

TO _____

FROM _____

REMARKS:

The contents of this memo were given verbally and parts of it read to the President - a copy of it was not left with the President.

CHAIRMAN'S OFFICE

TO _____

FROM _____

REMARKS:

May 24, 1943

Conference with President Roosevelt at
~~11:45~~^{12:25} a.m. -- attached are copies of
letter, memorandums, charts taken over.

CHAIRMAN'S OFFICE



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

PERSONAL AND CONFIDENTIAL

May 24, 1943.

MEMORANDUM:

To - The President
From - Chairman Eccles

Serious differences have developed in the relations between the Secretary of the Treasury, on the one hand, and the twelve presidents of the Federal Reserve Banks, the members of this Board and myself, on the other. Unless the differences can be composed, our continued participation in the war financing campaigns must necessarily terminate or be on such a basis that we would no longer wish to assume the large degree of responsibility we have so far shouldered for the success of the war financing campaigns. As Chairman, by your appointment, of this Board, all of whose members are also your appointees, I feel that it is incumbent upon me to advise you of the facts as they are known to me, so that there will be no misconception on your part concerning the situation.

The facts, in brief, to the best of my knowledge and recollection are as follows:

For several years the War Savings organization has been set up on a State basis and operates directly under the Treasury. It raises less than one-fifth of the funds borrowed by the Government. About a year ago, in order to raise the balance, the Victory Fund Committee was set up on a basis of Federal Reserve Districts, with the presidents of the Federal Reserve Banks serving as chairmen in their respective Districts by appointment of the Secretary, with myself as liaison officer. For the purpose of the December and April bond selling campaigns, these two organizations were merged on a Federal Reserve District basis under what was known as the War Finance Committee. Everyone agreed that the temporary merger should be made permanent for the duration. The dual set-up has by its nature tended to divide and confuse responsibility.

For the purpose of *setting up a permanent organization* ~~organizing for the next campaign~~, the Secretary invited the presidents of the Reserve Banks and myself to meet with him at the Treasury on Friday morning, May 14. At this meeting the Secretary presented copies of a proposed plan of organization. (Copy, marked "A", attached.) The Secretary stated that he was

giving us this proposed plan as a basis for discussion. He stated that he wanted an open discussion of the merits or demerits of the plan, that he wanted the group to take off their coats and get to work on it, and while there would probably be differences of opinion, he thought a satisfactory solution could be worked out by the group. After some discussion, it was agreed that the meeting adjourn in order to give the Federal Reserve presidents an opportunity to consider the plan and to report back that afternoon.

Accordingly, the presidents and I met together and decided that the Secretary's proposal was practicable in every respect, excepting that we felt a more workable procedure for the appointment of personnel was desirable, that there should be a clarification of the dual State and District set-up, and that paid employees should ~~continue~~ ~~to~~ be paid by the Federal Reserve acting on a reimbursable basis as the fiscal agent of the Treasury, rather than by Treasury check -- this latter being a very minor point. It was the consensus of the presidents, however, in which I fully concurred, that it would be preferable that the appointment of sales managers and other executive personnel, serving under the presidents in their capacity as campaign chairmen, should be initiated by them, subject to prior consultation with and approval by the Secretary, rather than to have the selection made by the Secretary after consultation with the Reserve Bank presidents. Suggestions on these three points were incorporated in a revised draft of the Secretary's plan and were presented to the Secretary and to his staff when the two groups resumed their meeting in the afternoon. (Copy, marked "B", attached.) The Secretary suggested that it would expedite matters if he and his staff were to retire to his office to consider the redraft. They returned in about fifteen minutes. The Secretary then stated that what he was about to say would not be liked, but that he was going to say it to our faces.

The following is a reconstruction of his remarks:

The Secretary began by recalling an incident which he said had happened soon after he became Secretary. He said he was invited to the home of George Harrison, then President of the Federal Reserve Bank of New York, and that there Harrison and Owen Young stood over him, a guest, and said, "You will do what we want you to do, or we will not support your Government bond market." He said the incident made an impression on him which he has never forgotten. Later he alluded again to the incident as an instance of the Federal Reserve System pointing a gun at his head to make him do what they wanted.

