

THE SECRETARY OF THE TREASURY  
WASHINGTON

May 26, 1943

Dear Marriner:

As you requested in your letter of May 22, and pursuant to our subsequent conversations, I am transmitting to you copies of the transcripts of the morning and afternoon meetings on Friday, May 14, in the Treasury Building with you and the Presidents of the Federal Reserve Banks at which were present also some members of my staff.

I agree with you that the minutes are of such interest to you and to the Federal Reserve System that you should have these copies.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Marriner S. Eccles  
Chairman, Board of Governors  
of the Federal Reserve System  
Washington, D. C.

(ORIGINAL LETTER AND TRANSCRIPT SENT TO MR.  
CARPENTER ON MAY 31, 1943, at 10:30 A.M.  
FOR BOARD'S CONFIDENTIAL FILES.)

May 28, 1943.

Dear Henry:

This is to acknowledge your letter of May 26 in which, pursuant to my letter of May 22 and our subsequent conversations, you transmitted to me a copy of the transcript of the meeting of the presidents of the Federal Reserve Banks and myself with you and some members of your staff on Friday morning, May 14, and also the transcript of that portion of the afternoon meeting on that day up to the time when you and the members of your staff left the conference room. The remainder of the transcript, recording what was said during the rest of the afternoon meeting after your return to the conference room, is expunged.

This is in accordance with our understanding that this portion of the record would be destroyed, and I appreciate your furnishing me with the copy of the transcript as thus amended.

Sincerely yours,

Honorable Henry Morgenthau, Jr.,  
Secretary of the Treasury,  
Washington, D. C.

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STRICTLY CONFIDENTIAL

May 26, 1943

Chairman Eccles:

Attached is a memorandum on the meetings with the Secretary of the Treasury held on May 14. A very brief statement is incorporated at the end of the memorandum covering the Saturday morning meeting in the staff dining room.

This memorandum includes the notes of Mr. Sienkiewicz and Mr. Williams as well as my own.



STRICTLY CONFIDENTIAL

NOTES ON THE MEETINGS  
WITH THE SECRETARY OF THE TREASURY  
ON MAY 14, 1943

The Secretary of the Treasury called a meeting of the Presidents of the Federal Reserve Banks, who acted as Chairmen of the War Finance Committees established for the Second War Loan Drive in April, and the Chairman of the Board of Governors of the Federal Reserve System to discuss a continuing War Finance Organization to be established for the duration of the war.

The meeting was called at 10:00 A. M. Those attending the conference were:

Treasury:

Mr. Morgenthau, Secretary  
Mr. Bell, Under Secretary  
Mr. Gaston, Asst. to Sec.  
Mr. Robbins, National  
Director of Sales  
Mr. Gamble  
Mr. Haas  
Mr. Lindow  
Mr. Tickton  
Mr. Smith  
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Federal Reserve Banks:

Mr. Paddock, Pres.  
Mr. Sproul, Pres.  
Mr. Williams, Pres.  
Mr. Fleming, Pres.  
Mr. Leach, Pres.  
Mr. McLarin, Pres.  
Mr. Young, Pres.  
Mr. Peyton, Pres.  
Mr. Leedy, Pres.  
Mr. Gilbert, Pres.  
Mr. Day, Pres.  
Mr. Hitt, First V. P.  
Mr. Head, Chairman  
St. Louis War  
Finance Committee  
Mr. Sienkiewicz, Sec.  
Conf. of Pres.

Board of Governors:

Mr. Eccles, Chairman  
Mr. Kennedy, Member  
Board's Staff

In opening the meeting the Secretary of the Treasury commended the Presidents on their efforts in the April drive. He spoke well of the results of the campaign, adding with a smile that this success was due to the fine response of the American people. He stated, however, that he was not entirely satisfied with these results and hoped that next time more noninflationary money

might be raised from individuals. He then called on Mr. Lindow to discuss the Treasury's studies of sources of funds and its expectations prior to the campaign and Mr. Tickton to give a summary of the amount and distribution of sales of Government securities during the Second War Loan Drive.

