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H. PARKER WILLIS, SECRETARY
 SHERMAN P. ALLEN, ASST. SECRETARY
 AND FISCAL AGENT

ADDRESS REPLY TO
 FEDERAL RESERVE BOARD

January 22, 1918.

Dear Sir:

In order to win the war, it is imperative at this time that goods, credit and savings be placed at the disposal of the Government in the largest possible measure. Any unnecessary production or consumption of goods, and any unnecessary use of credit, saps and weakens the fighting strength of the nation.

There is no doubt about the willingness of the people of the United States to meet the Government's requirements generously and without reserve; but they demand, and are entitled to, guidance as to which industries and pursuits are to be considered as necessary for the best interest of the country, and, therefore, are to be stimulated, and which, on the other hand, are to be held as unnecessary and, therefore, to be discouraged under present circumstances.

The problem affects with peculiar force our banking operations because credit improperly granted not only wastes to that extent funds that should be made available to the Government, but misdirects at the same time the use of labor and material which should be devoted to our national purposes.

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To bring about a proper control of credit is, therefore, one of the foremost endeavors of nations at war, and it is for this reason that European belligerent countries have created some central organizations whose duty it is to state authoritatively whether or not the sale of securities (stocks or bonds or notes) is in the public interest, no securities being placed, by voluntary agreement or by act of law, except with the approval of these bodies.

In a letter dated January 11, 1918, Secretary McAdoo invited the Federal Reserve Board:

"as another patriotic service to assume the responsibility of passing upon such proposals as may be submitted to them in respect to capital expenditures or issues of new securities."

At the same time, the Secretary issued a public statement which is printed below.

The Board, acting upon this letter, passed a resolution accepting this charge, appointing three of its members, Messrs. Warburg, Hanlin, and Delano, to act as a "Capital Issues Committee", authorizing the committee to engage the necessary staff and to appoint an expert advisory committee to assist it in investigating and passing upon all cases that would come before it.

Messrs. Allen B. Forbes, senior partner of the firm of Harris, Forbes & Company, New York City; F. H. Goff, President of the Cleveland Trust Company, Cleveland, Ohio; and Henry C. Flower, President of the Fidelity Trust Company, Kansas City, ^{Ind} ~~Mo~~, were then invited to become members of the advisory committee, and in a fine spirit of patriotism, they have agreed to serve in this capacity. The Committee will not pass upon the intrinsic merit of securities

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to be offered for sale; it will only examine into two questions:

(1) whether the offer is timely with respect to the financial operations to be undertaken by the Government from time to time, and

(2) whether the objects for which the funds are to be raised by the offer of securities are compatible with the public interest as above described.

In developing its policies as to the various classes of cases involved and in passing upon them individually, the committee expects to seek advice from the various departments and boards at Washington and, in addition, it expects, whenever necessary, to call upon the chairman and governor of each Federal reserve bank for a local investigation and report, authorizing them to invite, from a list to be approved by the Board, not more than three men likely to be able to give expert and judicial advice in the case, to join with them in particular examination and report.

The committee is mindful of the fact that, on the part of the banks and bankers, there is no legal obligation to submit their cases. It will be an entirely voluntary act by them. The committee has no doubt, however, that it may count upon their single minded patriotic cooperation. The committee hopes that before offering for sale stocks, bonds or notes of corporations in amounts of \$500,000 and above, and in the case of States, counties and municipalities of \$250,000 and above, advice will be sought from it as to whether such sale at the time will be held to be compatible with the public interest. While the committee

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will be glad to give advice to the best of its knowledge and ability, in all questions of credit submitted to it, it does not in general expect to pass upon notes having less than one year to run.

You are requested to bring this letter to the notice of the banks and investment houses of your district and to invite their cordial cooperation.

Application forms are in course of preparation, and they should be addressed to "Federal Reserve Board, Capital Issues Committee, Washington, D. C.

Very truly yours,

PAUL M. WARBURG

Chairman,
Capital Issues Committee.

To all Federal Reserve Banks.

The statement issued by the Secretary of the Treasury, referred to on page 2, is as follows.

"In my annual report to Congress, dated December 3, 1917, I referred to the importance at this time of avoiding unnecessary capital expenditures in both public and private enterprises. While no specific authority has been conferred upon me to approve or disapprove new undertakings, a number of corporation executives, bankers, and municipal officials, inspired by the idea that they should do nothing which would in any way retard our efforts in the prosecution of the war, have submitted to me plans for new enterprises or new issues of securities.

"It is now apparent that the Government may count upon a full measure of cooperation on the part of the States, municipalities, and private corporations, with the result that a large number of such plans for future developments will be submitted from time to time. It therefore becomes necessary that each of these proposals receive adequate consideration and that a recommendation be made without delay as to the course to be pursued.

"Pending action by Congress, I have requested the Federal Reserve Board to pass upon such proposals as may be submitted to them or referred to them by me, and advise whether or not such expenditures of capital or such issues of new securities should be made. The Board has consented to undertake this responsible work, and I therefore strongly urge upon the corporations and the bankers of the country, that before making contracts requiring the use of labor and material, or before placing new issues of securities or agreeing to purchase new issues of securities, they confer with the Federal Reserve Board in order that it may determine whether the undertaking covered by the proposals is necessary for the public health and welfare, or contributes directly toward winning the war.

"This is not alone a question of capital, but of material and labor. Public improvements or new private enterprises which in time of peace might be entirely proper, should now be considered in the light of, or in connection with, the great Governmental problems arising out of our military necessities. I am confident that I can count upon the cordial cooperation of all concerned in this great work of conserving our capital resources, so that we may devote them primarily to bringing victory and peace."