He said that since he was Secretary of the Treasury, he was not going to turn the Government financing over to the Federal Reserve System; that the organization proposed by the presidents was an attempt to take control away from him and that he would not wait for the President to ask for his resignation if he should accept this proposal. He said he had seen this thing coming and had gone to the President of the United States about it. He said that all through the drive the presi-

dents of the Reserve Banks had sought to wrest control from the Treasury and take credit for the job, and that this was not out of patriotism. He stated that he had been shamefully and humiliatingly treated on his recent trip.

He continued, "You do not 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 of 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 haven't 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 me 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 am 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."

He remarked that he did not have to be Secretary of the Treasury; that he had a farm which is paid for, and that he could go up there and sit on the back porch and enjoy himself. He continued, "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 by an ultimatum of 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 is the way I feel about it. You can take it or leave it."

In the hushed silence which followed, I replied that his reaction came as a shock to me; that I could not understand what prompted his 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 his invitation we had taken his plan with the understanding that he wanted us to consider it and discuss it with the further understanding that we were free to suggest any changes that we felt would strengthen the organization; that our only desire was to help effect a workable organization; that, in fact, there was no great difference between his plan and the revisions we had suggested in it.

Several of the Reserve Bank presidents stated that they were at a loss to understand the Secretary's attack on them; that they had cooperated with him to the limit of their ability; that his charges were unfounded, and it was remarked that since he had expressed such complete lack of confidence in them, they could not understand why he still requested them to head up his District organizations. After some further discussion, the meeting terminated in an atmosphere of extreme tension.

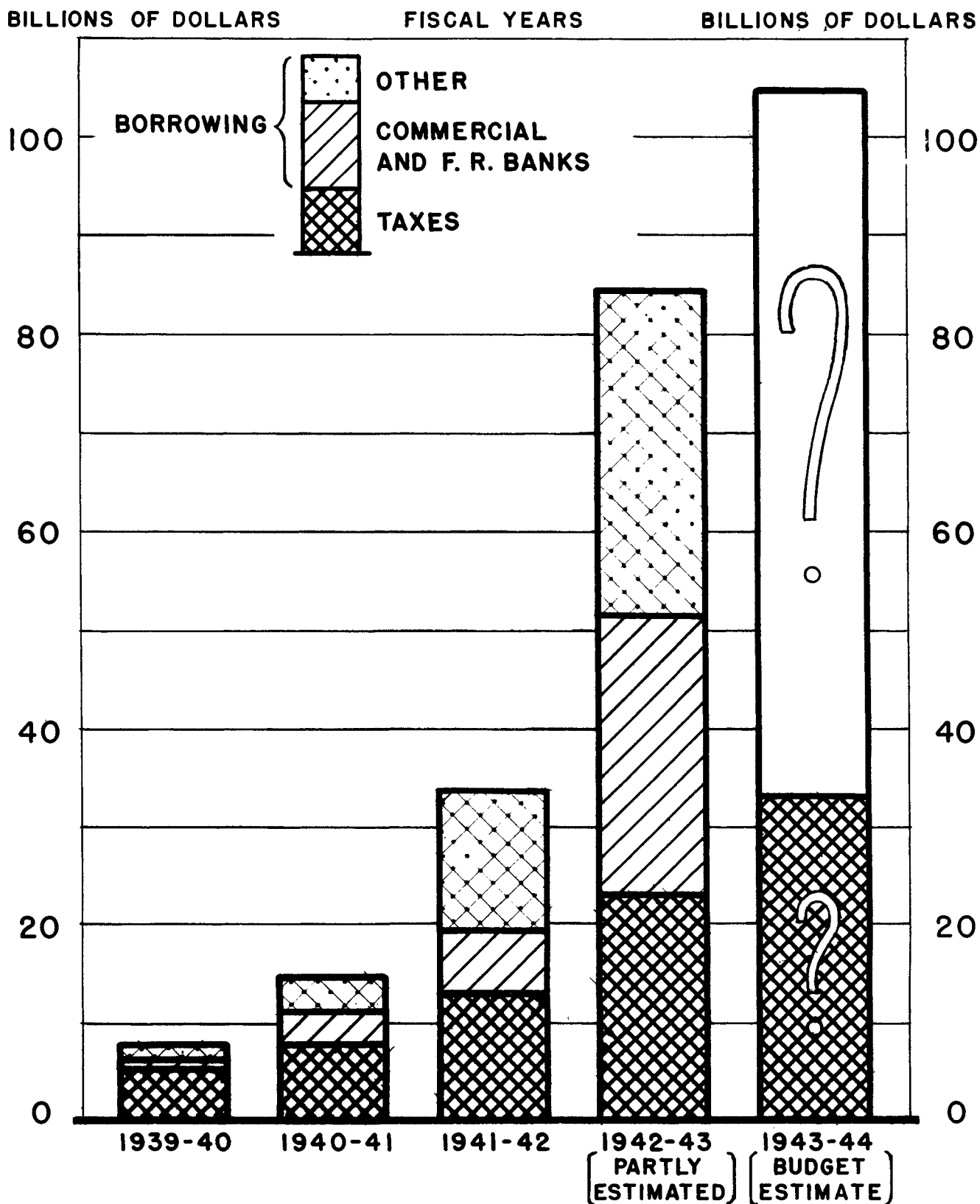
These are substantially the facts to the best of my recollection. I wish to let them speak for themselves without characterization on my part.