Following these presentations, which lasted about an hour, Mr. Haas, Mr. Lindow and Mr. Tickton left the room.

The Secretary then opened the discussion on the type of future organization for war financing. He stated that he and his staff have given a great deal of thought to the working out of a plan of a war finance organization and in doing this they have had the benefit of the experience of large national business concerns. They have worked out a plan based on sound business principles and believe that this plan should work. He asked for an open discussion of the merits or demerits of the plan and stated that he wanted the group to take off their coats and go to work on it. There probably would be differences of opinion, said the Secretary, but he felt that a satisfactory solution could be worked out by the group on the basis of his plan. He asked that any differences that might arise during the discussion be kept within the group and trusted that nothing would get into the press, as has been the case with some other Government departments. The Secretary then read the outline of the proposed plan, copy of which is attached and marked "A". In presenting this plan as a basis for the discussion, there was no suggestion that the group was to take it or leave it.

The Secretary stated that he felt very strongly on only one phase of the plan; namely, he wanted a manager in each State who would report through the district chairmen and he wanted to appoint these managers. It was his desire to preserve State identities in the organization in order that he might call on

State organizations to assist during drives. As examples, he mentioned women's organizations, labor organizations, and even the Governors of the States. The Secretary emphasized that he had made up his mind and felt deeply about it. He believed that the problem of divided States could be worked out satisfactorily.

There was some discussion of the plan presented by the Secretary.

Mr. Peyton stated that the district chairman must have the right to hire and fire or he cannot get the results out of the organization. Mr. Fleming believed that a single organization with personnel responsible to the chairman was necessary to achieve good results. Mr. Williams stated that any dual organization tends to divide responsibility, creates differences, and interferes with the efforts of the campaign. He read a letter (copy attached) showing that there was friction in the last drive between the War Savings Staff and the Victory Fund Committee and this was in part due to the War Savings Staff getting their instructions from and owing their allegiance to Washington. Mr. Gamble pointed out that during the last drive the two organizations were merged at district levels but operated separately in Washington. This division at the top was the real cause of the difficulty. He informed that the two units are now merged at the Washington headquarters and that the names of the two organizations will disappear in the future.

The principal points of discussion included the problems of appointment of personnel, whether compensation to paid employees should be made by the Federal Reserve Banks or the Treasury, and State as against district organization.

The Chairman said that he had discussed the organization with the Secretary earlier in the morning and on previous occasions and that as he saw it there are three alternatives. First, the organization as it was set up for the

April drive could be made permanent. The War Savings Staff and Victory Fund Committees, however, should be completely merged, up and down the line, and their separate identities should be dissolved. He would prefer this alternative. Second, an organization could be set up entirely on State lines with 48 chairmen reporting directly to the Treasury. He thought this set-up might function very well. The Federal Reserve Banks would lend support and assist the organization in every way. The System is vitally interested in war financing and will cooperate in every way whether the Presidents are in charge of district organizations or not. Third, the plan proposed by the Secretary where there is not a clear distinction between a Federal Reserve district organization and a purely State organization.

Mr. Robbins made a statement to the effect that he had given considerable thought to the problem of organization, perhaps more than anyone else, and that he had worked out a plan which he had submitted to the Secretary. He had to make a number of concessions to meet the Secretary's views, but he thought the plan the Secretary proposed would function smoothly. He paralleled the Secretary's plan to the General Food organization, which he described in some detail.

The Chairman suggested that perhaps the thing to do would be for the Federal Reserve men to get together and talk the thing out and then meet with the Secretary. The Secretary said that his full day was at the disposal of the Federal Reserve, and that he was very anxious to get the matter settled during the day. It was agreed to meet with the Secretary again at 3:00 P. M. in the afternoon.

The morning meeting adjourned at about 11:45 A. M.

Meeting of the Federal Reserve representatives to discuss Secretary's plan.

