

WAR LOANS VS. BUSINESS AS USUAL

Article by Benj. Strong, North
American Review, April 1918.

Two great Government war loans have now been issued, which have gathered into the Treasury \$5,800,000,000. Our Government also had outstanding February 18 over \$2,100,000,000 of short notes, together representing \$7,900,000,000 of war borrowings concluded in six months and, in addition, taxes have been paid by our citizens amounting to many hundreds of millions. People are beginning to ask how these loans and tax collections may continue at such a pace during a possible long war when the estimated national saving is but somewhere about \$6,000,000,000 a year.

In general it may be said that after the Government has borrowed all the uninvested fund of savings, further loans must rest upon bank expansion also borrowing must stop. The conclusion is obvious, that increased savings means a corresponding curtailment of expansion, a sounder loaning and financial condition for the nation and, even more important in the long future, habits of individual thrift. But what is the relation between thrift and war loans, and how may thrift be practiced without imposing great losses upon merchants and manufacturers who would both pay taxes and buy bonds if they were prospering under the influence of the illusive slogan "Business as Usual?" To answer this, we must accept as realities some very obvious conclusions as to a nation's wealth and how it may be diverted from the uses of peace to those of war. The wealth of a nation is not alone its natural resources, for, were it so, this country would have enjoyed greater wealth before its discovery and settlement than at present, since we have consumed much of its natural resources in the last 400 years. Nor is it population alone, for, in that case, China, India or Russia would enjoy wealth far greater than ours. The wealth of a nation is what it produces from its natural resources, by the application to them of the labor of an energetic population so that their products may be used and enjoyed and made serviceable for further production, leaving out of account the less important wealth represented by investments, or services rendered, in foreign

countries. In time of peace, the production of a nation is roughly equal to its consumption, plus what it uses in its foreign trade. When war comes, production must be increased to meet the appalling wastage of war, and, if the war is extensive and long, the amount of labor required for production of both peace time consumption and war consumption is insufficient, and is soon reduced by withdrawal of men for war making. The demands of those who want consumption as usual, meaning "business as usual" is the natural conflict of peace conditions with war conditions; in other words, competition of the individual consumer in the markets for labor and material with the Government which needs labor and material. The "wealth" of the nation will not prove sufficient to meet the demands of both. The time soon arrives when unnecessary consumption must be reduced or stopped, else this bidding of individual against Government will advance prices of labor and materials to prohibitive levels. Expansion in bank loans and deposits and inflation of currency issues will be a necessary accompaniment, and the whole economic structure will be undermined. This is "economic exhaustion."

Various means of minimizing these evils are possible, and we must set about employing them. Our reward will be certain in later years. The more important steps to be taken are:

- First: Reduce the consumption of luxuries
- Second: Avoid waste in the consumption of necessities
- Third: Develop more effective application of labor to production
- Fourth: Bring women into productive occupations
- Fifth: Economize the supply of credit

But some one will at once say that by this program his business, say that of manufacturing musical instruments, is ruined because he produces a luxury. And the grocer may see vanishing profits if his trade in luxuries is stopped and in staples curtailed; and the laboring man see lower wages if his work is made more productive and women employed in addition, and the banker see less interest profits if he curtails loans to customers of the "luxury" class. This is all true enough - in fact so true that it appears as though here must be the root, or some of the many roots, of the evil of "business as usual."

The changes and adjustments forced upon us by war can not all be brought about at once. Just now, with general economy the theme of every lecture, we hear many cries of protest, each indicating in turn "whose ox is being gored." If every change ultimately necessary were instantly accomplished, no harm would result to anyone. Possibly some personal discomfort due to self denial would be felt but labor would find new kinds of employment, manufacturers new kinds of production, traders new articles of trade, and banks new customers. Were only a few readjustments made at once and others allowed to wait, our plight would resemble that of an excursion boat whose passengers all rushed at once to one rail. It might capsize.

These war readjustments should proceed as rapidly as possible, each at a rate so adjusted that labor will be constantly employed, but with no shortage of labor, so that each manufacturer can adjust his affairs and apply his power, his machinery and his organization to some war need; each effected trade liquidate old lines and introduce new and essential ones; each bank reduce loans for unnecessary purposes as it expands loans to Government and customers for war purposes.

Of course no such ideal readjustment is possible in its entirety and in detail. Some injuries will occur, losses will be sustained, the balance of employment and supply of labor will not be exactly preserved. Only when we take a national rather than personal view of the matter, do we see that our problem is both to win a military war, which, if lost, may mean our destruction, and to conduct an economic war, which, if lost, might well cost us as dearly as the loss of the military war. For to preserve our economic strength, which is fundamentally the ability to produce goods and finance their production and distribution cheaply in the world's competitive markets, including our own, will give us the comforts of a future free of so heavy a war mortgage that we can at once go about our business without the usual post war prostration.

Failure to readjust so as to bring about curtailment of unnecessary consumption by individuals and thereby set free goods and labor for war consumption

by the Government means that we must conduct the war by the employment of goods and labor at constantly increasing prices. That makes war more costly, makes the burden of taxation heavier and the total of the Government's borrowings greater. All of the goods and labor employed for war purposes are produced and employed during the period of the war and not by future generations of producers. If the price level at which war is conducted is indefinitely advanced because of competition between the individual consumer and the Government, the Government's borrowing needs are just so much greater. The loans to provide the sinews of war furnished by those who buy bonds become in effect a mortgage on the nation's future income to be liquidated by future generations of tax payers.

If the science of Government were so perfected that this ideal transformation could be brought about, the following consequences might be assumed:

- First: The consumption of raw materials would be limited to the manufacture of personal necessities and war materials.
- Second: The product of labor would provide in part or wholly the net increased consumption of goods caused by war.
- Third: There would be little, if any, shortage of labor, for it would not only be more effective, but women would replace men drafted into the army and navy.
- Fourth: Advancing prices would be checked, both for labor and materials.
- Fifth: Credit required for production and distribution of luxuries and to finance waste would be saved for the Government's needs.
- Sixth: The "wealth" of the nation, destroyed in war, would more largely be furnished out of economies practiced.
- Seventh: The Government would need to borrow less as its supplies would cost less, and would pay less interest because the supply of credit would not be burdened with the loan of "business as usual."

It is claimed, as may be true enough, that even so visionary a program would not enable the "wealth" of the nation to meet the demands of war. Then, in-
safe
deed, we must accept a carefully/guarded plan of expansion to make up the balance.

Our people must to that extent mortgage their future "wealth," the product of their future labor applied to our resources, and do it cheerfully. That mortgage on our labors of the future will largely be the loans, both those made by our Government and those made by individuals to enable them to pay taxes and to buy bonds of the Government. With the mortgage kept at the smallest possible amount, we may confidently expect that greater efficiency of labor, a lower price level, and stronger bank reserves than other nations, will allow us to emerge from the war, weakened to be sure, but not exhausted, and stronger than most others.

There seem to be four procedures immediately necessary, some of which are already under way:

- First: Some control of raw materials by the Government
- Second: Education of the public as to how they should not spend their incomes.
- Third: Education of laborers as to where they should work.
- Fourth: Education of bankers as to what loans should be gradually reduced or discontinued.

The effect of the fourth item of the program is the only one to be considered here. It directly relates to the contest of "War Finance vs. Business as Usual." If the bankers of the country were able to curtail unnecessary and wasteful borrowings by their customers, loans, the proceeds of which are used to build or improve homes, extend plans and businesses pertaining solely to luxury, build places of amusement, and for many other purposes which I purposely refrain from enumerating, all of these bankers would have surplus credit to employ in loans to the Government or industries vital to its war needs. Those from whom credit was so withheld would be restrained from the employment of labor and materials, many would liquidate some part of their inventories and not replace them, so also saving labor and material, and, equally important, the lessened use of credit would reduce loans and deposits, increase the ratio of bank reserves, reduce interest rates and facilitate the Government's financial program.

A cautious but deliberate and voluntary policy along these lines would be

safer, more equitable, and probably, as effective as the only alternative, which is

higher rates of interest, along with higher prices for everything. The natural check to expansion in time of peace is the prohibitive interest rate, combined with over production induced by rising prices. In war times, the operation of this law proves embarrassing because of the excessive rates which the Government must pay for loans, and the corresponding shrinkage in security values sold in competition with Government bonds. Other serious dangers accompany the elevation of prices and interest rates. In a long war it may seem to become an endless race with the dog chasing his tail in a circle.

These problems must not only be faced courageously, but dealt with intelligently. The fathers of young men who are serving their country in the army and navy are proud of the sacrifices they make. Too often, however, when the sacrifice appears at the altar of business, where we have so long worshipped false values, we shrink and protest.

