

FEDERAL RESERVE BANK
OF DALLAS

Dallas, Texas, April 1, 1943

SECOND WAR LOAN DRIVE

**To All Banking Institutions in the
Eleventh Federal Reserve District:**

The second war loan drive is rapidly approaching and this letter is an appeal for your continued cooperation and support. Therefore, it will be greatly appreciated if you will read it to your directors at their next meeting. The financing of this war on a sound basis is vital to its successful prosecution as well as for our own protection. If the war is to be financed on a sound basis, we cannot afford to delay taking a more active part in it. The job to be done is so large that it can be handled successfully only if all of us recognize our individual responsibility both from the viewpoint of purchasing our fair share of Government securities and of assisting in every way possible in the sale of these securities to others. During the fiscal year beginning July 1, 1943, Treasury expenditures will amount to more than \$100,000,000,000. At current rates only about one-third of these expenditures will be derived from taxation. Even if existing rates are raised, it is probable that not more than one-half of total expenditures can be obtained through taxes. Consequently, at least one-half and possibly two-thirds of war expenditures must be raised by borrowing. The problem that confronts us is not merely the raising of necessary funds, but also obtaining them from sources that will minimize the dangers of inflation.

When banks purchase new offerings of Treasury securities the immediate effect is to increase Government deposits. As soon as the Treasury disburses these funds in payment for war activities of all kinds, the newly created Government deposits go into the hands of individuals and businesses, thereby increasing the deposits of these groups. The inevitable result of this process of Government borrowing and spending is to raise the money income of individuals and businesses to higher and higher levels. In 1929, the peak year of our greatest period of prosperity, national money income in the United States amounted to eighty billion dollars. It is estimated that during this calendar year national money income will amount to \$135,000,000,000, or 70 per cent above that in 1929. If all of our productive facilities were being used to turn out consumer goods, the larger consumer incomes would present no serious problem, but unavoidably an increasing proportion of our manpower and plant facilities is being used to turn out war weapons. This means that production of consumer goods cannot keep pace with our rapidly expanding money income. If we try to spend all our money income on a smaller volume of consumer goods, we will drive up prices. We cannot improve our standard of living and wage total war effectively at the same time. Hence, if we are to avoid a ruinous rise in prices, we must put aside part of our money income until such time as we can convert our productive facilities back to the production of consumer goods. In the meantime, we have an opportunity and a responsibility to invest our surplus income and idle funds in Government securities.

The Secretary of the Treasury has announced a goal of \$13,000,000,000 or more for the second war loan drive which begins on April 12. He has also announced that \$8,000,000,000 of these securities should be sold to non-bank investors. If all potential non-bank investors are to be reached, it will be necessary that a large number of workers in every community put their shoulders to the wheel. We must put first things first, and we must also be willing to subordinate our private interests to those of the nation.

Bankers have been rendering valuable service in selling securities to non-bank investors and they have an excellent opportunity to render an even greater service during the forthcoming war loan drive. Bankers know their customers and have their confidence. They have first-hand knowledge of the individuals who are in a position to purchase securities. They have knowledge of businesses which are accumulating idle funds. Bankers and bank directors, therefore, being leaders in their respective communities, are urged to volunteer their services to their local War Finance Committees. Bankers can render the fullest measure of service if, wherever possible, they will devote their full time to the sale of Government securities to their own customers during the April drive.

In order to raise the largest possible amount of funds outside the banking system, every potential investor must be reached. Although twenty-five million persons are now purchasing war savings bonds through regular payroll savings plans, further efforts must be made to encourage an increasing number of persons to participate and to increase their percentage of deductions. Between the group reached by payroll savings plans and the group composed of insurance companies and other large businesses, there is a large and fertile field of investors. That group consists of business concerns which are increasing their cash balances. It also includes farmers, ranchmen, professional men and other individuals with fairly large incomes or accumulated savings, as well as trust funds, sinking funds, lodges and fraternal organizations, endowment funds, etc. It is our duty to induce the holders of these funds to put them to work immediately in financing the war effort. They can do this by using their available funds to purchase Government securities. It will require intensive effort to reach all potential investors, but we must leave no stone unturned to accomplish our objective.

In the April drive the Treasury is offering a "basket" of securities designed to meet the varying needs of all types of investors. Some of these offerings are designed mainly to absorb the idle funds of commercial banks, while others are designed principally for non-bank investors. Many individuals and corporations should purchase tax savings notes because both groups have tax liabilities, but they should recognize that the purchase of tax savings notes represents merely the prepayment of taxes. Although such prepayment renders a service to the Treasury by providing funds in advance of the due date, it does not discharge the responsibility of investors to buy their fair and equitable share of other Government securities. In conducting the April campaign it must be borne in mind that the responsibility rests upon all individuals and groups to purchase Government securities either out of current income or with idle funds available for investment.

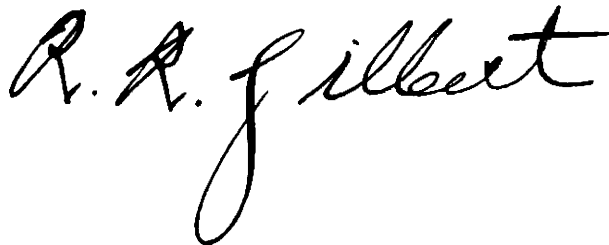
Bank deposits afford a measure of the volume of available funds as well as the rate at which available funds are being accumulated. Since the outbreak of war in Europe, the average increase in deposits throughout the nation has been about 67 per cent, whereas in this district deposits are now just about double those at the outbreak of the war. The large increase in deposits in this district is accounted for in large part by Government expenditures and virtually every section of the district has benefited from them. This large accumulation of deposits carries with it an opportunity and a responsibility for those who hold these deposits to participate as fully as possible in financing the war effort. Bankers should urge their customers to use their funds to purchase Government securities even though this may result in a temporary decline in the deposits of their bank. In most cases, any decline in deposits would likely be offset by the return flow of funds from Government expenditures. The decline in deposits resulting from customer purchases of Government securities can be reduced and in many instances avoided altogether, if banks will make use of War Loan Deposit Accounts to pay for

securities purchased for their own account as well as those purchased for their customers. In this manner deposits withdrawn by customers to pay for Government securities are transferred to the bank's War Loan Deposit Account and the funds remain with the bank until gradually withdrawn by the Treasury. Hence, a bank would not lose funds immediately and in many cases the subsequent increase in customer deposits would more than offset Treasury withdrawals.

The American Bankers Association has recently distributed a pamphlet entitled "The 100 Billion Budget and the Banks." This pamphlet discusses briefly the significance of the inflation threat, indicates the need for selling Government securities outside the banks, and makes suggestions which should be very helpful to banks during the forthcoming drive. Much can be gained from a careful study of this pamphlet.

The magnitude and importance of the war loan drive are such as to challenge the best efforts of all of us. I am confident that every banker in this district will give generously of his time and energy in order to make the drive an overwhelming success.

Yours very truly,

A handwritten signature in cursive script that reads "R. R. Gilbert". The signature is written in dark ink and is positioned to the right of the typed name.

R. R. GILBERT

President