The Federal Reserve representatives returned to the Board Building and met in the staff dining room to consider the problem further. Only those who attended the morning session with the Secretary were present.

During the discussion full recognition was given to the size of the financial problem, quality of performance, and how to improve district organizations to do an effective job. The discussion was entirely objective. In the course of the meeting each President expressed his willingness and desire to assist the Secretary of the Treasury to finance the war in a sound way. The Presidents exchanged their experiences in the Second War Loan Drive, pointing out many shortcomings that must be overcome if succeeding campaigns are to be a complete success. The proposed plan submitted by the Secretary was acceptable in every respect with the exception of appointment of personnel, method of compensation and a clarification of the split-state problem. The consensus was that as a practical matter it would be highly desirable that the selection of personnel should be made by the chairmen after consultation with the Secretary and that after such consultation and approval by the Secretary appointments should be made by the chairmen. It seemed logical that initiation should come from the field and that the Secretary should have veto power in the process of selection and appointment rather than vice versa.

It was felt that if the employees were to be appointed directly by the Secretary, district chairmen might not and probably would not have complete administrative control over these employees, as the employees might feel directly responsible to the Secretary, irrespective of the assurance to the contrary. The psychological effect would be undesirable, as it might hamper the proper functioning of the organization.

Similarly, the opinion was that it would be better to pay the employees at the Reserve Banks on a reimbursable basis, although this procedure was not considered to be important in the same sense that the control over the district administrative procedure was.

The Presidents were unanimous in the view that the sixteen split States should be divided on a Federal Reserve district basis with a manager in charge of each part of the State. This plan would preserve State and district lines and would be workable. It was pointed out that each President knows the banks and all types of organizations within his district but not those in the other parts of the States not under his jurisdiction. The banks clear in their own districts and this fact might make for confusion in the sale, issue, and payment of securities if the States were divided on some basis other than district lines. The agreement was unanimous that any workable plan at the outset should clarify jurisdictional questions rather than leaving them open for subsequent adjustments and agreements.

Mr. Sienkiewicz and Mr. Kennedy were then directed to prepare a draft of a statement outlining a plan of a workable organization, as envisioned by the Federal Reserve representatives. This plan was to embody the Secretary's proposal with such suggestions as would make it applicable and effective at the district levels. Upon the basis of the Secretary's comments at the morning session, the Presidents understood that it was his intention to welcome changes and suggestions when he stated that the Presidents were to take off their coats and go to work. With minor changes, the draft was approved by the Presidents. A copy, marked "B", is attached to these notes.

The meeting adjourned at about 1:30 P. M.

Afternoon meeting with the Secretary of the Treasury.

The conference opened about 3:15 P. M. The Federal Reserve representatives who had attended the morning session again met with the Secretary of the Treasury and the members of his staff who were present at the latter part of the morning meeting.

At the outset the Secretary stated that he had a memorandum from Mr. Robbins which he wanted to read and proceeded to do so. This memorandum made references to a conversation Mr. Robbins had had previously with the Secretary and stated that he is tendering his resignation as National Director of Sales. The Secretary said that he regretted Mr. Robbins' action and asked him if he wanted to say anything to the group.

In response, Mr. Robbins told the group that he had thoroughly enjoyed the work during the Second War Loan Drive and expressed appreciation for the cooperation given him. He regretted very much that it was necessary for him to leave and stated that he wanted this fact to be known to the Federal Reserve representatives in order that decisions may be made and judgment reached with the knowledge that he will not be in the picture. He then reaffirmed the statement that he made in the morning in support of the Secretary's organization plan.

Chairman Eccles said that Mr. Robbins' resignation was a shock and a surprise to him. He then informed the Secretary that the Federal Reserve group had considered his proposed organization plan and had some suggestions to offer, in accordance with the Secretary's desire and that a brief statement ("B" attached) outlining the organization, as the group saw it, had been prepared. He gave copies of this statement to the Secretary and his staff.

