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Ben Strong's address - Apr 4.

PUBLICITY DEPARTMENT
LIBERTY LOAN COMMITTEE
SECOND FEDERAL RESERVE DISTRICT
120 BROADWAY
NEW YORK

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3 No. 82.

Address by Benjamin Strong, Governor of
the Federal Reserve Bank of New York, at
the Liberty Loan Meeting at Carnegie Hall,
Wednesday, April 3rd, 1918.

Fellow members of the Liberty Loan Organization:

This meeting has been arranged in order that those who now compose the financial army of our Government in this district may make every possible preparation for the third great offensive. The organization of Liberty Loan committees has now become so extensive that it would take ten buildings as large as the one in which this meeting is held to accommodate all of those who are now enrolled in our committees. Contact with headquarters must, unfortunately, be largely by correspondence, but if it is possible in later loans, the disadvantages of this limited personal contact among the various branches of the service will be overcome by holding meetings similar to this in all parts of the district.

You will hear speakers to-night from whom you will gain inspiration and encouragement. But my part is rather to discuss some of the principles which we believe should be observed in the conduct of the great financial operation which we are about to undertake, in the hope that it may aid you in concluding the campaign with a glorious success beyond your best expectations.

This loan is to be placed with our people at the same time that the greatest battle of all time is raging in Europe. So long as that battle is undecided, everything that we value is at stake and hangs in the balance. The presence of our troops in large numbers in France has developed in the minds of our people a new and intense anxiety as to the outcome; a personal interest in the venture far beyond anything that has existed since the outbreak of the war. For the first time we are actively conscious that we are at war; for the first time we realize that we have a personal, human investment in the war. One million eight hundred thousand families in the United States have sons, husbands, or brothers in the nation's service either in France or in training in this country or in the navy. Throughout every part of the country our people are watching military developments with breathless anxiety. Your task is by so much the lighter. Those who are seeking security for their own flesh and blood will not withhold the dollars needed to insure victory. This should be the keynote of our campaign.

It is, of course, desirable, in fact essential, that every subscriber to a Liberty bond should understand precisely the terms of the loan. In previous loans, unfortunately, the enthusiasm of those selling the bonds has occasionally led to their making statements not altogether accurate as to the various provisions of the law under which the bonds are authorized. Some misunderstandings have occasionally been caused as to the privilege of conversion, or as to the tax exemption, or other features, which possibly, could not be avoided. But every dissatisfied bondholder is an obstacle to overcome when the succeeding loan is placed. So to the extent that the terms of the loan are discussed, great care should be exercised that accurate information is given, and, for that purpose, all necessary instructions will be issued from the bank.

Just now subscribers to these bonds are not betraying anxiety as to rates of interest, dates of maturity, tax exemption provisions, or conversion rights. Their anxiety is that the money they subscribe be promptly and effectively spent by our Government to insure victory to our troops and their safe return.

Do not let the notion become prevalent that buying war bonds is simply a financial transaction. It is far more than that; it is a contribution of war materials and of the labor to produce war materials to enable our armies to win battles. It has been estimated that prior to the war the annual production and turnover of the country had a value of \$50,000,000,000. This may now have increased to \$60,000,000,000. The appropriation bills passed by Congress represent requisitions made upon the labor and industries of the country for not less than \$23,000,000,000 in value of goods and services. It is no longer a question of whether we can produce these war materials, but it is a question of speed of production. Industries and labor loaded with the production of everything required to enable us to live as we were in the habit of living before the outbreak of the war can not produce \$23,000,000,000 of goods in time to equip the armies now so urgently needed, unless our people withdraw some part of their demands and give the Government right of way. To the extent that we indulge in unnecessary expenditures, by so much we retard production of war materials; to the extent that we thereby delay the presence of fully equipped armies in Europe we jeopardize the outcome of the war.

You have been advised of the arrangements as to quotas. In this loan the Second Reserve District is asked by our Government to sell nine hundred million dollars of bonds.

We must continue to maintain the standard of patriotism which has been displayed in this district in other previous borrowings of the Government, for our quota of every loan, whether of long bonds or short certificates of indebtedness, which our Government has heretofore offered, has been heavily oversubscribed. But this matter of quotas requires some explanation in order to avoid misunderstandings and dissatisfaction. When our Government sells an issue of bonds, it does not require from the subscribers that payment be made in gold or currency. Payment, in fact, is made by checks on banks, which simply effect a transfer of bank balances from the credit of subscribers to the credit of the Government. Therefore, in order that the amount of the loan be equitably apportioned among the Federal reserve districts, and among the various communities within the districts, consideration must be given to the amount of bank balances in the respective districts and communities which will, in part, be transferred to the Government. A committee of our organization has secured data from all banks in the district and based upon this data secured especially for the purpose, has effected an apportionment. It is based upon the resources of the banks, after allowing for savings deposits, for duplication of bank balances, and foreign balances. The apportionment of quotas is, as far as can be made by experienced men, fairly based upon accurate data. In every community where dissatisfaction arises as to the apportionment, it should be explained that the utmost care has been exercised to assure a fair determination of this matter, which, at best, is most difficult to arrive at.