Some, unfortunately, must sacrifice their sons, others some part of their business prosperity, and still others may face the ordeal of a double sacrifice of both. It is one of the awful consequences of war. Let us devote ourselves to avoiding an unnecessary sacrifice of both boys and business by ordering our affairs so that we are not consuming the supplies at home which our armies need at the front.

4/3/18

*See Stamp
address - Apr 4.*

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

John Price Jones
Assistant Director,
In Charge, Press Bureau.

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 employees, 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 employees 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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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.

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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

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 customarily 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

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 disappoint them. Your reward will be the victory of our army.

Federal Reserve Bank
District No. 2
740A
FILE ROOM

B.S.

Mr. Secretary, and Fellow Members of the Liberty Loan Army:

This is the second convention of our members.

It is again my duty to remind you of the size of the undertaking entrusted to us, by ~~stating~~ as I did at our last meeting, that hardly 2% of our members can be accommodated in this building.

The magnitude of the task of financing the creation and maintenance of our military army is indicated by the size of this financial army.

But the importance of the work must be measured by other standards!

Success will be another battle won and failure will be a retreat.

These are not days, however, when American Armies are retreating.

Our experience in handling three loans has given us a better understanding of the work; has brought about a more harmonious and effective operation; and, in the minds of us all, a better knowledge of the technic.

I shall not, therefore, as at our last meeting, review in detail all of the various technical matters with which we are now so well acquainted.

During the next four weeks, we are about to undertake the greatest transaction in the history of finance and it is important that certain general rules which must govern our work should be frankly discussed and understood.

These have been deliberately adopted in this district after careful consideration, and, in the opinion of experienced men, are best designed to bring success.

We believe that successful sales of bonds of the amount required must be based upon a thorough understanding by the public of the war; of the purposes for which we are fighting; and that this loan will be successful in proportion as the patriotism of the people is stirred and aroused.

In the Third Liberty Loan, every banking town in this district (with one exception) won the honor flag.

And over 75% of the towns without banks won honor flags.

As in the past loan, this flag will be awarded to those towns which subscribe their full quotas.

In addition, a blue star will be awarded for each over-subscription of 50%.

Accompanying the honor flag will be a penant for those communities of which 25% of the population subscribe to bonds,

And an additional penant will be awarded for each additional 10% of the population that subscribes.

The industrial honor flag, used with great success in this city during the Third Loan, has been adopted for the whole country.

It will be awarded to those organizations which secure subscriptions from 75% of their employes.

And if a larger percentage subscribe, ^{the percentage} it will be indicated on the penant.

At the suggestion of Mrs. Wilson, the names of ^{those} communities ^{which} showing the largest oversubscriptions, and ^{which} showing the largest percentage of population subscribing, will be given to new ships to be launched and to new tanks being built for the army.

Ten ships and ten tanks have been assigned to this district.

The rules governing the designation of the communities will shortly be published.

From NY.
Patterson N.J.

Impetus must, therefore, be given to the campaign by publicity of the highest order, designed to reach the mass of the people through every possible avenue.

It is upon this preparatory work of education that a campaign for voluntary subscriptions rests.

The selling organization, through various agencies, must undertake to reach every individual and corporation, the methods varying according to the size and character of the community.

In this city many methods must be pursued.

In some communities an individual canvass of every resident is possible and frequently proves most successful.

But, so long as we employ publicity, and depend upon the understanding, sympathy and enthusiasm of the public, we must confine our campaign of solicitation to those methods which make the individual value the fact that he is a voluntary subscriber.

He must, however, be shown his duty.

Every person who subscribes by free choice, for patriotic reasons, is a better subscriber, more satisfied with his investment, and more contented to keep his bonds than one who purchases bonds under duress and whose first impulse, once the bonds are paid for, is to sell them.

Our program, therefore, contemplates an intensive, dignified, and impressive publicity to reach every person, no matter what may be his means or what the country of this birth.

We must not, however, lower the standard of a dignified campaign by permitting ourselves to indulge in sensational displays, extravagant statements or by employing methods calculated to arouse ridicule or bring reproach upon the organization.

The enthusiasm of the members of the organization should not lead them to employ devices which will associate this serious undertaking with the methods of a circus or of a lottery.

Performances of that character on the streets, in the theatres and in public places can not expect a sympathetic reception from those who have relatives, or who have lost relatives, in the battles in France. It is important to maintain enthusiasm at the highest pitch, and, at the same time, to restrain it within the limits required by the seriousness of the great enterprise in which this country is engaged.

You are aware that bonds of previous loans, bearing the same rate of interest as those now to be sold, are selling at less than par in the market. I shall repeat, with less fear of contradiction now than when I made the same statement at our last meeting -- that with over a million and a half of our American boys in the fighting line in France, whose victory depends upon the success of these loans, the American people will not subject their patriotism; their resolution to support that army, to be measured by a rate of interest or by a premium or discount on the bonds of their Government.

But an important change has just been made in the investment position of Liberty Bonds by Act of Congress, to which I must refer in some detail. Since the last bond sale, Congress has been asked and doubtless will increase revenues from taxation from \$4,000,000,000 to \$8,000,000,000 a year. As the income from all but the $3\frac{1}{2}\%$ bonds of the first issue is liable for surtaxes and for war profits and excess profits taxes, an increase in those taxes, naturally, reduces the net return on the bonds now to be issued.

Congress has, therefore, passed a law increasing tax exemptions, the provisions of which should be brought to the attention of every intending subscriber, as well as to the attention of every subscriber to the first three issues. I shall read a summary of the act, which it is important that all should understand.

All of the exemptions originally applying to the earlier issues, of course, remain unchanged.

1. The interest on not exceeding \$30,000 principal of bonds of the Fourth Liberty Loan shall be exempt from graduated additional income taxes, commonly known as surtaxes, and excess profits and war profits taxes, now or hereafter imposed;
2. The interest received after January 1, 1918, on an amount of bonds of the earlier loans, excepting the 3 1/2s of the first issue, the principal of which does not exceed \$45,000 in the aggregate, shall be exempt from such taxes; Provided, however, that no owner of such bonds shall be entitled to such exemption on an aggregate principal amount exceeding one and one-half times the principal amount of bonds of the Fourth Liberty Loan originally subscribed for and still owned by him at the date of his tax return;

The old bonds to which the exemption applies are all of those outstanding, including those arising from conversions, excepting, of course, the 3 1/2% bonds of the first issue.

3. The exemptions provided in the bill are to continue during the period of the war, and for two years after the date of the termination of the war, as fixed by proclamation of the President.

To summarize: In addition to all tax exemptions now provided by law, any subscriber to bonds of the Fourth Liberty Loan will be exempt from surtaxes and excess profits and war profits taxes on the income from not exceeding \$30,000 principal of bonds of the Fourth loan and may gain similar exemption on the income from one and one-half times that amount of the old bonds; the exemption to continue if he retains his bonds; the exemption to continue for the period of the war and for two years thereafter.

You will observe that the passage of this law will have the following effect,
provided it is thoroughly and widely understood;

FIRST: As to a holder of the existing bonds who is now liable to income surtax --
He may only enjoy the exemptions from taxation provided in this law
in case he ^{Subscribes} purchases and retains bonds of the new issue in the pro-
portion provided by the law.

Therefore, every holder of bonds of the second and third loan, and of those re-
ceived through conversions will find it absolutely essential, in
order to enjoy this exemption, that he shall buy and retain new
bonds.

NEXT: As to an intending subscriber to the Fourth Loan -- It is plainly to his
advantage, if he does not already own the necessary proportion, to
purchase such an amount of bonds of the old issues as will enable
him to enjoy the maximum tax exemption allowed.

One may suggest that it is not desirable for an intending subscriber to purchase
the old bonds, when he might, in fact, be induced to purchase only
the new bonds.

It must be borne in mind, however, that the holder of the old bonds who sells them
does so in order to subscribe to the new issue and thereby gain tax
exemption on the bonds which he still has left.

The effect of this new plan of exemption from taxation should, therefore, as it
becomes generally understood, bring about a large subscription from
holders of existing bonds.

It should, likewise, provide buyers of bonds of the old issues which their holders
may feel required to sell in order to subscribe for the new issue.

Advices have been sent to the chairmen of all committees throughout the district that they ^{may} will, upon request made to their district chairmen, be furnished with lists of subscribers to former loans.

