideology.* denotes significance at 10%; ** at 5% level and *** at 1% levels.

Table 3: Votes on Federal Reserve Act

	House of Representatives					
			Did Not Officially Vote			
	Yea	**Nay**	**Yea - Pair**	**Nay - Pair**	**Vacant Seat**	**Other**
Democrats	248	2	12			28
Republicans	39	58	1	14		20
Progressives and Independents	11		1			
Total Vote	298	60	14	14	0	48
	Senate					
			Did Not Officially Vote			
	Yea	**Nay**	**Yea - Pair**	**Nay - Pair**	**Vacant Seat**	**Other**
Democrats	39		10		1	1
Republicans	3	25	1	13		2
Progressives	1					
Total Vote	43	25	11	13	1	3

Notes: Table provides the votes for the Federal Reserve Act by party. "Other" most typically denotes a member that did not vote rather than another circumstance. While Smith (AZ) and Fall (NM) were paired, Fall allowed Smith to officially vote as he would have done so if he was present. Voting records taken from the Congression Record.

Table 4: Breakdown of FRA Vote By Party and Date of Entry

House	Voted on FRA		
Democrats	**%Yea**	**%Nay**	**%No Vote**
Incumbents (N=176)	88.6%	1.1%	10.2%
New Congressman (N=114)	91.2%	0.0%	8.8%
All Democrats (N=290)	89.7%	0.7%	9.7%
Republicans			
Incumbents (N=79)	22.8%	59.5%	17.7%
New Congressman (N=53)	41.5%	47.2%	11.3%
All Republicans (N=132)	30.3%	54.5%	15.2%
Progressives and Independents			
Incumbents (N=2)	100.0%	0.0%	0.0%
New Congressman (N=10)	100.0%	0.0%	0.0%
All Other Parties (N=12)	100.0%	0.0%	0.0%

Senate	Voted on FRA		
Democrats	**%Yea**	**%Nay**	**%No Vote**
Incumbents (N=36)	100.0%	0.0%	0.0%
New Senators (N=15)	93.3%	0.0%	6.7%
All Democrats (N=51)	98.0%	0.0%	2.0%
Republicans			
Incumbents (N=34)	5.9%	88.2%	5.9%
New Senators (N=10)	20.0%	80.0%	0.0%
All Republicans (N=44)	9.1%	86.4%	4.5%
Progressives and Independents			
Incumbent Senators (N=1)	100.0%	0.0%	0.0%

Notes: "New" denotes members that were not members of the 62nd Congress (1911-13). "Pair votes" treated as votes. Voting records taken from the Congression Record.

Table 5: Logit Regression on Republican and Progressive Yea Votes on Federal Reserve Act

	Voted Yea on Federal Reserve Act (Pair Votes Included)					
	House of Rep.			Senate		
	(1)	(2)	(3)	(4)	(5)	(6)
Won New Congressional Seat	0.397***		0.386***	-	-	-
	[0.089]		[0.118]			
Won Existing Congressional Seat	0.306***		0.272***	0.189		0.250*
	[0.089]		[0.090]	[0.144]		[0.138]
Fraction Vote for Roosevelt	0.906*		0.990**	0.106		-0.151
in 1912	[0.465]		[0.413]	[0.542]		[0.714]
Census Controls?	No	Yes	Yes	No	Yes	Yes
Banking Controls?	No	Yes	Yes	No	Yes	Yes
Four Region Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Observations	122	122	122	39	39	39
Pseudo R-squared	0.237	0.177	0.304	0.155	0.110	0.213

Notes: The table presents the marginal effects of a logit regresssion. The dependent variable is whether the Congressman voted for the Federal Reserve Act either directly or by pair. The regression only contains Republican and Progressive congressmen and those who did not vote are excluded from the regressions. We also drop congressmen from regions where everyone voted against the bill in order to include the region fixed effects. The results are not sensitive to including the congressmen and dropping the region fixed effects."Census Controls" include indicator variables for the fraction of the county that was urban, the fraction of the county that was non-white, the number of farms per square mile, the logarithm value of farms per thousand people. "Bank Controls" include the numbers of state and national banks per thousand people, and whether there was central reserve or reserve city in their district. Robust standard errors are provided in parentheses below the coefficients. * denotes significance at 10%; ** at 5% level and *** at 1% levels.

