

CAPITAL ISSUES COMMITTEE
OF THE
FEDERAL RESERVE BOARD
WASHINGTON

February 7, 1918.

To the
Chairman of the Sub-Committee on Capital Issues
of Federal Reserve District No.

Dear Sir:

The Sub-Committees of the Capital Issues Committee at Washington will, no doubt, wish to be informed as to the principles and policies to be adopted in dealing with applications and requests for information addressed to them.

It is not possible to give at this time more than general outlines. A more definite policy will be developed, and the Sub-Committees kept informed as to the same, as soon as it becomes possible to secure from the various Government Departments a more definite expression as to their own policies and requirements. A better understanding of the situation and the policies to be adopted will be developed as soon as concrete cases shall have been submitted to the respective Departments and will have formed the basis for comprehensive discussion with them.

I. POLICY: The Central Committee and the Sub-Committees are guided in their deliberations by the thought that only by subordinating local and personal interests to the public welfare and by enforcing the most rigid economy in matters of personal expenditure can the United States hope to bear its part of the financial burden of the war and to release sufficient labor and materials for war purposes without depletion of our own resources. From this point of view the

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Committee has adopted it as its policy that during the period of the war favorable action should be taken only where State, county, municipal, corporate, or individual financing involve projects which will contribute to the successful prosecution of the war or which are essential to the public health and welfare. The Sub-Committees will assist the Central Committee not only by investigating the cases submitted to them, but they may, in addition, render most important service by watching closely and keeping the Board advised as to questions arising in their own districts, both with respect to such securities as should come into the market without the previous approval of the Capital Issues Committee, and with respect to appropriations and commitments that are being made and which it is most important to stop at the source.

It is hoped that in the very near future the Central Committee may be able to make a direct appeal to those in charge of State and municipal administrations. For the time being, however, it is essential that the Sub-Committees use their local influence in preaching the gospel of economy in their communities and to invite cooperation wherever they can. As far as can be seen the Committees may count on the wholehearted and patriotic response on the part of all concerned. All evidence points in that direction.

The Central Committee reserves the right, of course, to deal with each individual case on its own merits, but an expression as to policy is given as illustrative of the main purposes the Committee has in mind.

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- (1) The Central Committee will consider favorably applications submitted to it involving the refunding of maturing obligations.
- (2) The Central Committee will consider favorably applications submitted to it involving the funding of capital expenditures incurred prior to February 1, 1918; Provided, however, that the Central Committee may deviate from this policy if available cash assets reasonably may be used for the payment of such debts in whole or in part or excessive cash distributions to shareholders are contemplated, or in cases where the requirements of the corporation may be met in some manner without undue risk or hardship.

It must, of course, not be understood that funding of banking indebtedness incurred after February 1, 1918, will not be permitted. Close investigation may establish cases where such funding may be proper. What is to be avoided, however, is that those intending to apply for permission to issue securities first running into debt, conceivably for purposes not compatible with the public interests, and then asking for permission to fund the banking indebtedness already incurred.

(3) As a general basis for its conclusions the Central Committee is inclined to adopt the policy that the sale of only such new securities ought to be considered favorably as will finance projects likely to bring results within the calendar year 1918. Exceptions will have to be granted in cases where Government Departments advise that as matter of military or economic protection work ought to be undertaken extending

over the year 1918, or where so much money has already been invested that the amount necessary to complete the work may be considered as irrelevant as compared with the money already hazarded in the undertaking.

(4) With respect to the question of road building and new development of arable lands, so far as they are to be financed by new bond issues, the Committee adopted as its policy that, in passing upon issues for road construction or for irrigation or drainage projects, covering lands not heretofore under cultivation, favorable consideration should be given only to those of great economic or military importance and from which definite results can be secured in time to be of assistance in meeting the present emergency. In dealing with these cases, the Committee acts in close touch with the Department of Agriculture, and has received assurance of the hearty cooperation of that Department, from which advice is sought concerning the facts and merits of each individual case.

Each of the Sub-Committees on Capital Issues will do well to keep the Board fully advised as to projects for road building in their districts and to use their influence with local communities wherever they find that appropriations are being made or sought for roads which are not of essential value either from an economic or military point of view. As to whether or not the roads have any such value, the Central Committee will seek advice in both cases at headquarters and will be guided by such advice.

(5) With respect to building operations, Secretary McAdoo made the following statement:

"Because of the interest of the Treasury Department in the conservation of capital and credit during the period of the war, I have received several inquiries as to whether building operations of one kind and another should be discouraged. With regard to plans for public buildings under the control of this Department, I have stopped letting contracts except in cases where they were absolutely necessary.

"Home building is an excellent thing in normal times, but at present, unless there is a real shortage of houses for war-workers, I strongly advise that materials, valuable labor and credit be not utilized for this purpose. Whether homes should be built should be determined strictly by the urgency of the need."

From this statement, it is desirable that building operations ought to be suspended at this time as far as possible without direct detriment to health or war work. The statement of the Secretary may be used to advantage in dealing with plans on the part of municipalities and State governments to continue or to provide for new construction at this time.

II. METHOD OF PROCEDURE: With respect to their own procedure the Federal Reserve Board's Committee and the Advisory Committee, acting as a Central Committee sitting in Washington, have adopted as a definite policy that no member will vote or advise in a matter in which he may be interested, directly or indirectly, and it is understood as a matter of course, that the Local Committees will act in a like manner.

The Federal Reserve Agent is expected to serve as chairman and the Governor as vice-chairman of the Standing Committee of five, and the Committee will always be in a position to call upon one or more members of the Auxiliary Committee to "sit in" on special cases or to assist the Committee in securing expert information.

It is hoped that all members of Local Committees will cooperate in spreading the gospel and in making effective the work of the committee in their districts.

It is suggested that the Sub Committees use the style "Sub-Committee on Capital Issues, Federal Reserve District No."

As to all necessary expenses of members of committees, for example, traveling expenses, the Federal Reserve Board thinks it proper that such expenses should be refunded by the Federal Reserve Banks and that all out-of-pocket expenses of the committees should be carried in a special item and it will be decided later on whether they should be carried as an expense by each bank or refunded by the Federal Reserve Board.

It may be necessary for the Central Committee, particularly in cases where prompt action is desired and where there is no need for a local investigation, to act without consultation with the local committee. In certain cases where the situation is clear provided that the statement of facts can be accepted as correct, the Washington Committee, in order to save time, may decide to execute the letter of approval or disapproval, as the case may be, and send such letter to the local committee for transmission to the applicant provided that the facts upon which the Central Committee based its conclusions are substantiated by the local committee. In all cases, however, it is the plan of the central committee to keep the local committees advised as to applications and as to the decisions reached so that they shall be fully advised as to the situation in their districts.

The Central Committee at Washington will appreciate it if in any case (even where action has already been taken by said committee)

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the local committees will give it the benefit of any comment that might appear to them helpful. The central committee is most anxious to reach a fair and just conclusion in all cases, and it must count on the co-operation of the entire organization to bring about the best understanding of the problem.

Please express, on behalf of the central committee, to all members of the standing committee, as well as of the auxiliary committee, the Federal Reserve Board's sincere appreciation of the willingness of the members to help in this work.

Very truly yours,

(Signed) PAUL M. WARBURG.

Chairman,
Capital Issues Committee.