

Outline notes on talk delivered before
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THE FEDERAL RESERVE SYSTEM IN WARTIME

Parallelling the conversion of the national economy to a war basis, the Federal Reserve System activities at the present time are almost wholly absorbed in the war effort. While the peace-time responsibilities of the System for maintaining a smoothly functioning banking and credit system have of course carried over into the war period, new developments have shifted the nature of these responsibilities to a war basis, and the System has found that its special work falls substantially into the following major categories, in addition to its regular peace-time functions:

A. DOMESTIC ACTIVITIES:

1. Facilitation of Government financing:

Foremost of the Federal Reserve System's responsibilities is assistance to the Treasury in obtaining the vast amount of funds which must be borrowed to finance the war. The System has aided in obtaining funds from the general public, through helping to set up selling organizations and through stabilizing the market for government securities. The System also has always stood ready to see that the banks of the country are in a position to buy all government securities that are not sold to the general public. Thus the System has taken action to maintain a standard pattern of rates on government securities and to maintain stability and orderly conditions in the market, both through direct purchases and sales in the market and through extending credit facilities to the nation's commercial banks.

2. Extension of credit to war industries (Regulation V):

In cooperation with the War and Navy Departments, and the Maritime Commission, the System has participated in the guaranteeing of loans made to war producers in cases where the risk is so great that financing can not be obtained through regular channels. Such guarantees have been instrumental in making possible the rapid extension of war production.

3. Control of Consumer Credit (Regulation W):

As part of the government program to hold down consumer expenditures in relation to the civilian goods available, the Board of Governors, in 1941, acting at the direction of the President, established a regulation of consumer credit. This has taken the form of minimum down payments and maximum payment periods on consumer goods, and has been instrumental in bringing about a reduction in consumer debt and in checking the rise in consumer spending.

4. Fiscal Agent for the Government:

The Federal Reserve is banker for the Government. Even in peace-time the System handles vast amounts of money for the Government, and with the great expansion in government receipts and expenditures, this fiscal agency function has assumed astronomical proportions - billions of dollars are handled each month as new securities are sold, taxes collected, war expenditures made, etc.

5. Special War Time Domestic Services:

The Federal Reserve System has assisted in establishing throughout the nation's banking system arrangements to handle ration coupons and payroll tax deductions through the banks. Thus ration coupons and funds withheld from the wages and salaries under new taxes flow to the Government through the banks, minimizing the administrative effort and expense of these operations and utilizing these valuable bank services in the war economy.

B. ACTIVITIES RELATED TO INTERNATIONAL PROBLEMS:

1. Studies in military government and coordination of economic operations in liberated countries.
2. Studies of the various possible arrangements for international financial cooperation following the war, with particular reference to a currency stabilization plan.
3. Special studies in the banking and currency problems of the various occupied foreign countries, in order to lay the basis for discussions at the peace conference following the war.
4. Participation in the Canadian-United States Economic Commission. The Board has detailed some of its most competent personnel to participate in the work of this Commission's activities in furthering war and post-war cooperation in the production and use of economic goods.
5. Foreign property control activities of the Federal Reserve Banks in handling "frozen" assets of nationals of enemy and occupied foreign countries.
6. Special studies of domestic and world-wide post-war problems arising out of international relations. The Board has engaged some of the country's outstanding economists especially to direct studies of the best measures to ease the post-war readjustments from war-time to peace-time organizations.

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