

STRICTLY CONFIDENTIAL

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

R&S 100-849
December 1, 1943

Board of Governors

Meeting at the Treasury concerning

L. M. Piser

the formula for bank subscriptions 1/

Mr. Murphy opened the meeting by recommending that banks be permitted to purchase a maximum of \$100,000 of the 2 1/4 and 2 1/2 per cent bonds included in the drive, that this permission be granted for this drive alone, that if banks subsequently disposed of these securities they would not be permitted to acquire an equivalent amount at a later time, and that if banks did not purchase the securities during the time that the books were open they would never again be permitted to do so. He argued that a limitation of \$100,000 with no provision regarding time or savings deposits would be simple to administer and that a restriction to this drive alone would prevent further increases. He had been opposed to permitting commercial banks to hold the 2 1/4 and 2 1/2 per cent bonds on the grounds that it would increase bank deposits and consequently felt that the amount that they are permitted to hold should be kept at a minimum and that no further increases should be provided. He also felt that the principal reason for including commercial banks was to meet a complaint that came largely from small banks and that his proposal would meet this complaint. He felt that the argument for relating the amount to time or savings deposits was a rationalization and that there was no reason, therefore, for including time or savings deposits in the formula.

Against this position, I argued that the reason for the Federal Reserve's suggestion was to place commercial banks with savings deposits in a better position to meet the competition of other savings institutions, that the Secretary had announced that the formula would be based on time deposits, and that criticism of the Treasury would be difficult to meet if commercial banks were permitted to purchase the bonds regardless of whether or not they held any time or savings deposits. For these reasons, it seemed to me essential to include time or savings deposits in the formula. Mr. Bell agreed with this line of reasoning.

Mr. Heffelfinger suggested that the formula include a series of percentages, permitting smaller banks to invest a larger proportion of their time or savings deposits. Mr. Delano objected to this proposal on the grounds that it would be too complicated and that bank examiners already have a complicated job in checking on present provisions. He argued further that the provisions should be as simple as possible and favored Mr. Murphy's proposal on these grounds. I argued, however, that a formula based on a percentage of time

1/ Present at the meeting were Mr. Bell, Mr. Delano, Mr. Upham, Mr. Folger, Mr. Kilby, Mr. Heffelfinger, Mr. Murphy, Mr. Lindow, Mr. Tickton, and Mr. Piser.

deposits with a maximum would not involve substantially more work than is now necessary, since examiners now have to check to see if banks hold any of the restricted issues. Mr. Upham suggested that the formula be related to capital of banks, since he thought that it was unfair to deprive banks that hold no savings deposits of the additional earnings that will be given to other banks.

At the conclusion of the meeting, I presented a program, including (1) a limitation to 10 per cent of savings deposits as defined in Federal Reserve regulations but not more than \$500,000 to each bank, (2) an announcement by the Treasury that this amount might be increased further but would not exceed perhaps 30 per cent and 1.5 million dollars, (3) the permission to become effective on January 18, (4) the inclusion of the previously outstanding restricted bonds and Series F and G bonds as well as the new issues, and (5) the formula to be based on savings deposits as of a given date instead of time deposits over a period. Although Mr. Bell did not commit himself to this proposal, he seemed to favor it as against the other proposals that had been presented. He suggested that another meeting should be held in order to consider the matter further.