After reading it, the Secretary suggested that it would expedite consideration of the matter if he and his staff should retire to his office for a

few minutes to go over the statement. Thereupon, the Secretary and his staff left the room.

In about fifteen minutes the Secretary and his staff returned. With signs of ill-humor, the Secretary opened his remarks with a deliberate statement that what he was about to say would not be liked but he was going to say it and to say it "to your faces". He then proceeded to make the following statement which is summarized from recollection and from notes made during and following the meeting.

With apparent significance in his voice, the Secretary related an incident which he said happened about three months after he was made Secretary, and which made a deep and lasting impression on him. He was invited to the home of George Harrison, then President of the Federal Reserve Bank of New York, and there as a guest in Harrison's home, Harrison and Owen D. Young stood over him and said: "You will do what we want you to do or we will not support your Government bond market". The Secretary then said: "I felt like saying to these gentlemen, Go to hell.. That incident made an impression on me which I have never forgotten." Later in his remarks the Secretary referred to the incident as the Federal Reserve System pointing a gun at his head to make him do what the System wanted him to do.

He stressed the fact that as long as he was Secretary of the Treasury he was not going to turn the Government financing over to the Federal Reserve System; that there have been deep undercurrents of which he has been aware for some time seeking this end; that the organization proposed by the Presidents was an attempt to take control from him; and that he would not wait for the President to ask for his resignation if he should accept this proposal. He said that he

had seen this thing coming a week ago and had talked to the President about it. He said that all through the drive the work of the Presidents was to get control from the Treasury and take credit for the job and was not out of patriotism; that the Presidents carried favor of banks and financial institutions for their own advantages; that he had been shamefully and humiliatingly treated twice on his recent trip. The Secretary then continued in an irritated tone of voice:

"You don't think I know anything; some of you have said it behind my back, others have written it to me, and I think more of those who have written it to me than those who have talked behind my back. You think I am incompetent to handle my job and that I should turn it over to you. You think I have not learned anything in the years of experience I have had as Secretary. I worked with Governor Roosevelt for a period of time; I organized the Farm Credit System and did a difficult job in that field; and yet you don't think I know anything."

"I can do this job. If you want to accept my plan with enthusiasm - but on my own terms - I would like to have you, but I am not going to bargain with you. I don't have to. You need me, but I don't need you. I'm not going to turn this job over to you and have nothing to do but sit back and do what you say. Before that I would resign. I don't have to be Secretary of the Treasury. I have a farm which is all paid for and I can go up and sit on the back porch and enjoy myself. I am not seeking the favor of any bank or other financial institution, and when I leave the Treasury I am not going to work for a bank as some of you are. I am at peace with the world. There have been no disputes such as other departments have had. I am on good terms with bankers, the various State organizations, with the Congress, and have willing and patriotic volunteer workers who are anxious to help out. I am not going to put the President in the position that he has been placed in by one of the departments where he has only two weeks to settle a dispute

under an ultimatum by John Lewis. I told General Marshall that he could go ahead without any worry about the financial end; that he would not have to make any decision on purely financial grounds. I can do this job with you on my terms or without you. I am not going to turn it over to you when I have the responsibility to the President for it. That's the way I feel about it. You can take it or leave it."

A long dead silence deepened the tension. Chairman Eccles broke it by saying that the Secretary's reaction to the organization plan came as a shock to him; that he could not understand what prompted such remarks; that there was no attempt on the part of the Federal Reserve System to take over any of the responsibilities of the Treasury; that at the invitation of the Secretary the Presidents had taken the plan with the understanding that they were to discuss it and were free to suggest any changes which would strengthen the organization; that all of the discussion by the Federal Reserve was with a view of being helpful without any comment, thought, or design of taking control from the Secretary. He said the Federal Reserve could not take control even if it wanted since the responsibilities of the Secretary are fixed by law as are the responsibilities of the Federal Reserve System. The Federal Reserve System is interested in the distribution of Government securities from the standpoint of its open market and central banking responsibility, but that there never had been any desire or intention to wrest control from the Treasury.

