

February 27, 1943.

*Approved + Williams  
to President  
& Board 3/1/43*TREASURY WAR FINANCING ORGANIZATIONResponsibility of Federal Reserve System:

The Federal Reserve System has a direct and inescapable responsibility to contribute to the successful financing of the war. It must see to it that the reserve funds are available which will make possible the continued purchase of Government securities in the tremendous amounts required by the war effort.

At the same time, as the responsible agency for the control of credit policy, it is incumbent upon the Federal Reserve System to develop by every means the widest possible distribution of Government securities outside the banking system. Only by reducing to the minimum the amount of Government securities which must be purchased by the banks, can it discharge its obligation to reduce the inflationary pressure of wartime financing and to promote post-war economic stability.

The interest of the Federal Reserve System in the kind of organization set up to sell Government securities is, therefore, a mandatory interest which is an integral part of its responsibility for credit policy. If the sales organization is equal to the task of selling the largest possible amount of Government securities to non-bank investors, the credit policy of the Federal Reserve System may be an effective part of the anti-inflation program of the Government. If the sales organization is not equal to its task, the Federal Reserve System will be forced into a credit policy which invites inflationary developments.

Permanent Organization:

The Federal Reserve System has advocated the organization of a single national committee for the sale of Government securities which would mobilize the national spirit in support of financing the war, and financing it in the right way, just as it is now mobilized in support of the military effort and the production program. The System believes that this organization can be most effective, and this public spirit most readily developed, if the principal Treasury borrowing is concentrated in two or three large campaigns each year. At the national level, such a program has suggested a national director of all sales of Government securities and a national publicity program in scale with the job to be done and directed toward promoting the sale of all Government securities, particularly during the periodic drives.

At the district level, two courses seem to be open, given the existing situation:

(1) A United States Treasury War Finance organization established on district lines, building primarily upon the present organization of the Victory Fund Committees and using whatever parts of the War Savings Staff can be assimilated by the new organization. The Presidents of the Federal Reserve Banks, as Chairmen of the War Finance Committees in their respective districts, would have sole executive responsibility for the district sales organizations. The new organization would be concerned first with periodic drives for funds but, presumably, a division of the organization would carry on a continuous educational campaign to promote national thrift and an extension of the payroll savings program.

(2) A United States Treasury War Finance organization established on State lines building primarily upon the present organization of the War Savings Staff and using whatever parts of the Victory Fund Committees can be assimilated by the new organization. The State Administrators of the War Savings Staff would have sole executive responsibility for the State sales organizations. The role of the Federal Reserve Banks in the event this alternative is chosen would be confined to the sale of Government securities to the commercial banks of the country, either during periodic drives or between drives.

The latter alternative is not, in our opinion, a desirable one. An organization by Federal Reserve Districts corresponds more closely than does a State organization to the business and trade areas of the country, and permits a unified general campaign in these areas. The community spirit, which it is necessary to arouse, must be aroused in the communities, not in larger political or trade areas, and this can be done as well with a district organization as with a State organization. The district organization also takes account of established banking connections and the points of banking leadership, which is of utmost importance considering the part which the banks must play in the financing program, both as leaders in the movement to sell securities to non-bank investors, and as investors of their own funds.

It is also our opinion that the existing district organizations are better adapted to the promotion of periodic drives for large amounts of money, and to expansion for the further coverage of non-bank investors, than are the existing State organizations. The latter will make their best contribution to the national financing campaign in the further development of the payroll savings plan and in carrying on a continuous program of education, as to the need for thrift, among all groups of the community at all income levels.

#### The "April" Drive:

If the April drive is not postponed until May, there will not be time to set up the permanent organization contemplated in the previous paragraphs.

The Treasury is left then with the necessity of finding a temporary organization looking toward the best possible use of the two existing organizations in the period of preparation for and during the period of the April drive. The objective should be, first, to make the drive a success and, second, in so far as possible, to have the organization developed during the drive lead in the direction of the permanent unified sales organization, which the Secretary of the Treasury has indicated it is his intention to establish.

As a result of discussions with the Treasury the problem appears to be how to place the drive under the general direction of the Chairmen of the Victory Fund Committees and to coordinate the work of the War Savings Staff with the drive, without breaking down the organization of the War Savings Staff. We cannot help but believe that this latter problem is more one of individuals in charge of the War Savings organization than of the whole organization, which is primarily working for the United States Treasury as a contribution to the War effort. Nevertheless, we recognize that, if it can be done without conflicting with national war objectives, personalities must have some consideration. This concession, however, should not be allowed to permit of any misunderstanding among the leaders of the War Savings Staff, either at Washington or in the field, as to who is responsible

for and who is in charge of the April drive, and as to their responsibility to assist the drive in any way they can, and to make their plans fit into the plans for the drive during the period of its preparation and execution, just as far as that is possible.

With this understanding, and with the feeling that the time has come when it is almost as important to have a decision as to have the right decision, it is suggested that the Secretary of the Treasury issue a statement to the Chairmen of the Victory Fund Committees and to the National and State Administrators of the War Savings Staff in substantially the following language:

"The second big drive of the Treasury's war financing campaign will take place in April and will seek to exceed the December drive both in total amount of securities sold and in amount of sales to non-bank investors. It is essential to the success of the drive that the Treasury use the combined services of the War Savings Staff and the Victory Fund Committees in the sale of all Government securities offered.

"To promote the integrated efforts of the two organizations during the drive, I am appointing a United States Treasury War Finance Committee which will be the general headquarters staff at Washington. I am also requesting that all national publicity, including press stories, radio announcements, newspaper, periodical, outdoor and motion-picture advertising be enlisted in support of this joint endeavor. This will include, wherever possible, the continuous promotion programs of the War Savings Staff.

"For the direction of the united campaign in the twelve Federal Reserve Districts, I am requesting the Presidents of the Federal Reserve Banks, fiscal agents of the Government, to represent me with full authority and responsibility in their respective districts. They will serve as Chairmen of United States Treasury War Finance Committees for their districts. The committees will consist of representatives of the War Savings Staff and the Victory Fund organization, to be appointed by the Chairmen. The combined forces of the two organizations -- business, finance, labor, agriculture and women's groups -- will be integrated in every productive way in preparation for and during the April drive. The payroll allotment plan and the sale of War Savings Stamps, of course, will be carried on as in the past by the War Savings Staff.

"Will you please see to it that all workers in your organization are welded into this combined effort for the April drive under the direction of the Presidents of the Federal Reserve Banks."

This statement should also be made public at the appropriate time after the two organizations have been informed of its contents.

There should be an immediate beginning of the national publicity program in preparation for the April drive, including those parts of the existing War Savings publicity program which can be fitted into this joint effort.

At the district level, the Presidents of the Federal Reserve Banks would then have the final authority (subject only to appeal to the Secretary of the Treasury) as to the procedure to be followed in preparing for and carrying out the April drive. The execution of the program would rest with the President of the Federal Reserve Bank and his designated assistants, it being assumed, of course, that in so far as the War Savings Staff is concerned, they would work with and through the State Administrators of that organization or their deputies.