Attachments 2

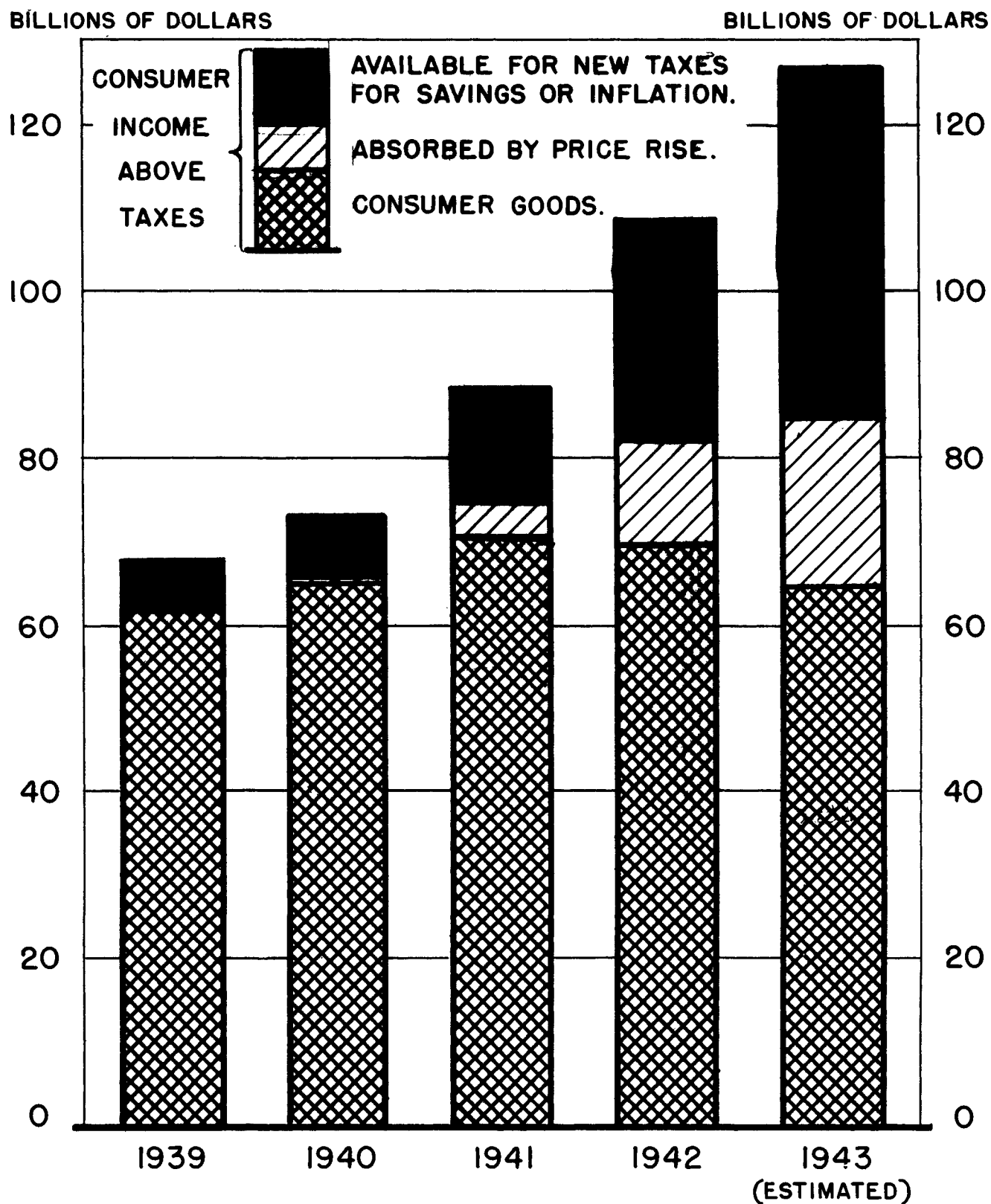
5/24/43
Left with President
Roosevelt

SOURCES OF FUNDS TO MEET GOV'T EXPENDITURES



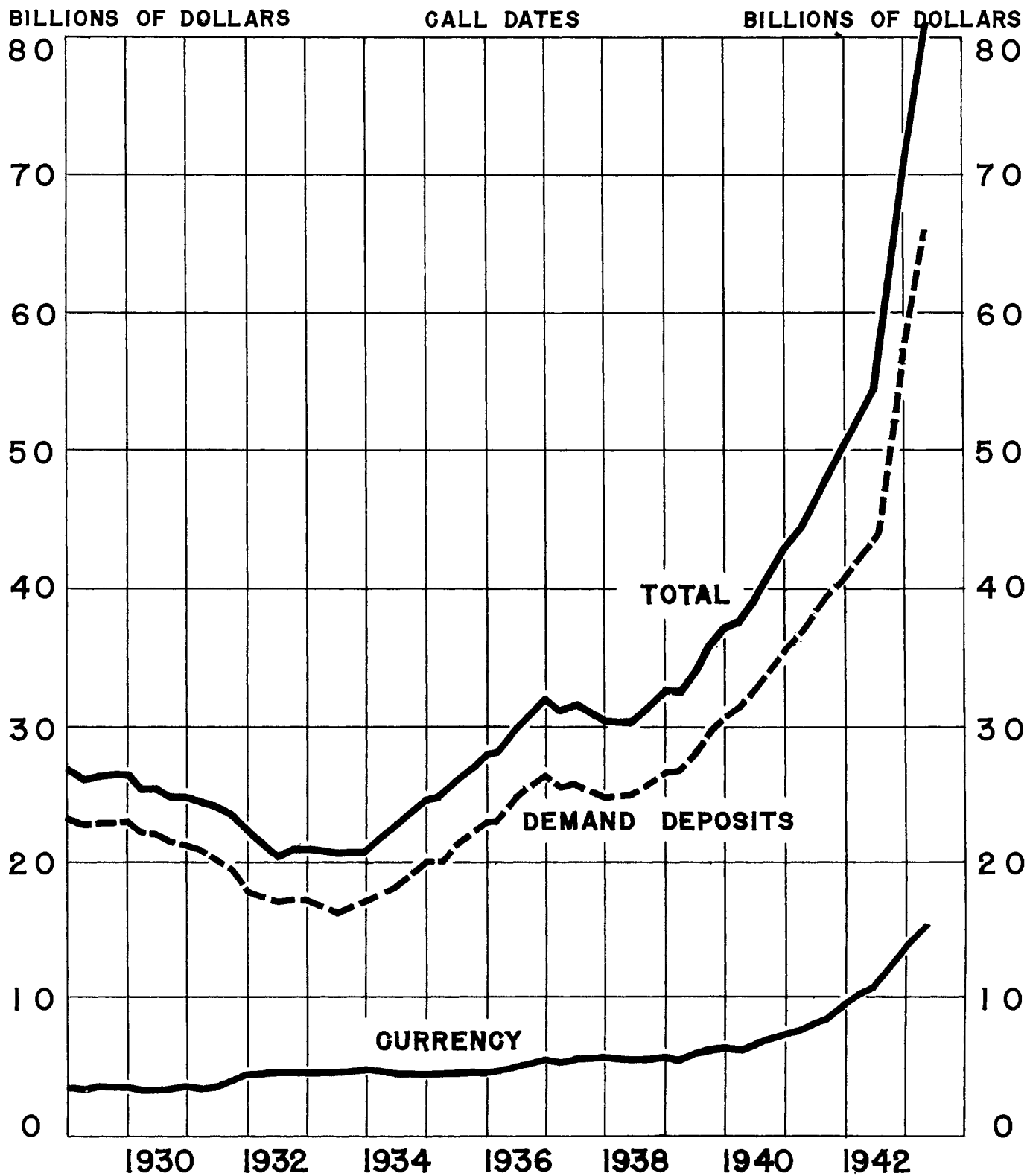
5/24/43
Left with President
Roosevelt

INFLATIONARY GAP



5/24/43
Left with President
Hoover

MONEY SUPPLY



FIGURES FOR MAY 1943 ESTIMATED.

B

5/24/43
Not left with
President

PLAN FOR UNITED STATES TREASURY WAR FINANCE ORGANIZATION

1. The Secretary of the Treasury shall appoint the Presidents of the Federal Reserve Banks as Chairmen of the War Finance Committee in each of the Federal Reserve Districts.

2. There is to be a Sales Manager in each Federal Reserve District.

3. There is to be a State Manager in each State which lies wholly within one district. In those States divided between two Federal Reserve districts, there is to be a manager for each part of the State.

4. Appointment of Sales Managers and other executive personnel, where 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.

6. 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. Such policy and program are to be carried out in the regional, decentralized basis, with the understanding that the fundamental national policies will not be changed at district levels.