The Chairman went on to say that there was very little difference between the plan proposed by the Secretary and that outlined in the Federal Reserve statement; that the Secretary's statement was rewritten to clarify, according to the understanding of the Presidents, some of the points that were fuzzy in the statement of his plan. The Federal Reserve outline of the plan

stated specifically that "National policy and program of the organization are to be determined by the National Director of Sales, together with such policy committee as the Secretary of the Treasury may designate; that such policy and program are to be carried out on a regional, decentralized basis, with the understanding that fundamental national policies will not be changed at district levels". The Chairman then asked the Secretary what there was in the statement to which he had taken such violent exception.

The Secretary replied that he particularly resented paragraphs 4 and 5 of the outline. These paragraphs read as follows:

"4. Appointment of Sales Managers and other executive personnel, whom the Secretary wishes to retain the power of approval, are to be initiated by the Chairmen of the district organizations, subject to the prior consultation with and approval by the Secretary of the Treasury.

"5. All paid employees of the War Finance Organization are to be paid by the Federal Reserve Banks as Fiscal Agents on a reimbursable basis."

Several of the Presidents stated that they were at a loss to understand the Secretary's attack on them and that they had sincerely cooperated with him in every way; that they did not spare themselves or their staffs to put over the Second War Loan Drive; that the Secretary's astounding charges were unfounded and unjust; that their sole interest had been in setting up a workable organization that would accomplish what the Secretary and everyone wants it to; and that since he has expressed such complete lack of confidence in them they could not understand why he had asked them to head up district organizations.

Mr. Sproul stated that he had spent many years in the System and that he wanted to clear the record on the Secretary's charge that the Presidents were currying favor of the banks and financial institutions in order to better their personal positions. He said that he was not looking for personal favors from any institutions and that no decision he had made or would make as President of the

Federal Reserve Bank of New York would be influenced at all by personal considerations. He thought the Secretary's charge was unfair and without foundation.

The Secretary remarked that some of the Reserve Bank Presidents had taken lucrative positions with financial institutions.

To which Chairman Eccles replied that very few had; that the great majority of the Presidents and officers were making a career of the Federal Reserve System and that many of them had turned down positions of higher pay in order to serve the public.

The Secretary referred to the private ownership of the Federal Reserve System. With pointed threat he stated that Congressman Patman, Senator Thomas, and others would like to take the Federal Reserve System over.

Chairman Eccles again replied that stock ownership is merely a condition of membership and stock dividends are fixed by law, and that the Board of Governors, a governmental body, has certain statutory powers over the Reserve Banks, such as salary approval and removal of officers and even directors for cause.

Mr. Head, Chairman of the War Finance Committee of the St. Louis District and who is not connected with the Federal Reserve System, made a statement in which he said, among other things, that he had listened to all the discussions at the meeting of the Federal Reserve representatives and that nothing had happened to warrant the Secretary's reaction to the proposal; that all of the discussion was directed to the end of formulating an organization that would do the best possible job. He made a plea for harmony between the Treasury and the Federal Reserve System and said that it would be unfortunate indeed if the Federal Reserve System should drop out of the organization because they are qualified to do and have done such a good job. He added that this job would have been

extremely difficult to do without the whole-hearted support of the banks and the Reserve officers. He also stated that he was appointed by the Secretary, was directly responsible to the Secretary and would accept whatever type of organization or assignment the Secretary may give him. Thereupon the Secretary thanked him for his confidence.

As the discussion proceeded, the tone of the Secretary's comments became more restrained and even appeared to be conciliatory.

The Secretary said that perhaps he was seeing the "bogy man" under the bed, but that reports had come to him and that he had received such harsh treatment on his trip West that he wanted to appoint his own men and have them receive "Treasury" not "Federal Reserve" checks. He felt very deeply about it. This expression of feeling "very deeply about it" was repeated by the Secretary many times, as he was making various points. But the reference of the comment was not always clear; that is, whether the Secretary felt deeply about his plan of organization, his offense, or about those who are already on the Treasury payroll. At one time he stated that with respect to people on the Treasury payroll, his hands were rather tied because many of them were sponsored by different Senators. Frequently, he had little choice in the matter.

