

April 1, 1943

To: Chairman Eccles

From: David M. Kennedy

The responsibility for providing sufficient reserves to carry the April drive is squarely on the Federal Reserve. The Secretary of the Treasury is not going to ask for any fixed volume of excess reserves, but it seems to me that without district quotas for commercial banks we are in about the dilemma that we found ourselves in last December. We will be required to make large purchases in the New York market thus placing New York banks under pressure to invest at the same time leaving idle a substantial volume of excess in the outlying districts.

The Presidents and the Board were unanimous in the view that quotas by Federal Reserve districts should be established in order to avoid the difficulties of December and to effect a better distribution of securities. Without quotas for the War Finance organizations to use in promoting sales in outside areas there is a possibility of the 2 per cent bonds being a failure. If the Treasury expects the System to underwrite the success of the issues, they should be willing to fix quotas and thus help make it possible for the System to fulfill its responsibility. I feel strongly that this should be taken up with the Treasury again and the System's position in the matter clarified. An alternative would be for the System to fix commercial bank quotas, but this would have to be discussed with the Treasury.

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