

At a special meeting of the Federal Reserve Board held in the office of the Board on Saturday, December 8, at 10:15 A. M.,

PRESENT:

Mr. Harding, presiding,	Mr. Warburg,
Mr. Hamlin,	Mr. Miller,
Mr. Delano,	Mr. Willis, Secretary

Governor Harding read a telegram with reference to the question of a dividend at the Federal Reserve Bank of Dallas. After informal consideration, the matter was laid on the table until the meeting of Monday, December 10.

A memorandum prepared by Mr. Warburg with reference to current reserve problems and the relief of industrial enterprises, which had been made a special order of the day's business, was read and discussed. Governor Harding presented to the Board a resolution suggested by the memorandum, and referring specifically to the so-called Calder Bill, now before Congress. The resolution was read and discussed and, on motion, modifications in form were introduced into it.

On motion, it was voted that the Board adopt the resolution, the Executive Committee to have power

to modify the form of expressions employed in so far as necessary.

WHEREAS, The Federal Reserve Board has been asked informally for its opinion on a proposed amendment to the Federal Reserve Act which would give the Federal Reserve Board power under certain conditions to permit the rediscount by Federal Reserve banks of notes maturing within ninety days secured by bonds of certain states, counties, and municipalities; by bonds or obligations of foreign governments, and of certain railroad and industrial corporations; and

WHEREAS, It is the duty of the Federal Reserve Board to protect the Federal Reserve banks from new and additional strains, especially as experience is already showing that as the financing of the government proceeds, the reserve position of the Federal Reserve banks will gradually be weakened; and

WHEREAS, The reserve strength of the Federal Reserve banks measures the reserve strength of the member banks, and also determines the gold value of the Federal Reserve notes, thus making it important that the reserves of the Federal Reserve system be protected against too rapid depletion if the nation's credit is to be maintained

on a sound basis;

THEREFORE BE IT RESOLVED, That in the opinion of the Board it would endanger the stability of the Federal Reserve system to enact a law which will permit the resources of the Federal Reserve banks to be made available for the purposes set forth and in the manner outlined in the proposed amendment.

WHEREAS, It is evident, nevertheless, that there is a weakness in our existing financial machinery, in that there is no agency for extending relief to certain financial institutions such as savings banks, or to industrial enterprises engaged in operations essential to the successful prosecution of the war and which, owing to present market conditions, are unable to place their securities, and

WHEREAS, In the judgment of the Board the pressing needs of these banks and enterprises can best be relieved by some financial agency to be established and maintained by the government.

THEREFORE BE IT RESOLVED, That the Federal Reserve Board recommends the organization of a corporation with adequate capital, to be known as the War Emergency Finance Corporation, to be owned entirely by the Govern-

ment of the United States and managed by a board of directors appointed by the President, composed principally of representatives of various departments and of government boards; this corporation to make loans on approved security to savings banks and industrial enterprises entitled to such accommodation, so far as such relief cannot be obtained through existing financial channels, and

BE IT FURTHER RESOLVED, As the sense of the Federal Reserve Board, that steps looking toward the establishment of such a corporation would be especially timely at this moment in view of the situation of the railroads to which the Interstate Commerce Commission in its recent report and recommendations to Congress has called attention; it being the view of the Board that the creation of a corporation of the kind outlined above could adequately meet the financial requirements of the situation.

The foregoing is a correct copy of resolutions adopted by the Federal Reserve Board at a meeting held on December 8th, 1917.

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Secretary

On motion, it was voted that the Governor of the Board be directed to transmit the resolution as thus drafted to the President and the Secretary of the Treasury.

Mr. Warburg's memorandum recurring for consideration, it was, on motion, voted that the memorandum be laid on the table for today, but be made the special order of business for the meeting of Monday, December 10, and that all members be requested to put into writing for presentation at that time such criticisms or suggestions as they might have to offer.

Mr. Delano offered a memorandum bearing upon the same general situation, and recommending the adoption of a resolution with reference to it as follows:

"I have had several visits from people connected with public service corporations in New England and in the middle west asking that the Board take some action in calling public attention to the importance of the conservation of funds, with a view to putting an effective check upon States, municipalities and public service commissions in the matter of requiring the expenditure of moneys chargeable to capital account, for public improvements.

The reason for putting some sort of restriction on this matter is sufficiently obvious, but the question is, how best to approach the subject. If the President were willing to make a proclamation, that undoubtedly would be the most effective. Perhaps, however, he might not care to do so and we might urge that the Secretary of the Treasury do so; or we might ourselves do so, as a Board.

If the latter course is taken I would suggest the preparation of a carefully worded resolution which would point out the necessity of conservation of funds for the needs of the Government, and call upon all loyal citizens, individually and collectively, to heed the warning; then to point out in a concrete way just what we have in mind:

First: That States and municipalities shall not embark on new work which involves the expenditure of new capital unless such new work is absolutely necessary to public safety;

Second: To ask that States and cities, or their representatives, shall not call upon public service corporations to make extensions, additions or improvements which are not absolutely necessary to public safety, for the same reasons;

Third: Call upon all corporations other than public service corporations, and upon individuals and co-partnerships to defer all building operations, extensions,

improvements and betterments which are not actually needed, even though they may have the funds in hand to justify them;

Fourth: Call upon banks, bankers and investment houses to co-operate in seeing that this idea is carried out.

As corollary to the above it might be said that the Board should proceed in preparing a concrete plan which would provide funds for public service corporations for States or municipalities for necessary improvements. This, I think, is entirely true, but I believe it should be deferred and made the subject of a separate deliverance.

After discussion it was, on motion, voted that Mr. Delano be requested to prepare a draft of a plan embodying the ideas of his memorandum in concrete form, the same to be presented to the Board at its meeting on Monday, December 10.

On motion, at 11:30 A. M. the Board adjourned to meet on Monday, December 10, at eleven A. M.

APPROVED:

                      
Chairman

*H. P. ...*  
Secretary.