Questions are asked daily by intending purchasers as to where they should make their subscriptions. Many of our industries and transportation lines have offices in one place, plants or investments in other places. Many business men have more than one residence or place of business. The spirit of emulation which actuates all branches of the organization, naturally and properly, inspires committee men to secure the largest volume of subscriptions possible for their own communities. It is, however, desirable that this matter be governed by some fair principle, if one can be found, so as to avoid criticism. The real principle, after all, is a simple one. As the apportionment is based upon bank deposits, so the subscriptions should be based upon bank balances. Where a corporation or individual has more than one bank account, the balance carried in those accounts form the basis of the apportionment of quotas to the communities where the accounts are carried. Therefore, the subscriber should apportion his subscription according to the amount of balances carried in his various bank accounts, out of which his payments are made.

In every instance, however, where employers of labor arrange to secure subscriptions from their employes, it is desirable that this subscription be made and financed at the place where the plant is located. The interests of the community demand this, and it is of course, only fair to the employes who are subscribing.

It came to our attention during the last campaign that in some communities when quotas had been completed the committees discontinued work. If every organization adopted this policy, the loan would not be fully subscribed because in some sections quotas will certainly not be filled. Your efforts should continue, without relaxation, until the close. We are not simply raising money for the Government; we are enlisting a great army of bondholders whose moral support is needed to win the war. Every additional bondholder becomes an addition to the war spirit of the country. Let none escape.

Many questions have been asked as to the attitude of the Liberty Loan organization towards depositors in savings banks. The answer presents no difficulty. It is not expected or desired that depositors in savings banks should withdraw their deposits in order to subscribe for these bonds. The savings banks should themselves buy the bonds. Subscriptions made by those who custom-

arily have savings in the savings banks will, naturally, somewhat interrupt the flow of savings deposits to that class of banks. But it has been the experience in Canada and abroad that the placing of war loans even at higher rates of interest than those allowed by savings institutions has not caused withdrawals from such banks to any dangerous extent; in fact, has had little effect other than to cause a temporary suspension of new deposits. Our own experience is similar. Even the postal savings deposits, which bear a much lower rate of interest than is borne by our Government bonds, have increased during the entire period of the war, notwithstanding the large sales of Government bonds.

Probably no subject has caused quite so much complaint as the failure to deliver bonds promptly to the subscribers. We have endeavored to make clear through the press, by circulars and otherwise, that delays of that character are unavoidable. Our people must be asked to show consideration to the officers of the Treasury, who are doing their utmost to meet a situation quite unprecedented in variety of difficulties. Facilities have not heretofore been adequate to prepare the enormous amounts of bonds required to be issued. The Bureau of Engraving and Printing has been taxed to its utmost capacity to prepare no less than forty-four million pieces of bonds up to date to meet the needs of the Government. The bonds can not be finished until the terms of the loan are known. In the case of the present issue, the bill authorizing the bonds has not yet been passed by Congress.

In order to overcome this delay, it has been arranged to prepare the bonds in all particulars in advance except as to printing the text. I am told that there are thirteen million pieces in the Bureau of Engraving and Printing completed except for the addition of the text, and that the instant the bond bill is signed by the President these bonds will be put on the presses and turned out as rapidly as human effort can do so. This is one of the details of an operation of great magnitude which will frequently interfere with the success of our plans far out of proportion to its importance, but, after all, subscribers to the bonds have usually adjusted themselves to the necessity for a little delay in deliveries, which I hope will not be necessary on the next issue. In the last two loans our books show that we have only \$10,000 of unadjusted subscriptions by subscribers to nearly two billions of bonds in this district, and a balance of less than \$3,000 owing to subscribers who have defaulted in their payments.

One of the greatest difficulties to be dealt with by our organization is the establishment of a policy in regard to borrowing on Liberty bonds. Every bond purchased with borrowed money produces bank expansion so long as such loans remain unpaid. How much, therefore, we should encourage subscribers to buy bonds with borrowed money must be determined.

First - by whether it is necessary to encourage that process in order to insure a successful loan, and,

Second - by some knowledge of the extent to which the finances of the people of the country are equal to absorbing Government loans without mortgaging future earnings. That is a very difficult question to answer. There are various estimates of the amount of the available current savings funds, and it is important to determine to what extent those who hold these savings are willing to invest in war bonds. Probably if all the people of the country up to the present time had been willing to appropriate all of their savings to the purchase of the bonds so far issued it would not have been necessary for the banks to lend one dollar to subscribers. As it is, the amount of borrowing by subscribers to the first and second Liberty Loans is exceedingly moderate, and it is our hope that the present outburst of patriotic enthusiasm for the war will insure a very large subscription to the third Liberty Loan, without the necessity for heavy bank borrowings. In England, it has been found quite safe to discourage subscribers from seeking accommodation for the purchase of war bonds beyond a period of six months, upon the theory that a new loan will be offered every six months, and thus the subscribers should confine their subscriptions to their current savings, or to what they expect to make within the succeeding six months. I am not at all sure that this policy would be safe for us to pursue, but it is expected that an explicit statement will be issued before or in the course of the campaign which will be a guide as to the policy to pursue.