These subscribers are so obviously interested in the terms of this tax exemption that it is desirable for local committees to obtain the lists and bring the matter personally to the attention of each subscriber to former issues.

over 1,600,000,000 - \$10,000, or more,

So few people read the details of statutes passed by Congress that the effect of this most important modification of the tax provisions applying to Liberty Bonds will not be fully felt, nor will the Government enjoy all of the benefits which it should enjoy from the adoption of this new program, unless it is brought by you to the attention of everyone. Too great emphasis can not be given to the matter in connection with this campaign.

As in the case of former loans, a description of the terms of the Fourth Loan, including a description of this tax exemption, will be furnished to all committees at an early date, together with tables illustrating the income value of bonds of the Fourth Loan when considered in connection with the tax exemption.

But we must not overlook the urgent injunction which has now been spread broadcast for all owners of the Government's bonds to retain them.

Emphasis should be laid upon the necessity of making no sales of present holdings of bonds unless it is imperative for the holder to do so in order to secure the benefits of the tax exemptions now provided.

We can not expect to have the bonds of the Government sell at their real value if large numbers of people are induced, or even dragooned into buying them with the expectation of immediately selling them in the market.

The question is repeatedly asked, how may subscriptions be made by those who are pressed to subscribe but who have not sufficient ready cash.

There is but one answer!

Those who must borrow money to make their purchase should do so in the expectation of paying their loans out of funds accumulated by the practice of rigid economy, rather than by selling their bonds.

The greatest difficulty now encountered by our organization in selling bonds is caused by the failure of the people of the country to practice thrift sufficiently.

I am confident that the only thing now needed is that everyone should know specifically and definitely what he is expected to do in this matter; what his patriotic duty is, and he will promptly do it.

We were told that the Government needed gasoline for war purposes and that we should not drive automobiles on Sundays.

Hardly an automobile is to be seen on the streets of New York City, or in the country, on Sundays.

The response was a fine exhibition of patriotism.

But, after all, a Sunday drive is not essential to health or war efficiency, so we must not over-value the self denial.

We are told by Mr. Hoover that the economies practiced by the American people released food supplies sufficient to meet the recent crisis abroad.

People were told what to do and they did it.

We are now asked to economize in sugar, and the result will, doubtless, be a relief in the sugar shortage.

If we are told definitely and specifically what to do; if what we are told to do is shown to be necessary; and if it applies alike to rich and poor, it will be done, and the time has come to tell people definitely and to get it done.

I shall not burden you with the details of the mechanical operations required to prepare and deliver the millions of bonds which are issued for these huge loans.

Most of the delay and consequent inconvenience in delivering bonds in the earlier loans was due to the universal demand for coupon bonds.

The machinery of the Treasury Department and of the reserve banks is now developed to meet an enlarged demand for registered bonds, and for effecting prompt transfers of ownership.

It will be a great economy to the Government, a saving of labor and material, if those subscribing to the Fourth Loan are, generally, induced to take registered, instead of coupon, bonds.

The organization throughout the district should ask subscribers to indicate on the subscription blanks that they are willing to accept registered bonds.

In this form bond holders receive a greater protection against theft and loss than in the case of coupon bonds, and they avoid the inconvenience of collecting coupons, as checks for the interest will be mailed to them.

A modification of the honor flag plan has been adopted for the next loan, of which you have been duly advised.

The development of the honor flag seemed to have had two effects in the course of the last bond sale, to which reference is necessary.

In some cases it led committees in certain communities to relax their efforts as soon as their quotas were completed.

This was a serious mistake.

It would result, if possible of exact application throughout the country, in no oversubscription.

We must not set out simply to fill quotas, but to exceed them by the largest possible margin and to continue selling bonds until the close of the campaign

Another development was the tendency to divert subscriptions to places where they would not naturally be made.

A quota plan, as I stated at our last meeting, is based upon the thoroughly sound principle that as the Government receives payment for bonds by transfers of bank balances from the credit of subscribers to the credit of the Government,

Therefore, the minimum amount to be subscribed, that is the quota of each section or community, must be based upon bank resources.

It is desired that subscribers file their subscriptions where their bank accounts are maintained, and out of which the bonds are to be paid for, and, if the subscriber has more than one account, that the subscriptions be divided in proportion to the balances maintained in the respective accounts.

It is also desired that the subscriptions of employes of industrial and other establishments shall be made in the places where the men work and live.

Failure to observe these rules causes an undesirable shifting of funds throughout the country and an unnecessary strain upon the money market.

The local pride of suburban communities, necessarily, results in considerable numbers of subscriptions being made there by residents who carry their principal bank balances in near-by cities.

Local pride and the enthusiasm of local organizations should not, however, result in the piling up of huge subscriptions, of many times the local quota, at the expense of the cities which are deprived of these subscriptions and which are not able to fill their quotas, so that possibly, in consequence, the banks must be called upon to subscribe for their own account.

Looking toward a greater and more efficient development of the two financial machines which have been created by the Treasury Department, Secretary McAdoo has undertaken to bring about a closer relationship between the Liberty Loan and the War Savings Organizations throughout the country.

This is a new task which will confront us when this loan is sold.

In the meantime, all branches of the two organizations in this district have been asked to join hands in a great partnership to make the Liberty Loan a success.

I am hopeful that it will be possible to create in our district, through the agency of these two existing organizations, the greatest and most efficient army for financing a Government in time of war that has ever been created.

Its purposes will be two in character -- one to broaden the foundation for raising money for the Government by developing organized savings, as the War Savings Organization is now doing; -- the other, to effect the sale of all forms of Government Securities so that these savings, as accumulated, are swept into the Government's treasury.

We must reach the rich and the poor -- the corporation and the individual!

In imagination I can picture the growth of an irresistible movement under the influence of this army of workers which will capture public attention; educate the people to a better understanding of what the Government expects them to do; and enable us, as required, to furnish even more funds than the Government calls upon us to provide for war purposes.

The members of our organization have been asked, and are expected, to accomplish things which before the war would have seemed to be quite impossible. They have exceeded expectations in what they have accomplished.

The explanation is not hard to find, and should give us confidence in the success of this next great effort.

We have sons, brothers, husbands in the army in France!

Thirteen million Americans have just registered for military service, and many of them will soon be in training camps.

Our part in the war is to keep them supplied with everything that they need to enable them to kill and capture Germans -- and to do it at once -- and thoroughly.

The supplies for that army will be created, ships to transport them will be built; and that army will grow just as rapidly as the resources of the country can be converted into ships and war materials.

We must raise the money to pay the bills.

But our work depends upon the effect the new draft will have upon the members of ^{our}~~this~~ organization who have registered for military service.

Explicit directions have been sent to the chairmen of all committees in this district describing what they should do in this matter, and these directions have been prepared in conformity with a general direction sent to us by Secretary McAdoo.

It must be remembered that while commonly described as a draft law, the statute is, in fact, entitled "The Selective Service Act."

The purpose of the act is to insure that the men needed for military service are promptly available, but equally important, that those needed in their present occupations shall be retained.

We have felt that it was required of the members of our organization to claim, or waive claim of exemption on personal grounds according to their own consciences.

We have also felt that it was our duty, as an organization, to see that the question of exemption on occupational grounds for the organization as a whole was fairly and intelligently presented to the proper authorities.

That has been done and a policy has been adopted which is designed to protect the integrity of an organization essential to the prosecution of the war, and, at the same time, which will not deprive the military branch of the Government of the services of those who are needed, and can be spared, for the army and navy.

I have referred at some length to the possible effect of the draft upon our organization for the purpose of emphasizing one thing in your minds.

There is but one American Army!

A part of it is privileged to fight in France --

Another, and an essential part, must work at home.

Each depends upon the other!

We are of the home army.

We must not undervalue our work.

Do you realize the significance of what is now taking place in France and what these dollars which our army is raising are really doing?

The first wholly American Army is facing the German frontier; that frontier is opposite Metz!

Metz stands on soil that was French until 1871.

My conception of the mission of the American Army in France is that of a victorious army marching through Alsace-Lorraine, and never leaving until those provinces are French soil again.

I can not believe that the people of this country, much less our home army of finance, will tolerate the return to Germany of any part of France, the soil of which is made sacred to us with American blood and our soldiers' graves.

When the work of that army is accomplished (and you will have had a part in it) there will be illustrious American names as sacred to the memory of the French as with us are the names of Rochambeau and Lafayette.

BS/MSB

This is an opportunity which tempts me very much to tell you something about the Treasury Department of the United States, and, particularly, about the Secretary of the Treasury.

I shall, however, deny myself what would be a very great pleasure if I were to tell you something of four years' experience in close association with the work of Secretary' McAdoo's department.

It really needs no recounting!

On every hand we hear the comment that the performance of the Treasury Department has been 100%.

At the risk, however, of private admonition after this meeting, I shall say one personal word about Secretary McAdoo.