7. Line of authority shall flow from the Office of the National Sales Director through the Presidents of the Federal Reserve Banks, acting as Chairmen. All matters relating to policy and direction are to be cleared through the Office of the district Chairman. National functional leaders, advisers, and consultants or inspectors shall have access to workers with the prior knowledge of the Chairman but without authority to give orders.

7. At national, district, and state levels, there is to be but one single organization. The Victory Fund Committees and War Savings Staff that have been operating will disappear.

PLAN FOR EFFECTING SINGLE SALES ORGANIZATION

5/24/43
Not left with
President

1. Appointment of Presidents of Federal Reserve Banks as chairman of Treasury War Finance Committees, to head the single Treasury sales organization in each of the states within their respective Districts.
2. In Districts where Federal Reserve lines cut across state lines, jurisdictional questions will be settled by adjustment and agreement.
3. Appointment by the Secretary of the Treasury in consultation with the Presidents of the Federal Reserve Banks of each of the twelve Districts of a District sales manager to supervise all Treasury sales promotions in their respective Districts.
4. The Secretary shall appoint the administrators and/or chairmen of the state organizations, such appointment being made in consultation with the Presidents of the Federal Reserve Banks.
5. The National Sales Director together with such policy committee as the Secretary may designate shall have absolute authority as to direction, policy, plans and procedures.
6. Policy and planning to be centralized in Washington. The regional decentralization does not delegate to regions the power to change fundamental policies.
7. Line of authority shall flow from the office of the National Sales Director through the Presidents of the Federal Reserve Banks and District Sales Managers to the States. All communications relating to policy and direction will clear in the same manner.
8. Line of operation and information (exchange of ideas etc.) should remain very flexible. National Functional leaders, advisers and consultants or inspectors shall have direct access to organization workers within the states.

5/24/43
Not left with
President

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5/24/43
not used
at all

The most striking figure is the total sale of \$12½ billion to non-bank investors. That is \$2½ billion above the "perfect score" estimated in the memorandum on the "Sources of Funds for Federal Borrowing in 1943." A rough comparison of estimates and results is as follows:

	<u>Estimates</u>	<u>Results</u>
Individuals, partnerships and personal trust accounts	\$ 3.2 billion	\$ 3.3 billion
Insurance Companies	1.4	2.4
Savings Banks	.6	1.2
Corporations and Associations, Other	4.5	5.
Other	.3	.6
	<hr/>	<hr/>
All non-bank investors	<u>\$10.0 billion</u>	<u>\$12.5 billion</u>