One unfortunate effect of excessive subscriptions by those who are unable to liquidate loans out of savings, has been heavy sales of bonds on the stock exchange and their consequent decline below the issue price. This would not occur, certainly not to the extent to which it has occurred, if subscribers to the bonds took them with the firm intention of holding them, even though the economies necessary to do so were severe enough to hurt. In general, we think subscribers should be encouraged to borrow where it is not the intention of the subscriber to promptly dispose of his bonds and where he has the means to repay the loan in a reasonable period.

You have frequently heard the statement made that the farmers of the country have not generally subscribed to the Government loans; that they are unpatriotic; and that in various ways they are bad citizens. I do not believe that they are unpatriotic, neither do I believe that they are bad citizens, nor is it a very good way to sell bonds to abuse the prospective buyer. Our difficulty in the past has been to so organize that the farmers could be personally reached and through agencies in which they have confidence. Our plans have now been arranged to take the farmers into our organization. The Farm Bureaus, Granges, and the Diarymen's Organizations are cooperating with us and we hope, by encouraging them to keep separate records of the amounts subscribed by the farmers of this district, that they will completely emancipate themselves from any of the charges which you have heard.

Too much emphasis can not be laid upon the advantage of personal solicitation. Prospective subscribers should be approached, if possible, with some knowledge of what amount they should subscribe

To assist in this work throughout the district, maps are being prepared and furnished which will enable the local committees to deal with every resident of their respective territories.

You will appreciate that no small part of the burden of conducting this campaign is the regulation and control of expenditures. The Congress provides that a certain percentage of the proceeds of each loan may be used for expenses, but, as you know, the expenditure of funds of the Government is surrounded, necessarily, by certain safeguards and rules which it is necessary that we should strictly observe. All expenditures are advanced by the Federal Reserve Bank and only reimbursed by the Treasury upon the submission of satisfactory vouchers which conform to the rules of the Department. I hope that great care will be exercised by all members of the organization to see that in this matter we are protected against charges of extravagance or waste, and, on the other hand, that money which is spent shall be spent most effectively. Carefully prepared rules are furnished to every committee on this point.

As the campaign approaches, it is necessary that the entire organization shall be somewhat of the same frame of mind, undertaking the work with a uniform spirit and avoid mistakes which have been made clear to us by our past experience. It is a great mistake to undertake the placing of one of these great loans with too much assurance of success. No undertaking of this magnitude is accomplished without hard work, and, if the idea that the loan is a success before the subscriptions are actually received, should become general, it might indeed seriously injure our prospects of success.

On one or two points I am led to speak a word of serious warning. We must be careful that the public is not imposed upon by dishonest people who pose as being parts of our organization, but who, in reality, are seeking to perpetrate a fraud on the people. The propaganda undertaken is so extensive and public opinion is so aroused as a result, that it may indeed become possible for designing persons to take advantage of this and practice despicable fraud, particularly upon ignorant people. Every organization should watch for this with scrupulous care and, at the first indication of any development of that character, it should be brought to the attention of the proper officers of the law.

And now, ladies and gentlemen, our work is about to begin; our armies are at the front fighting; they not only need the supplies which the proceeds of this loan will provide, but they need the encouragement, the stimulation, the courage that they will gain by the knowledge that they are supported at home. News from home to the soldier at the front is what makes the spirit of the army. Suppose the men of our army were permitted daily to receive hundreds of thousands of communications from agents of the enemy, directed to undermine their morale, who can say what the result would be? They do, however, receive hundreds of thousands of letters from home. What a difference it will make to them if those letters contain words of encouragement rather than depression. How greatly will they be encouraged and heartened when they hear, as they will, that the greatest of war loans has been successfully placed at home in order that they may be victorious abroad.

Everything depends upon a spirit of patriotism and self-sacrifice by the American people. We may find in this country the same determination as has just been expressed by a patriotic Frenchman.

He says that "to fight Germany France will "sacrifice
"all her sons, and when the men are gone the women will rise
"up, and when the women are gone the children will rise up,
"and when the children are all gone the dead will rise up to
"defend France; for France has determined to be free or die, and
"France will live."

This task is now committed to your hands. Our armies in
France, our people at home, the people of the nations with
which we are in alliance are awaiting new evidence of the
spirit of the American people in the war. We must not dis-
appoint them. Your reward will be the victory of our army.

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