With many others who have been associated with him during the past four years, we entered upon our duties with the feeling of respect which one naturally accords to a chief.

He is, himself, responsible for the change which has taken place in our feelings, for we now regard him with the affection which one feels for a trusted partner and friend.

I have the honor

ADDRESS BY BENJ. STRONG
AT LIBERTY LOAN MEETING
AT CARNEGIE HALL
SEPTEMBER 25, 1918.

Mr. Secretary, and Fellow Members of the Liberty Loan Army;

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Impetus must, therefore, be given to the campaign by publicity of the highest order, designed to reach the mass of the people through every possible avenue. It is upon this preparatory work of education that a campaign for voluntary

subscriptions rests.

The selling organization, through various agencies, must undertake to reach every individual and corporation, the methods varying according to the size and character of the community. In this city many methods must be pursued. In some communities an individual canvass of every resident is possible and frequently proves most successful. But, so long as we employ publicity, and depend upon the understanding, sympathy and enthusiasm of the public, we must confine our campaign of solicitation to those methods which make the individual value the fact that he is a voluntary subscriber. He must, however, be shown his duty,.

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You are aware that bonds of previous loans, bearing the same rate of

interest as those now to be sold, are selling at less than par in the market. I shall repeat, with less fear of contradiction now than when I made the same statement at our last meeting - that with over a million and a half of our American boys in the fighting line in France, whose victory depends upon the success of these loans, the American people will not subject their patriotism; their resolution to support that army, to be measured by a rate of interest or by a premium or discount on the bonds of their Government. But an important change has just been made in the investment position of Liberty Bonds by Act of Congress, to which I must refer in some detail.

Since the last bond sale, Congress has been asked and doubtless will increase revenues from taxation from \$4,000,000,000 to \$8,000,000,000 a year. As the income from all but the 3 1/2% bonds of the first issue is liable for surtaxes and for war profits and excess profits taxes, an increase in those taxes, naturally, reduces the net return on the bonds now to be issued. Congress, has, therefore, passed a law increasing tax exemptions, the provisions of which should be brought to the attention of every intending subscriber, as well as to the attention of every subscriber to the first three issues.

I shall read a summary of the act, which it is important that all should understand. All of the exemptions originally applying to the earlier issues, of course, remain unchanged.

1. The interest on not exceeding \$50,000 principal of bonds of the Fourth Liberty Loan shall be exempt from graduated additional income taxes, commonly known as surtaxes, and excess profits and war profits taxes, now or hereafter imposed:

2. The interest received after January 1, 1918, on an amount of bonds of the earlier loans, excepting the 3 1/2s of the first issue, the principal of which does not exceed \$45,000 in the aggregate, shall be exempt from such taxes; Provided, however, that no owner of such bonds shall be entitled to such exemption on an aggregate principal amount exceeding one and one-half times the principal

amount of bonds of the Fourth Liberty Loan originally subscribed for and still owned by him at the date of his tax return; The old bonds to which the exemption applies are all of those outstanding, including those arising from conversions, excepting, of course, the 3 1/2 % bonds of the first issue.

3. The exemptions provided in the bill are to continue during the period of the war, and for two years after the date of the termination of the war, as fixed by proclamation of the President.

To Summarize: In addition to all tax exemptions now provided by law, any original subscriber to bonds of the Fourth Liberty Loan will be exempt from surtaxes and excess profits and war profit taxes on the incomes from not exceeding \$30,000 principal of bonds of the Fourth loan, and, if he retains his bonds may gain similar exemption on the income from one and one half times that amount of the old bonds; the exemption to continue for the period of the war and for two years thereafter.

You will observe that the passage of this law will have the following effect, provided it is thoroughly and widely understood:

First, as to a holder of the existing bonds who is now liable to income surtax - He may only enjoy the exemptions from taxation provided in this law in case he purchases and retains bonds of the new issue in the proportion provided by the law. Therefore, every holder of bonds of the second and third loan, and of those received through conversions will find it absolutely essential, in order to enjoy this exemption, that he shall buy and retain new bonds.

Next, as to an intending subscriber to the Fourth Loan - It is plainly to his advantage, if he does not already own the necessary proportion, to purchase such an amount of bonds of the old issues as will enable him to enjoy the maximum tax exemption allowed.

One may suggest that it is not desirable for an intending subscriber to purchase the old bonds, when he might, in fact, be induced to purchase only the new bonds. It must be borne in mind, however, that the holder of the old bonds

who sells them does so in order to subscribe to the new issue and thereby gain tax exemption on the bonds which he still has left.

The effect of this new plan of exemption from taxation should, therefore, as it becomes generally understood, bring about a large subscription from holders of existing bonds. It should, likewise, provide buyers of bonds of the old issues which their holders may feel required to sell in order to subscribe for the new issue.

Advices have been sent to the chairmen of all committees throughout the district that they will, upon request made to their district chairman, be furnished with lists of subscribers to former loans. These subscribers are so obviously interested in the terms of this tax exemption that it is desirable for local committees to obtain the lists and bring the matter personally to the attention of each subscriber to former issues.

So few people read the details of statutes passed by Congress that the effect of this most important modification of the tax provisions applying to Liberty Bonds will not be fully felt, nor will the Government enjoy all of the benefits which it should enjoy from the adoption of this new program unless it is brought by you to the attention of everyone. Too great emphasis can not be given to the matter in connection with this campaign.

As in the case of former loans, a description of the terms of the Fourth Loan, including a description of this tax exemption, will be furnished to all committees at an early date, together with tables illustrating the income value of bonds of the Fourth Loan when considered in connection with the tax exemption. But we must not overlook the urgent injunction which has now been spread broadcast for all owners of the Government's bonds to retain them.

Emphasis should be laid upon the necessity of making no sales of present holdings of bonds unless it is imperative for the holder to do so in order to secure the benefits of the tax exemptions now provided. We can not expect to have the bonds of the Government sell at their real value if large numbers of people

are induced, or even dragooned into buying them with the expectation of immediately selling them in the market.

The question is repeatedly asked, how may subscriptions be made by those who are pressed to subscribe but who have not sufficient ready cash. There is but one answer:

Those who must borrow money to make their purchase should do so in the expectation of paying their loans out of funds accumulated by the practice of rigid economy, rather than by selling their bonds. The greatest difficulty now encountered by our organization in selling bonds is caused by the failure of the people of the country to practice thrift sufficiently.

I am confident that the only thing now needed is that everyone should know specifically and definitely what he is expected to do in this matter; what his patriotic duty is, and he will promptly do it.

We were told that the Government needed gasoline for war purposes and that we should not drive automobiles on Sundays. Hardly an automobile is to be seen on the streets of New York City, or in the country, on Sundays. The response was a fine exhibition of patriotism. But, after all, a Sunday drive is not essential to health or war efficiency, so we must not over-value the self denial.

We are told by Mr. Hoover that the economies practiced by the American people released food supplies sufficient to meet the recent crisis abroad. People were told what to do and they did it. We are now asked to economize in sugar, and the result will, doubtless, be a relief in the sugar shortage.

If we are told definitely and specifically what to do; if what we are told to do is shown to be necessary; and if it applies alike to rich and poor, it will be done and the time has come to tell people definitely and to get it done.

I shall not burden you with the details of the mechanical operations required to prepare and deliver the millions of bonds which are issued for these huge loans. Most of the delay and consequent inconvenience in delivering bonds in the earlier loans was due to the universal demand for coupon bonds. The machinery

of the Treasury Department and of the reserve banks is now developed to meet an enlarged demand for registered bonds, and for effecting prompt transfers of ownership.

It will be a great economy to the Government, a saving of labor and material, if those subscribing to the Fourth Loan are, generally, induced to take registered, instead of coupon bonds. The organization throughout the district should ask subscribers to indicate on the subscription blanks that they are willing to accept registered bonds. In this form bond holders receive a greater protection against theft and loss than in the case of coupon bonds, and they avoid the inconvenience of collecting coupons, as checks for the interest will be mailed to them.

A modification of the honor flag plan has been adopted for the next loan, of which you have been duly advised. The development of the honor flag seemed to have had two effects in the course of the last bond sale, to which reference is necessary. In some cases it led committees in certain communities to relax their efforts as soon as their quotas were completed. This was a serious mistake. It would result, if possible of exact application throughout the country, in no oversubscription. We must not set out simply to fill quotas, but to exceed them by the largest possible margin and to continue selling bonds until the close of the campaign.

