

17
May 17, 1943

The Federal Reserve System is interested in the war financing program and has some responsibility in the matter because of its Open Market and Central Banking functions. The Federal Reserve Bank Presidents are willing, because of the positions they hold and their personal patriotism, to accept the Chairmanship of district war finance committees.

The organization plan is agreeable to them. The attached statement briefly summarizes our understanding of the organization plan.

We believe that no publicity of the new organization should be given until the set up is completed in a satisfactory manner in all the districts. Each President should, of course, be free to make his own decision as to whether he will serve with the personnel selected. Under your plan, however, we anticipate no difficulty in your being able to get together on personnel, but some case might possibly develop where you cannot get together. It would be very unfortunate if some districts were under the Reserve Bank Presidents and others were not.

We feel that this should be treated as a System matter and unless satisfactory arrangements can be made in each district, we feel that the System should drop out entirely. I feel that I could not act as liaison with part of the districts under the Reserve Bank Presidents and others under someone else. That would be an awkward situation.

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Before we go ahead, however, the Presidents feel strongly -- as I do -- that the record should be cleared on your remarks made at the Friday afternoon meeting.

You expressed in strong terms your complete lack of confidence in their integrity, their motives, and their personal interests in the war financing program.

Your charges are absolutely unfounded and unsupportable.

They were made in the presence of your staff and not in an executive session where any remarks such as those should have been made.

The Presidents realize that we all say things on the spur of the moment and in the heat of discussion that upon more deliberate consideration we know are not true and wish we had not said. They are willing to overlook this incident, which is decidedly a black mark on the relations of the Treasury and the Federal Reserve System, but they feel that you should expunge your remarks from the record.

Henry, I don't think you want that record to become part of the permanent files of the United States Treasury Department.

The Presidents and the Board are more than willing to cooperate with you in every way in the financing job, as we have done in the past. I would suggest that for the sake of harmony in the ranks, and because your remarks were felt so deeply by the Presidents who had just finished what every one considers as an excellent job, that you call each of them over the telephone or let me tell them for you that you have cut your remarks from the record and that you realize they are men of high character and integrity and that you have full confidence in them. That would do much to correct a bad situation.

They expressed themselves as being asked to do an important job in the financing program in a time of war by a Secretary of the Treasury who has stated that he has absolutely no confidence in them. They just don't see how they can go into this thing with the enthusiasm and zeal necessary to accomplish their assignments and

May 17, 1943

accept their share of responsibility for the results in the present circumstances. This thing has had a terrible effect upon their morale.

Henry, I think you have got to do something about this.

Allan Sproul said that he would like to talk to you personally about this.