Washington, February 13, 1918.

Memorandum.

The object of this memorandum is to outline briefly some of the most important points of difference, in substance and effect, between the so-called "Calder Bill" and the War Finance Corporation.

(1) The Calder Bill would give power to Federal Reserve Banks to rediscount member banks' notes secured by "such bonds or notes of any railroad, industrial, public utility corporation or municipality as the Federal Reserve Board upon investigation deems a proper security for the Federal Reserve Banks to receive as collateral." For the purposes of this memorandum, we must assume, of course, that if the bill were passed the Federal Reserve Board would permit the rediscount of member bank notes secured by such collateral. Upon that assumption, it is clear that billions of outstanding securities would become directly available as collateral for advances by Federal Reserve Banks, and indirectly available as security for Federal Reserve notes. It would not be a question of dealing only with new financing "compatible with the public interest at this time", or with the renewal of maturing obligations, but the whole mass of securities already outstanding would become available without any power of differentiation at all as to whether or not they are serving the public interest at this time. The proceeds of such borrowing could be used for anything - compatible or incompatible. It is un-

necessary to elaborate the importance of this point.

(2) Granting that most of the securities covered by the Calder Bill amendment are either unsalable today or could be sold only with substantial concessions, even as against the present heavily reduced prices, the Calder Bill does not have for its object to find a means of thawing out these frozen securities. The only solution that the Calder Bill provides is that holders of securities, either directly or indirectly, pledge them against advances to be secured from Federal Reserve Banks. The Finance Corporation, on the other hand, provides ways and means by which the appeal should be made not exclusively to the Federal Reserve System but to the securities market in general. By substituting, in effect, the short term bond for the unsaleable security of industrial corporations, public utilities, railroads or municipalities, or by substituting these short term bonds for the maturing obligations of such corporation, a new security is offered which will have a general marker, first, because it will be considered a Government security, and, second, because of the fact that some provision is made, in case of emergency, to use these bonds as collateral for borrowings from Federal Reserve Banks. To make this point clear: Suppose that an electric company has maturing bonds amounting to ten million dollars; it wants to offer instead a five year electric note but finds it impossible to place the same. Under the Calder Bill, all that could possibly be done would be to borrow the full amount from the Federal Reserve Bank. Under the plan of the War Finance Corporation, five year bonds of that corporation would be issued and either

taken in exchange by the holders of the old, maturing electric notes, or the new five year short term bonds could be placed on the market and the proceeds used to pay off the maturing notes. In other words, the Finance Corporation should have the tendency of reopening the security market for now unsaleable securities, so that new elasticity will be given the securities market instead of regarding this market as hopelessly dead and instead of using the Federal Reserve System, an instrument created for the protection of commercial paper, as a market upon which to unload unsaleable securities.

(3) It is safe to conclude from the above that the amount of paper secured by War Finance Corporation bonds expected to be rediscounted with Federal Reserve Banks would be much smaller than the amount likely to be borrowed from the Federal Reserve System in the case of the Calder Bill, not only because, in the first case, the absorbing power of the security market acts as a buffer and only what the security market cannot take - and what, after that, the banks cannot carry - will go into the Federal Reserve System, but also, as stated under (1), because the output of the short term bonds by the War Finance Corporation is restricted to definite purposes of the present emergency, while, under the Calder Bill, the only possible assistance would have to come through the Federal Reserve System, and all securities issued during past generations would become available as collateral without any scrutiny as to the objects for which they have been issued.

(4) If we have these points clearly in mind, it is incomprehensible why the hue and cry of inflation should be raised against the Finance Corporation by the very people who, apparently, are in favor of the Calder Bill. As a matter of fact, as above stated, we would have to expect a much larger degree of inflation under the Calder Bill than under the proposed War Finance Corporation legislation. Are we not driven to the logical conclusion that these critics of the War Finance Corporation bill are opposed to it because it restricts inflation so much more than the Calder Bill rather than because they are generally apprehensive of too much inflation to be caused by the contemplated legislation?

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