Another development was the tendency to divert subscriptions to places where they would not naturally be made. A quota plan, as I stated at our last meeting, is based upon the thoroughly sound principle that as the Government receives payment for bonds by transfers of bank balances from the credit of subscribers to the credit of the Government. Therefore, the minimum amount to be subscribed, that is the quota of each section or community, must be based upon bank resources.

It is desired that subscribers file their subscriptions where their bank accounts are maintained, and out of which the bonds are to be paid for, and if the

subscriber has more than one account, that the subscriptions be divided in proportion to the balances maintained in the respective accounts. It is also desired that the subscriptions of employes of industrial and other establishments shall be made in the places where the men work and live.

Failure to observe these rules causes an undesirable shifting of funds throughout the country and an unnecessary strain upon the money market. The local pride of suburban communities, necessarily, results in considerable numbers of subscriptions being made there by residents who carry their principal bank balances in nearby cities. Local pride and the enthusiasm of local organization should not, however, result in the piling up of huge subscriptions, of many times the local quota, at the expense of the cities which are deprived of these subscriptions and which are not able to fill their quotas, so that possibly, in consequence, the banks must be called upon to subscribe for their own account.

Looking toward a greater and more efficient development of the two financial machines which have been created by the Treasury Department, Secretary McAdoo has undertaken to bring about a closer relationship between the Liberty Loan and the War Savings Organizations throughout the country. This is a new task which will confront us when this loan is sold. In the meantime, all branches of the two organizations in this district have been asked to join hands in a great partnership to make the Liberty Loan a success.

I am hopeful that it will be possible to create in our district, through the agency of these two existing organizations, the greatest and most efficient army for financing a Government in time of war that has ever been created. Its purpose will be two in character - one to broaden the foundation for raising money for the Government by developing organized savings, as the War Savings Organization is now doing; - the other, to effect the sale of all forms of Government Securities so that these savings, as accumulated, are swept into the Government's treasury. We must reach the rich and the poor - the corporation and the individual!

In imagination I can picture the growth of an irresistible movement under the influence of this army of workers which will capture public attention; educate the people to a better understanding of what the Government expects them to do; and enable us, as required, to furnish even more funds than the Government calls upon us to provide for war purposes. The members of our organization have been asked, and are expected, to accomplish things which before the war would have seemed to be quite impossible. They have exceeded expectations in what they have accomplished.

The explanation is not hard to find, and should give us confidence in the success of this next great effort. We have sons, brothers, husbands in the army in France! Thirteen million Americans have just registered for military service, and many of them will soon be in training camps. Our part in the war is to keep them supplied with everything that they need to enable them to kill and capture Germans - and to do it at once - and thoroughly. The supplies for that army will be created, ships to transport them will be built; and that army will grow just as rapidly as the resources of the country can be converted into ships and war materials. We must raise the money to pay the bills.

But our work depends upon the effect the new draft will have upon the members of this organization who have registered for military service. Explicit directions have been sent to the chairman of all committees in this district describing what they should do in this matter, and those directions have been prepared by conformity with a general direction sent to us by Secretary McAdoo.

It must be remembered that while commonly described as a draft law, the statute is, in fact, entitled "The Selective Service Act." The purpose of the act is to insure that the men needed for military service are promptly available, but equally important, that those needed in their present occupations shall be retained. We have felt that it was required of the members of our organization to claim, or waive claim of exemption on personal grounds according to their own consciences.

We have also felt that it was our duty, as an organization, to see that

the question of exemption on occupational grounds for the organization as a whole was fairly and intelligently presented to the proper authorities. That has been done and a policy has been adopted which is designed to protect the integrity of an organization essential to the prosecution of the war, and, at the same time, which will not deprive the military branch of the Government of the services of those who are needed, and can be spared, for the army and navy.

I have referred at some length to the possible effect of the draft upon our organization for the purpose of emphasizing one thing in your minds. There is but one American Army! A part of it is privileged to fight in France - Another, and an essential part, must work at home. Each depends upon the other! We are of the home army.

Do you realize the significance of what is now taking place in France and what these dollars which our army is raising are really doing? The first and wholly American Army is facing the German frontier; that frontier is opposite Metz! Metz stands on soil that was French until 1871. My conception of the mission of the American Army in France is that of a victorious army marching through Alsace-Lorraine, and never leaving until those provinces are French soil again.

I can not believe that the people of this country, much less our home army of finance, will tolerate the return to Germany of any part of France, the soil of which is made sacred to us with American blood and our soldiers' graves.

When the work of that army is accomplished (and you will have had a part in it) there will be illustrious American names as sacred to the memory of the French as with us are the names of Rochambeau and Lafayette.

(Insert in Governor Strong's speech)

In the Third Liberty Loan, every banking town in this district (with one exception) won the honor flag, and over 75% of the towns without banks won honor flags.

As in the past loan, this flag will be awarded to those towns which subscribe their full quotas. In addition, a blue star will be awarded for each over-subscription of 50%. Accompanying the honor flag will be a penant for those communities of which 25% of the population subscribe to bonds, and an additional penant will be awarded for each additional 10% of the population that subscribes.

The industrial honor flag, used with great success in this city during the Third Loan, has been adopted for the whole country. It will be awarded to those organizations which secure subscriptions from 75% of their employes. If a larger percentage subscribe, it will be indicated on the penant.

At the suggestion of Mrs. Wilson, the names of communities showing the largest oversubscriptions, and showing the largest percentage of population subscribing, will be given to new ships to be launched and to new tanks being built for the army.

Ten ships and ten banks have been assigned to this district. The rules governing the designation of the communities will shortly be published.

LIBERTY LOAN COMMITTEE

EQUITABLE BUILDING TWENTY-FOURTH FLOOR

PUBLICITY DEPARTMENT

120 BROADWAY
NEW YORK

NEWS

JOHN PRICE JONES

Assistant Director in charge Press Bureau

4 No. 111.
MORNING PAPERS,
WEDNESDAY,
Sept. 25, 1918.INSERT GOV. STRONG'S SPEECH WHERE HE INDICATES.

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END INSERT

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GOVERNOR STRONG'S LIBERTY LOANSPEECH AT CARNEGIE HALL

MORNING PAPERS

WEDNESDAY,

SEPTEMBER 25, 1918.

4 No. 110.

At the Liberty Loan meeting in Carnegie Hall last night (Tuesday) Benjamin Strong, Governor of the Second Federal Reserve District, and Chairman of the Liberty Loan Committee for this district, spoke as follows:

Mr. Secretary, and Fellow Members of the Liberty Loan Army;

This is the second convention of our members. It is again my duty to remind you of the size of the undertaking entrusted to us by stating, as I did at our last meeting, that hardly 2% of our members can be accommodated in this building.

The magnitude of the task of financing the creation and maintenance of our military army is indicated by the size of this financial army. But the importance of the work must be measured by other standards!

Success will be another battle won and failure will be a retreat.

These are not days, however, when American Armies are retreating.

Our experience in handling three loans has given us a better understanding of the work; has brought about a more harmonious and effective operation; and, in the minds of us all, a better knowledge of the technic. I shall not, therefore, as at our last meeting, review in detail all of the various technical matters with which we are now so well acquainted.

During the next four weeks, we are about to undertake the greatest transaction in the history of finance and it is important that certain general rules which must govern our work should be frankly discussed and understood. These have been deliberately adopted in this district after careful consideration, and, in the opinion of experienced men, are best designed to bring success.

We believe that successful sales of bonds of the amount required must be based upon a thorough understanding by the public of the war; of the purposes for which we are fighting; and that this loan will be successful in proportion as the patriotism of the people is stirred and aroused.

Impetus must, therefore, be given to the campaign by publicity of the highest order, designed to reach the mass of the people through every possible avenue. It is upon this preparatory work of education that a campaign for voluntary subscriptions rests.

The selling organization, through various agencies, must undertake to reach every individual and corporation, the methods varying according to the size and character of the community. In this city many methods must be pursued. In some communities an individual canvass of every resident is possible and frequently proves most successful. But, so long as we employ publicity, and depend upon the understanding, sympathy and enthusiasm of the public, we must confine our campaign of solicitation to those methods which make the individual value the fact that he is a voluntary subscriber. He must, however, be shown his duty.

Every person who subscribes by free choice, for patriotic reasons, is a better subscriber, more satisfied with his investment, and more contented to keep his bonds than one who purchases bonds under duress and whose first impulse, once the bonds are paid for, is to sell them. Our program, therefore, contemplates an intensive, dignified, and impressive publicity to reach every person, no matter what may be his means or what the country of his birth.

We must not, however, lower the standard of a dignified campaign by permitting ourselves to indulge in sensational displays, extravagant statements or by employing methods calculated to arouse ridicule or bring reproach upon the organization. The enthusiasm of the members of the organization should not lead them to employ devices which will associate this serious undertaking with the methods of a circus or of a lottery.