Referring back to his plan of the War Finance Organization, he visualized how it would work. He would go to New York taking with him some of his staff, and they would sit down with Mr. Sproul and go over the names together. If the person the Secretary proposed was not acceptable to Mr. Sproul, he would choose a second. If the second was not acceptable, he would choose a third. After the men were appointed they would be turned over to Mr. Sproul, and if they did not work out satisfactorily, Mr. Sproul could discharge them. He would then go to Chicago and effect an organization there in a similar manner. He would not go to the other districts, but would send some of his staff with authority to effect

the remaining district organizations.

In answer to a comment by Chairman Eccles that he saw no substantial difference between the two proposals, the Secretary said that "he would go one better; after the Presidents and I have agreed on the men, the Presidents can make the appointments". Chairman Eccles thought that it was very important for the Presidents as Chairmen to tell the personnel of their appointments and that was really the principal thing the Federal Reserve wanted from the beginning. He said that if the Secretary made the appointment the person might feel responsibility to the Secretary and not be willing to cooperate with the President. There would be less friction from an operation standpoint if the personnel were told of their appointments by the district head.

The Secretary asked the Presidents to consider his proposal again.

As the Secretary was to be out of town for the weekend, it was decided that the Presidents would not have to stay over in Washington but that Chairman Eccles would see the Secretary on Monday.

The meeting adjourned at about 5:30 P. M.

Meeting of Federal Reserve representatives in the staff dining room at the Board Building, Saturday morning, May 15, 1943.

The Federal Reserve representatives, who had met with the Secretary on Friday, met in the staff dining room of the Board's building on Saturday morning. (Mr. Head, Chairman of the St. Louis district organization was not present.)

The Presidents reviewed the afternoon session with the Secretary. Each one expressed complete bewilderment at the attitude the Secretary had taken toward the Presidents and the Reserve System. They felt that it was unfair and unfounded; that it was most disheartening, particularly after the amount of hard work put into the Second War Loan Drive by each President and his staff to make the campaign a success. The consensus was that no matter what assurance of smooth-working and noninterference might accompany the Presidents' acceptance of the Secretary's proposal the Federal Reserve representatives were on notice that they are not to be trusted for this job; and that the Secretary was determined to set up an organization with an appropriate mechanism of control from Washington.

The Presidents felt that they had offered their services and asked for authority to carry out the program efficiently under the direction of the Secretary of the Treasury. They were willing to assume this responsibility and asked only to be judged by the results. But the Secretary refused their services, except on his own terms, and explicitly stated that he has no confidence in the Reserve System.

In the face of this situation created by the Secretary, it was difficult to find a satisfactory approach to the Secretary's request for a further consideration of his plan. His backtracking toward the end of the afternoon session indicated that the cause of his explosive attitude could not have been the

slight difference in the two proposals. Nevertheless, the Federal Reserve representatives again reviewed the two plans and appointed a committee consisting of Mr. Williams, Mr. Leach and Mr. Leedy to revise the statement of the plan to cover the specific objections of the Secretary. This committee withdrew for the assigned purpose.

The committee changed point 5 of the original report to read "all paid employees of the War Finance Organization are to be paid by the Treasury". In point 8, the last sentence reading "The Victory Fund Committees and War Savings Staff that have been operating will disappear" was omitted. This sentence seemed objectionable to the Secretary, even though Mr. Gamble stated the same thought at the morning conference using the word "disappear". Point 4 was changed to read: "Selection of sales managers and other executive personnel is to be made by the Secretary of the Treasury, after consultation with and approval by the Chairmen of the district organizations. Appointment of the personnel so selected shall be made by the district chairmen."

The Presidents approved these changes and asked Chairman Eccles to discuss the matter further with the Secretary on Monday. A copy of the revised plan, marked "C", is attached.