February 24, 1943

Chairman Eccles

David M. Kennedy

Attached is a copy of a memorandum on quotas for the April Drive prepared by the subcommittee on Research and Statistics at the request of the Presidents' Conference. You will no doubt want to study this since it will probably be up for discussion.

Cass Sienkiewicz asked me to send a copy to Buffington. A covering letter for your signature is attached.

In discussing the question of quotas with Haas and Murphy I was told that they have given up the idea of having the Treasury fix district or other local quotas for the drives. They are now content to have the Victory Fund Committees agree on quotas if there are to be any quotas. As for commercial banks, Haas and Murphy are unalterably opposed to quotas of any kind on the familiar ground that the easy way to assure ample bank subscriptions is for the Federal Reserve to provide plenty of excess reserves.

DMK

Attachment.

February 22, 1943

To Harold V. Roelse, Chairman,
Subcommittee on Research and Statistics,
Federal Reserve Bank of New York,
New York, N. Y.

The attached memorandum on Suggested Quotas for the April Victory Fund Drive was prepared by us in accordance with the instructions given at the meeting of your subcommittee in Chicago.

Karl R. Bopp
Norris O. Johnson
David M. Kennedy

 February 22, 1943

SUGGESTED QUOTAS FOR APRIL VICTORY FUND DRIVE

(Report to the subcommittee of the Committee on Research and Statistics of the Presidents' Conference)

The broad objective in setting goals for a campaign to sell Government securities is to achieve a desirable distribution of such securities. The general committee directed the subcommittee to devise a simple, logical, explainable formula which will achieve this result. It was the consensus of the general committee that too much emphasis should not be placed upon performance in the previous drive.

Because of the technical difficulties associated with reallocations of subscriptions among Districts, it was the aim, in devising District quotas for nonbank subscriptions, to place the quotas on such a basis as to eliminate the need for reallocations. An exception to this rule could be made in the case of insurance companies. Contemplated quotas for insurance companies are established on the basis of the distribution of aggregate resources rather than on the basis of the location of funds, and thus reallocations would be appropriate when subscriptions are placed in a district other than the one in which the head office is located. Furthermore, it was recognized that purchasers' preferences as to placement of their subscriptions must be granted.

The quotas do not apply to Treasury bills. They would apply to the aggregate sales of the special April offerings plus the month's sales of Series E, F, and G bonds, and Tax Savings notes. They would be designed to apply specifically to the April campaign; for the purposes of a subsequent campaign a thorough reappraisal of methods of establishing quotas and the use of statistical data for later periods would be contemplated.

The methods outlined were developed specifically for the allocation of the total sales objective (aside from Treasury bills) among the twelve Federal Reserve Districts. The allocation of quotas within districts would be left to the judgment of the individual Reserve Banks and Victory Fund Committees.

I. QUOTAS FOR INVESTORS OTHER THAN COMMERCIAL BANKS

It appeared to be the consensus of the committee as a whole that insurance companies, mutual savings banks, and dealers should be treated separately from "all others" in setting quotas for investors other than commercial banks. This treatment is justified by the special factors determining the amounts of securities that these subscribers can purchase and the concentration of these types of subscribers in a few Districts.

Insurance Companies -- It was agreed that the estimated total sum that insurance companies would be likely to invest be prorated among the twelve Federal Reserve Districts on the basis of the proportionate distribution of total resources of insurance companies (life, fire, marine, and casualty companies). Insurance company funds are most heavily concentrated in the New York (56 per cent), Boston (20 per cent), and Chicago (8 per cent) Districts.

Mutual Savings Banks -- Likewise, it was felt that estimated takings of mutual savings banks should be prorated on the basis of the proportionate distribution of total resources of mutual savings banks among the various Districts. Resources of mutual savings banks are concentrated in the New York (57 per cent), and Boston (31 per cent) Districts.

Dealers -- It was assumed that dealers' allotments might be limited in some manner for the April drive, as in the case of commercial bank allotments, and that a flat figure could be estimated for dealer purchases. Approximately nine-tenths of dealer allotments presumably would be made to the Second Federal Reserve District.

All Other -- On the basis of 8 billion dollars of sales in April to investors other than commercial banks, and allowing, hypothetically, 1,500 million for insurance companies, 500 million for mutual savings banks, and 500 million for dealers, there would remain 5,500 million to be taken up by "all others". There was some discussion of the possibility of breaking this item down, for example, splitting off corporations, but the conclusion was reached that appropriate statistical data were not easily available for that purpose. It was concluded that a simple, serviceable quota basis for "all others" would be a figure for deposits of individuals, partnerships, and corporations at all commercial banks.

The objective total volume of sales to "all others" would be distributed among the twelve Districts on the basis of the proportionate distribution of the deposits of individuals, partnerships and corporations. The Treasury Department's Series E bond quotas for April would then be subtracted from the District "all other" quotas to arrive at Victory Fund Committee quotas. These principles are applied to a drive to raise 8 billion dollars from others than commercial banks in the accompanying table.