Performances of that character on the streets, in the theatres and in public places can not expect a sympathetic reception from those who have relatives, or who have lost relatives, in the battles in France. It is important to maintain enthusiasm at the highest pitch, and, at the same time, to restrain it within the limits required by the seriousness of the great enterprise in which this country is engaged.

You are aware that bonds of previous loans, bearing the same rate of interest as those now to be sold, are selling at less than par in the market. I shall repeat, with less fear of contradiction now than when I made the same statement at our last meeting--that with over a million and a half of our American boys in the fighting line in France, whose victory depends upon the success of these loans, the American people will not subject their patriotism; their resolution to support that army, to be measured by a rate of interest or by a premium or discount on the bonds of their Government. But an important change has just been made in the investment position of Liberty Bonds by Act of Congress, to which I must refer in some detail.

Since the last bond sale, Congress has been asked and doubtless will increase revenues from taxation from \$4,000,000,000 to \$8,000,000,000 a year. As the income from all but the 3 1/2% bonds of the first issue is liable for sur-taxes and for war profits and excess profits taxes, an increase in those taxes, naturally, reduces the net return on the bonds now to be issued. Congress, has, therefore, passed a law increasing tax exemptions, the provisions of which should be brought to the attention of every intending subscriber, as well as to the attention of every subscriber to the first three issues.

I shall read a summary of the act, which it is important that all should understand. All of the exemptions originally applying to the earlier issues, of course, remain unchanged.

1. The interest on not exceeding \$30,000 principal of bonds of the Fourth Liberty Loan shall be exempt from graduated additional income taxes, commonly known as surtaxes, and excess profits and war profits taxes, now or hereafter imposed:

2. The interest received after January 1, 1918, on an amount of bonds of the earlier loans, excepting the 3 1/2s of the first issue, the principal of which does not exceed \$45,000 in the aggregate, shall be exempt from such taxes; Provided, however, that no owner of such bonds shall be entitled to such exemption on an aggregate principal amount exceeding one and one-half times the principal amount of bonds of the Fourth Liberty Loan originally subscribed for and still owned by him at the date of his tax return; The old bonds to which the exemption applies are all of those outstanding, including those arising from conversions, excepting, of course, the 3 1/2% bonds of the first issue.

3. The exemptions provided in the bill are to continue during the period of the war, and for two years after the date of the termination of the war, as fixed by proclamation of the President.

To summarize: In addition to all tax exemptions now provided by law, any original subscriber to bonds of the Fourth Liberty Loan will be exempt from surtaxes and excess profits and war profits taxes on the incomes from not exceeding \$30,000 principal of bonds of the Fourth loan and, if he retains his bonds may gain similar exemption on the income from one and one-half times that amount of the old bonds; the exemption to continue for the period of the war and for two years thereafter.

You will observe that the passage of this law will have the following effect, provided it is thoroughly and widely understood:

FIRST: As to a holder of the existing bonds who is now liable to income surtax---He may only enjoy the exemptions from taxation provided in this law in case he purchases and retains bonds of the new issue in the proportion provided by the law. Therefore, every holder of bonds of the second and third loan, and of those received through conversions will find it absolutely essential, in order to enjoy this exemption, that he shall buy and retain new bonds.

NEXT: As to an intending subscriber to the Fourth Loan--It is plainly to his advantage, if he does not already own the necessary proportion, to purchase such an amount of bonds of the old issues as will enable him to enjoy the maximum tax exemption allowed.

One may suggest that it is not desirable for an intending subscriber to purchase the old bonds, when he might, in fact, be induced to purchase only the new bonds. It must be borne in mind, however, that the holder of the old bonds who sells them does so in order to subscribe to the new issue and thereby gain tax exemption on the bonds which he still has left.

The effect of this new plan of exemption from taxation should, therefore, as it becomes generally understood, bring about a large subscription from holders of existing bonds. It should, likewise, provide buyers of bonds of the old issues which their holders may feel required to sell in order to subscribe for the new issue.

Advices have been sent to the chairmen of all committees throughout the district that they will, upon request made to their district chairman, be furnished with lists of subscribers to former loans. These subscribers are so obviously interested in the terms of this tax exemption that it is desirable for local committees to obtain the lists and bring the matter personally to the attention of each subscriber to former issues.

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It must be remembered that while commonly described as a draft law, the statute is, in fact, entitled "The Selective Service Act". The purpose of the act is to insure that the men needed for military service are promptly available, but equally important, that those needed in their present occupations shall be retained. We have felt that it was required of the members of our organization to claim, or waive claim of exemption on personal grounds according to their own consciences.

We have also felt that it was our duty, as an organization, to see that the question of exemption on occupational grounds for the organization as a whole was fairly and intelligently presented to the proper authorities. That has been done and a policy has been adopted which is designed to protect the integrity of an organization essential to the prosecution of the war, and, at the same time, which will not deprive the military branch of the Government of the services of those who are needed, and can be spared, for the army and navy.

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Do you realize the significance of what is now taking place in France and what these dollars which our army is raising are really doing? The first wholly American Army is facing the German

frontier; that frontier is opposite Metz! Metz stands on soil that was French until 1871. My conception of the mission of the American Army in France is that of a victorious army marching through Alsace-Lorraine, and never leaving until those provinces are French soil again.

I can not believe that the people of this country, much less our home army of finance, will tolerate the return to Germany of any part of France, the soil of which is made sacred to us with American blood and our soldiers' graves.

When the work of that army is accomplished (and you will have had a part in it) there will be illustrious American names as sacred to the memory of the French as with us are the names of Rochambeau and Lafayette.

xxxxOxxxx

Mr. President, and Fellow American Citizens -

DURING the next three weeks the people of this Second Federal Reserve District must pledge themselves to furnish their Government with not less than \$1,800,000,000 for the prosecution of the war.

IT IS our share of \$6,000,000,000, and

IT WILL be forthcoming.

THEY will be the dollars of democracy -- which have had peaceful employment in agriculture, industry and commerce, in education, art and science.

FROM NOW ON they must be dedicated to the service of the army and the navy,

FOR THEY will be militant dollars; but

WHEN this war is ^{Ended} ~~finished~~, these dollars of democracy must be rededicated to works of reconstruction and mercy.

BUT the mission of these Liberty Loans is not simply the raising of money.

WE COULD say to every resident and every corporation in this district,

"Your share in this loan is so much," and ask, or maybe require, them to take it.

BUT BY that method we would lose the moral and spiritual forces which

are behind the loan, behind the war, and behind our men in France.

WE MUST not only sell bonds -- we must sell the war to all the people of the United States.

THIS IS a mission of the Liberty Loan Organization which is of greater importance than simply raising money.

Shields Aug 18 & at Washington D.C. 9/27/18

WE SHALL NOT be wholly successful in our work unless every citizen becomes a bondholder, and every bondholder becomes a more devoted citizen.

SO IN EMBARKING to-morrow upon this new and larger undertaking, we must have clearly in mind ^{Some things} ~~what is~~ to be accomplished for ourselves at home, as well as what these loans must do in their capacity as fighting dollars in France.

* * * * *

ONE OF OUR organization called at a little farmhouse in the hills overlooking the Hudson River to inquire if the owner could not buy some Liberty Bonds.

HE WAS MET by a woman, to whom he explained his errand.

SHE SAID that she lived there alone, that she owned a cow, and some pigs; that she had some potatoes and vegetables in the cellar, and that she was usually snowed in through the winter, and could not get to the village, and so had little use for money.

SHE WAS GLAD of the opportunity, however, of subscribing all that she had -- and she gave the canvasser \$4.00.

AFTER THANKING him for the opportunity of helping, she explained that she was a widow and her three sons were in the American Army.

THIS ILLUSTRATES what is taking place in the nation to-day.

THAT WOMAN, who is snowed in in the winter, was thankful for the privilege of doing something more -- and she had given her three sons!

NO ONE at this meeting can make as large an investment as she did.

WHEN we have examined our accounts, figured our income and expenses
and decided the amount we shall take - let us at least
double it.

IN THE THIRD LOAN we were asked in this district to raise nine hundred
million dollars, and raised eleven hundred million.

IN THIS LOAN, we are asked to raise eighteen hundred million dollars - -
twice the amount!

WE MUST make the sacrifice, whatever it involves, of doubling what we did
last time.

* * * * *

IN NEW YORK it is necessary that the literature distributed by our
committee shall be printed in eighteen different languages.

MEETINGS are held at which speakers deliver addresses in almost every
tongue spoken in the city.

