

May 29, 1940.

INFORMAL MEMORANDUM IN RE APPOINTMENT WITH THE PRESIDENT

You can offer the President the services of the Board and System "for the duration". They rendered important services in the banking, financial field in the first World War. The President is heavily burdened; his leadership is commanding universal admiration, as the one hope of the democracies; if there is any way the Board and System can help with the load, they stand ready.

Board appointed by President

The Board is composed entirely of the President's appointees; they are loyal and, without regard for partisanship, anxious to see his leadership the greatest possible success. The System is of nation-wide scope, with 12 Federal Reserve Banks and 25 branches in the leading cities throughout the country. The Board and the System have an expert, experienced staff. Neither the Board nor banks have enough to do, and want to be more than a mere stand-by service.

Overconcentration of responsibilities

Government departments, such as the Treasury, the Reconstruction Finance Corporation, and others are taking on more and more responsibilities and may be trying to carry too much of a load, while the Board and System not only lack adequate powers in the monetary-credit field to function as a central banking organization is expected to function, but services to the public that the organization is capable of rendering are being taken on by other governmental agencies that are already overloaded with responsibility and obliged to expand their organizations to do work that the System could do. An example is in the field of lending to small business.

Coordinated action

In the natural desire to expedite action, there is a danger that factors of great future importance may be overlooked or not sufficiently taken into account, as, for example, in the drafting of revenue legislation and development of fiscal policy that vitally affects the credit structure and the banking system

as a whole. For instance, the tentatively projected program contemplates adding several more billions to bank deposits that are already ten billions above 1929 levels. Would it not be advisable to revive the fiscal, monetary committee in the interest of proper coordination? There has been no call for the committee to meet since the outbreak of the war. The Reserve Board finds itself in the unhappy position of reading in the papers that action is proposed vitally affecting it on which it has not been consulted. This is not said in a spirit of criticism because the responsible officials are so overworked that they cannot keep up with normal responsibilities and have time to deal with new ones taken on.

#### Credit management important in national defense

The President is aware of the importance of the whole field of credit and proper credit management in any defense program; German efficiency has included safeguards against the ruinous inflation that orthodox economists predicted would be inevitable; fifth columns are bred out of economic distress at home, and while pressing for the utmost in defense measures, the morale of the domestic front is of primary importance. Properly coordinated fiscal-monetary action would look to preparation against future inflationary dangers, to avoidance of idle man power and idle money. Francis Bacon pointed an analogy between money and manure. "To be useful it cannot be piled up but must be scattered around the fields."

The desirability of coordinating the credit-banking mechanism, tying it in with the rest of the defense program, is apparent. The Board and staff, as well as the System, would welcome any opportunity to be of help, to make studies, etc., that may be of assistance to the Administration.