DISTRIBUTION OF GOVERNMENT SECURITIES TO OTHERS THAN COMMERCIAL BANKS 1/

Federal Reserve District	Insurance companies	Mutual savings banks	Dealers	Others			Total
				Total	Series E bonds	Other securities	
				(Amounts in millions of dollars)			
Boston	300	160	--	320	70	250	780
New York	840	290	500	1,560	160	1,400	3,190
Philadelphia	80	30	--	340	70	270	450
Cleveland	40	10	--	470	100	370	520
Richmond	30	10	--	270	70	200	310
Atlanta	10	--	--	230	50	180	240
Chicago	120	--	--	860	180	680	980
St. Louis	10	--	--	240	60	180	250
Minneapolis	10	--	--	150	40	110	160
Kansas City	20	--	--	220	40	180	240
Dallas	10	--	--	190	40	150	200
San Francisco	30	--	--	650	120	530	680
Total	1,500	500	500	5,500	1,000	4,500	8,000
				(Percentage distribution)			
Boston	20.0	31.5	--	5.8			9.7
New York	56.0	57.2	100.0	28.4			39.9
Philadelphia	5.0	5.8	--	6.1			5.6
Cleveland	2.9	1.7	--	8.5			6.5
Richmond	2.1	2.2	--	5.0			3.9
Atlanta	.7	--	--	4.2			3.0
Chicago	8.3	.2	--	15.7			12.3
St. Louis	.6	.1	--	4.3			3.1
Minneapolis	.7	.6	--	2.8			2.0
Kansas City	1.0	--	--	4.0			3.0
Dallas	.9	--	--	3.4			2.5
San Francisco	1.8	.7	--	11.8			8.5
Total	100.0	100.0	100.0	100.0			100.0

1/ Assuming for purposes of illustration that 8 billion dollars will be sought in the drive from sources other than commercial banks; $1.5 billion from insurance companies, 500 million from mutual savings banks, 500 million from dealers, and 5.5 billion from others.

It was the unanimous view of the group drafting this report that these quotas for investors other than commercial banks would not be realistic if the April campaign follows the model of December, as a "cream skimming" drive. The quota for the New York District, for example, would be too low, and those for some of the predominantly agricultural districts, where investment funds are relatively dispersed, would be too high. On the other hand, it must be recognized that the April drive cannot be a success in every sense of the word unless a far wider distribution of the securities is achieved. The quotas developed in this memorandum are based upon the assumption that the April campaign will be much more intensive and will succeed in attaining a substantially broader distribution than was the case in December.

II. OBJECTIVE DISTRIBUTION OF SECURITIES TO COMMERCIAL BANKS

It was the consensus of the meeting that an objective distribution of Government securities to commercial banks should be based upon two factors: (1) size; and (2) availability of funds. The most simple measure of size is total assets. The proportionate distribution among the twelve Districts of total assets does not differ materially from that of other measures of size, such as total deposits or of other more complicated ones.

Excess reserves alone are not an adequate measure of funds available for investment. Some banks, as a matter of policy, carry their "excess reserves" as deposits with other banks. On the other hand, banks must carry certain minimum balances with their correspondents. It seems reasonable, therefore, to add to total excess reserves one-half of "due from banks", as a measure of availability of funds.

The percentage of new issues of securities that each District should take was determined by weighting size by two and availability of funds, as thus defined, by one. The reason for this weighting is that excess reserves have become a less accurate measure of bank participation in Treasury financing. The application of this formula to the total assets shown in the June 30, 1942 call, to average excess reserves for the month of January, and to "due from banks" as of December 31, 1942 (estimated) yields the following results:

DISTRIBUTION OF GOVERNMENT SECURITIES TO COMMERCIAL BANKS

	Size as measured by total assets (Weighted two)	Availability of funds 1/ (Weighted one)	Average
	(Percentage distribution)		
Boston	5.8	5.0	5.5
New York	32.5	11.9	25.7
Philadelphia	6.1	5.3	5.8
Cleveland	8.2	10.6	9.0
Richmond	4.9	7.1	5.6
Atlanta	4.1	8.2	5.5
Chicago	15.0	16.3	15.4
St. Louis	4.2	5.7	4.7
Minneapolis	2.4	3.6	2.8
Kansas City	3.9	8.4	5.4
Dallas	3.2	8.3	4.9
San Francisco	9.7	9.6	9.7
Total	100.0	100.0	100.0

1/ Excess reserves plus one-half of due from banks.

For the April drive the formula would be based upon the latest call date for which data are available (probably December 31, 1942) and the latest full month for which average excess reserves are available (possibly February 1943).

It is believed that the above formula is reasonable as a standard to determine relative District performance. Should an individual bank, however, ask the Victory Fund Committee for its subscription share, a simple and reasonable answer might be to suggest a subscription equal to the full amount of its excess reserves plus part of its due from banks. If more than one issue of securities is made available to banks, each bank, of course, should be permitted to divide its subscription among the issues as it sees fit.