IN THE THIRD Liberty loan, 836,000 people in New York City alone subscribed
\$48,000,000 for \$50.00 and \$100.00 bonds, to be paid for \$1.00
and \$2.00 a week.

THESE PEOPLE were largely of foreign birth or parentage.

WE NOW HAVE a great office in 44th Street, where 350 clerks are employed
keeping the accounts of that transaction.

THE STATEMENT has been made to me that the sale of Liberty Bonds by this
instalment method is too costly.

ONE MIGHT as well say that in time of war it is too costly to run the public schools.

IT WOULD BE BETTER for this country, if, within the next three weeks, we sold \$6,000,000,000 of bonds to 60,000,000 people than if we sold \$60,000,000,000 of bonds to 6,000,000 people.

THE BURDEN of paying the ultimate cost of this war must not fall unjustly upon any class.

THESE GREAT bond issues must some day be repaid out of taxes. *and*

IF POVERTY follows in the train of destruction,

HOW MUCH BETTER that those least able to suffer are aided in preparing themselves to bear it!

IT WOULD be a calamity were this nation to create a preferred and favored class of rich creditors, who, in the time of the nation's need, received insurance against the losses that should be shared by all in proportion to their means.

IT IS, therefore, desirable and just that those of small means should enjoy exemptions from taxation which those of large means do not need.

THIS PRINCIPLE is established in the graduated income taxes, and applies equally to graduated exemption from taxes.

* * * * *

A GREAT THING is taking place in our midst, which may have escaped general observation.

MANY of the people who buy these \$50.00 and \$100.00 bonds came to us from foreign lands; --

SOME of them came to escape conditions which made them unhappy.

THEY DOUBTLESS came to this country with some suspicions of their new surroundings.

THEY HAD BEEN accustomed to close Government supervision and military regulation in most of their daily affairs.

HERE, in this free country, they have, until now, had little contact with their new Government.

THEY RECOGNIZE the authority of the policeman on the street, who protects them from injury and restrains them from doing wrong, and

THEY KNOW the postman who brings their letters.

BEYOND that they have had too little contact with their Government.

IT HAS NOT sufficiently influenced their thoughts or lives.

THESE PEOPLE came here to better themselves, they have made homes, they believe in this country, and are happy here.

WE ARE NOW asking them to invest in their new country, and to become even more worthy citizens.

THIS IS A PART of the work of the Liberty Loan.

* * * * *

BUT the mission of the Liberty Loan is not only at home.

THE EFFECT of this great enterprize must also be felt abroad.

GERMANY, without provocation or warning, swept over Belgium and into France, leaving behind her armies

A TRAIL OF HORROR and desolation too sad and terrible to describe.

THE MOST SACRED cities and buildings in Belgium and France, historical monuments, farmers' cottages, and crops are destroyed.

ONE OF THE MOST precious possessions of the French peasant, his fruit tree, for which he cares as a part of his family, has been cut down in wanton rage.

THE EXTREME of devilish ingenuity has been applied, not only to the destruction of property, but to the infliction of needless anguish upon a helpless civilian population.

THESE ARE the sights now being witnessed by the great army of democracy which we have sent to France.

LET US CONSIDER the spirit with which our men view this awful spectacle and see whether it bears not some resemblance to the spirit of that woman on the banks of the Hudson.

I HAVE just heard that spirit described.

A FEW DAYS AGO I asked an army officer what impression our men made in France.

HE IS a grizzled old soldier, who has seen thirty years' service, a captain now in a section of the French Army which makes small claim to sentimentality -- the Foreign Legion of France.

HIS REPLY epitomized the spirit with which this country entered the war.

HE SAID, "Of course your men fight magnificently, in fact they have not yet learned when it is time to stop fighting."

AND THEN he described the great thing they have done in capturing the hearts of the french peasants.

WHEN THESE REFUGEES returned to their homes in sections now occupied by American Soldiers, they were met by our men whistling and singing, who, with smiles on their faces, tossed the children on to their shoulders; took up the bundles for the old and infirm; pushed the barrow loaded with household goods; patched the fences; cleaned the wells; and helped to straighten up ruined cottages.

THESE MEN, hastily assembled and trained, with new and strange weapons in their hands, have smashed German troops that have been forty years in the training.

OUR BOYSS do not learn readily when to stop fighting!

IN THEIR SPARE TIME they are employed in bringing joy and hope to hearts that for four years have been filled with misery and despair.

THESE are the soldiers of democracy, raised in the same spirit in which we are raising dollars of democracy.

* * * * *

THE WORLD has been awaiting the test of the permanence of democratic governments ever since the Franco-Prussian War.

THE DAY of that test has now come.

OUR ARMY, hastily raised, under the provisions of the most democratic statute ever passed by the Congress, faces Prussian armies which have been educated and trained for the purpose of destroying the only power that Germany fears -- the power of enlightened and free peoples of whatever race.

THIS ARMY OF OURS, once characterized as ridiculous, is there to meet the test.

AND IS NOW on its way to Berlin!

THE TIME is coming when our great military effort will be crowned with
victory.

THE WORK of a great army (of men and of dollars) in the military sense will
be concluded.

WHEN that day arrives, there will then be disclosed to the world at their
true value those motives and purposes which, in the excitement and
anxiety of war have not been wholly apparent.

OUR OWN purpose can be made unmistakably clear.

AN UNSELFISH, generous people can well afford their share of help to rebuild
a devastated Europe.

THE SORROWS of this war will not disappear until cottages are rebuilt,
farms are put under cultivation, and fruit trees are replanted.

CITIES must be restored and the opportunity afforded to those who have
suffered the severest penalties of the war to return to their
peaceful occupations with some hope of contentment.

* * * * *

OUR IMMEDIATE task is to raise money to win the war.

THAT we must do.

BUT WE CAN also show our people the bitterness of suffering which we have
escaped and others have felt.

OUR WORK has a loftier purpose than military victory alone --

GERMANY AND AUSTRIA have made many and vital mistakes, but their crowning achievement in stupidity was in their misjudgment of the people of this country.

THEY MUST have analyzed our character by some intellectual formula which they use for a study of the German mind.

WHAT they should have used was a stethoscope, and they might thus have discovered the American heart.

ON APRIL 6, 1917, this country entered the war, not as a military nation, not with a great army and navy, but with a moral force that is greater than either.

AND WHAT we are doing now comes from that heart that Germany failed to discover.

GREAT ARMIES and great loans are being raised; ships built, and the business of the nation reorganized for war.

THIS is being done in the spirit of a righteous crusade.

AND IN THE SAME SPIRIT our nation is taking world leadership for humanity, and it is again in this same spirit that the war will be won.

WE HAVE BEEN LED through a maze of difficulties into the presence of a greater and nobler nation.

WE HAVE DISCOVERED that the altruism of America can survive the brutalizing effects of war.

AND THIS great conception of an unselfish people and of a nobler America

AND OUR APPEAL is no less to the heart than the purse.

THIS IS THE message of the Liberty Loan Committee to the people of this district.

THE PEOPLE of this great district have not failed us in the past, and will not do so now!

WHEN THESE THINGS that I have mentioned are done, the mission of the American Army, and of the Liberty Loan, will have been gloriously accomplished.

5

AN APPEAL TO BUY BONDS
ADDRESS AT MASS MEETING
(Also Addressed by President Wilson)
at Metropolitan Opera House, September 27, 1918

Mr. President, and Fellow American Citizens:

During the next three weeks the people of this Second Federal Reserve District must pledge themselves to furnish their Government with not less than \$1,800,000,000 for the prosecution of the war. It is our share of \$6,000,000,000, and it will be forthcoming. They will be the dollars of democracy - which have had peaceful employment in agriculture, industry and commerce, in education, art and science. From now on they must be dedicated to the service of the army and the navy, for they will be militant dollars; but when this war is ended, these dollars of democracy must be rededicated to works of reconstruction and mercy.

But the mission of these Liberty Loans is not simply the raising of money. We could say to every resident and every corporation in this district, "Your share in this loan is so much, "and ask, or maybe require, them to take it. But by that method we would lose the moral and spiritual forces which are behind the loan, behind the war, and behind our men in France. We must not only sell bonds - we must sell the war to all the people of the United States. This is a mission of the Liberty Loan Organization which is of greater importance than simply raising money. We shall not be wholly successful in our work unless every citizen becomes a bondholder, and every bondholder becomes a more devoted citizen. So in embarking to-morrow upon this new and larger undertaking, we must have clearly in mind some things to be accomplished for ourselves at home, as well as what these loans must do in their capacity as fighting dollars in France.