Table 6: Counterfactual Congressional Composition in 1913

	Senate					House				
	Actual			Counter-Factual		Actual			Counter-Factual	
	Rep.	Dem.	Other	Rep.	Dem.	Rep.	Dem.	Other	Rep.	Dem.
Alabama		2			2		10			10
Arizona		2			2		1			1
Arkansas		2			2		7			7
California	2			2		5	3	3	8	3
Colorado		2		2			4		2	2
Connecticut	2			2			5		5	
Delaware	1	1		2			1		1	
Florida		2			2		4			4
Georgia		2			2		12			12
Idaho	2			2		2			2	
Illinois	1	1		2		5	20	2	18	9
Indiana		2			2		13		6	7
Iowa	2			2		8	3		10	1
Kansas	1	1		1	1	3	5		3	5
Kentucky	1	1		1	1	2	9		3	8
Louisiana		2			2		8			8
Maine	1	1		1	1	3	1		3	1
Maryland	1	1		1	1		6			6
Massachusetts	2			2		9	7		13	3
Michigan	2			2		10	2	1	13	
Minnesota	2			2		9	1		9	1
Mississippi		2			2		8			8
Missouri		2			2	2	14		2	14
Montana		2		1	1		2		2	
Nebraska	1	1		1	1	3	3		3	3
Nevada		2		1	1	1			1	
New Hampshire	1	1		1	1		2		1	1
New Jersey		2			2	1	11		7	5
New Mexico	2			2			1			1
New York	1	1		1	1	11	31	1	27	16
North Carolina		2			2		10			10
North Dakota	2			2		3			3	
Ohio	1	1		1	1	3	19		9	13
Oklahoma		2			2	2	6		2	6
Oregon		2		1	1	3			3	
Pennsylvania	2			2		22	12	2	32	4
Rhode Island	2			2		1	2		2	1
South Carolina		2			2		7			7
South Dakota	2			2		3			3	
Tennessee		2			2	2	8		2	8
Texas		2			2		18			18
Utah	2			2		2			2	
Vermont	2			2		2			2	
Virginia		2			2	1	9		1	9
Washington	1		1	2		3		2	5	
West Virginia	1	1		1	1	4	2		4	2
Wisconsin	2			2		8	3		8	3
Wyoming	2			2		1			1	
Total Seats	44	51	1	52	44	134	290	11	218	217

Notes: Counterfactual values require that Republican candidates receive at least 2 percent more votes than Democratic candidates in contested races.

Table 7: Average Ideology Scores For Various Groups

	House of Representatives				
	Incumbent Republicans Retaining Seat vs. Not in 1912			**Borderline Win Democrats vs. Solid Win Democrats in 1912**	
	Nominate	**Nokken Poole**		**Nominate**	**Nokken Poole**
Did not Retain Seat	0.426	0.468	Solid Win	-0.331	-0.338
Retained Seat	0.398	0.400	Borderline	-0.240	-0.234
Diff	-0.028*	-0.068***	Diff	0.091***	0.103***
	Senate				
	Incumbent Republicans Retaining Seat vs. Not in 1912			**Borderline Win Democrats vs. Solid Win Democrats in 1912**	
	Nominate	**Nokken Poole**		**Nominate**	**Nokken Poole**
Did not Retain Seat	0.438	0.446	Solid Win	-0.289	-0.319
Retained Seat	0.403	0.404	Borderline	-0.261	-0.281
Diff	-0.034	-0.042	Diff	0.028	0.038

Notes: The table presents the average Nominate and Nokken-Poole scores for the groups listed in the column headings. Both variables conceivable range from [-1,1] with lower numbers denoting liberal ideology and higher numbers denoting conservative ideology. For Republicans, we compare those Congressmen and Senators who were in office in 1912, and separate based on whether they retained their seat. For Democrats, we compare those Congressmen and Senators who were in office in 1913, based on whether they won their seat in 1912 with a "solid" victory or whether they would not have won had Progressive votes been cast for the Republican candidate (a "borderline" victory). Specifically, "borderline" winners are those that would not have won our counterfactual election under the more stringent requirement that Republicans receive at least 2 percent more votes than Democratic candidates in contested races. * denotes significance at 10%; ** at 5% level and *** at 1% levels.