One of our organization called at a little farmhouse in the hills overlooking the Hudson River to inquire if the owner could not buy some Liberty Bonds. He was met by a woman, to whom he explained his errand. She said that she lived there alone, that she owned a cow, and some pigs; that she had some potatoes and vegetables in the cellar, and that she was usually snowed in through the winter, and could not get to the village, and so had little use for money. She was glad

of the opportunity, however, of subscribing all that she had - and she gave the canvasser \$4.00. After thanking him for the opportunity of helping, she explained that she was a widow and her three sons were in the American Army. This illustrates what is taking place in the nation to-day. That woman, who is snowed in in the winter, was thankful for the privilege of doing something - and she had given her three sons! No one at this meeting can make as large an investment as she did. When we have examined our accounts, figured our income and expenses and decided the amount we shall take - let us at least double it. In the third loan we were asked in this district to raise nine hundred million dollars, and raised eleven hundred million. In this loan, we are asked to raise eighteen hundred million dollars - twice the amount! We must make the sacrifice, whatever it involves, of doubling what we did last time.

In New York it is necessary that the literature distributed by our committee shall be printed in eighteen different languages. Meetings are held at which speakers deliver addresses in almost every tongue spoken in the city. In the Third Liberty Loan 836,000 people in New York City alone subscribed \$48,000,000 for \$50.00 and \$100.00 bonds, to be paid for \$1.00 and \$2.00 a week. These people were largely of foreign birth or parentage. We now have a great office in 44th Street, where 350 clerks are employed keeping the accounts of that transaction. The statement has been made to me that the sale of Liberty Bonds by this instalment method is too costly. One might as well say that in time of war it is too costly to run the public schools. It would be better for this country, if, within the next three weeks, we sold \$6,000,000,000 of bonds to 60,000,000 people than if we sold \$60,000,000,000 of bonds to 6,000,000 people. The burden of paying the ultimate cost of this war must not fall unjustly upon any class. These great bond issues must some day be repaid out of taxes and if poverty follows in the train of destruction, how much better that those least able to suffer are aided in preparing themselves to bear it! It would be a calamity were this nation to create a preferred and favored class of rich creditors, who, in the time of the nation's need, received

insurance against the losses that should be shared by all in proportion to their means. It is, therefore, desirable and just that those of small means should enjoy exemptions from taxation which those of large means do not need. This principle is established in the graduated income taxes, and applies equally to graduated exemption from taxes.

A great thing is taking place in our midst, which may have escaped general observation. Many of the people who buy these \$50.00 and \$100.00 bonds came to us from foreign lands; - some of them came to escape conditions which made them unhappy. They doubtless came to this country with some suspicions of their new surroundings. They had been accustomed to close Government supervision and military regulation in most of their daily affairs. Here, in this free country, they have, until now, had little contact with their new Government. They recognize the authority of the policeman on the street, who protects them from injury and restrains them from doing wrong, and they know the postman who brings their letters. Beyond that they have had too little contact with their Government. It has not sufficiently influenced their thoughts or lives. These people came here to better themselves, they have made homes, they believe in this country, and are happy here. We are now asking them to invest in their new country, and to become even more worthy citizens. This is a part of the work of the Liberty Loan.

But the mission of the Liberty Loan is not only at home. The effect of this great enterprise must also be felt abroad. Germany, without provocation or warning, swept over Belgium and into France, leaving behind her armies a trail of horror and desolation too sad and terrible to describe. The most sacred cities and buildings in Belgium and France, historical monuments, farmers' cottages, and crops are destroyed. One of the most precious possessions of the French peasant, his fruit tree, for which he cares as a part of his family, has been cut down in wanton rage. The extreme of devilish ingenuity has been applied, not only to the destruction of property, but to the infliction of needless anguish upon a helpless

civilian population. These are the sights now being witnessed by the great army of democracy which we have sent to France. Let us consider the spirit with which our men view this awful spectacle and see whether it bears not some resemblance to the spirit of that woman on the banks of the Hudson. I have just heard that spirit described. A few days ago I asked an army officer what impression our men made in France. He is a grizzled old soldier, who has seen thirty years' service, a captain now in a section of the French Army which makes small claim to sentimentality - the Foreign Legion of France. His reply epitomized the spirit with which this country entered the war. He said, "Of course your men fight magnificently, in fact they have not yet learned when it is time to stop fighting." And then he described the great thing they have done in capturing the hearts of the French peasants. When these refugees returned to their homes in sections now occupied by American soldiers, they were met by our men whistling and singing, who, with smiles on their faces, tossed the children on to their shoulders; took up the bundles for the old and infirm; pushed the barrow loaded with household goods; patched the fences; cleaned the wells; and helped to straighten up ruined cottages. These men, hastily assembled and trained, with new and strange weapons in their hands, have smashed German troops that have been forty years in the training. Our boys do not learn readily when to stop fighting! In their spare time they are employed in bringing joy and hope to hearts that for four years have been filled with misery and despair. These are the soldiers of democracy, raised in the same spirit in which we are raising dollars of democracy.

The world has been awaiting the test of the permanence of democratic governments ever since the Franco-Prussian War. The day of that test has now come. Our army, hastily raised, under the provisions of the most democratic statute ever passed by the Congress, faces Prussian armies which have been educated and trained for the purpose of destroying the only power that Germany fears - the power of enlightened and free peoples of whatever race. This army of ours, once characterized as ridiculous, is there to meet the test. And is now on its way

The time is coming when our great military effort will be crowned with victory. The work of a great army (of men and of dollars) in the military sense will be concluded. When that day arrives, there will then be disclosed to the world at their true value those motives and purposes which, in the excitement and anxiety of war have not been wholly apparent. Our own purpose can be made unmistakably clear. An unselfish, generous people can well afford their share of help to rebuild a devastated Europe. The sorrows of this war will not disappear until cottages are rebuilt, farms are put under cultivation, and fruit trees are replanted. Cities must be restored and the opportunity afforded to those who have suffered the severest penalties of the war to return to their peaceful occupations with some hope of contentment.

Our immediate task is to raise money to win the war. That we must do. But we can also show our people the bitterness of suffering which we have escaped and others have felt. Our work has a loftier purpose than military victory alone. Germany and Austria have made many and vital mistakes, but their crowning achievement in stupidity was in their misjudgment of the people of this country. They must have analyzed our character by some intellectual formula which they use for a study of the German mind. What they should have used was a stethoscope, and they might thus have discovered the American heart.

On April 6, 1917, this country entered the war, not as a military nation, not with a great army and navy, but with a moral force that is greater than either.

And what we are doing now comes from that heart that Germany failed to discover. Great armies and great loans are being raised; ships built, and the business of the nation reorganized for war. This is being done in the spirit of a righteous crusade. And in the same spirit our nation is taking world leadership for humanity, and it is again in this same spirit that the war will be won. We have been led through a maze of difficulties into the presence of a greater and nobler nation. We have discovered that the altruism of America can survive the brutalizing effects of war. And this great conception of an unselfish people and

of a nobler America has been revealed to us by the unerring vision of the President of the United States. And our appeal is no less to the heart than the purse.

This is the message of the Liberty Loan Committee to the people of this district. The people of this great district have not failed us in the past, and will not do so now! When these things that I have mentioned are done, the mission of the American Army, and of the Liberty Loan, will have been gloriously accomplished.

upon to make large advances to the governments which are allied against Germany, but no one knew, or could estimate, how rapidly the funds appropriated by Congress could be spent by the various departments of the Government, so that, necessarily, the borrowing policy of the Treasury could only be mapped out in a tentative way until experience disclosed at what rate war materials could be produced and money be actually spent.

Since late in 1917, advances to allied governments and our own expenditures by the army and navy departments, have become more stable and regular. Those who are raising funds can estimate with more certainty how much will be disbursed over a given period; in fact, the Government's financing has developed a rhythm which permits a fair judgment of requirements for periods of from four to six months in advance. Assuming that expenditures will shortly amount to \$2,000,000,000 a month, and that it is possible for Congress to levy taxes which will produce a total of, say, \$8,000,000,000 for this fiscal year, there will still remain \$16,000,000,000 to be raised by borrowing. The success of these borrowing operations will depend primarily upon the extent to which our people are willing to economize and then upon the extent to which they are willing to turn over the fruits of their economies to the Government. Unexpended income is generally represented in this country by unused balances in the bank. The Government needs those idle bank balances and asks its citizens to hand them over to the Treasury in exchange for interest bearing bonds. Therefore, successful borrowing by the Treasury will depend upon the amount of those idle bank balances and upon whether their owners will be willing to exchange them for Government bonds.

The bonds recently issued by the Government, known as the Third Liberty Loan, bear interest at 4 1-4% and were offered at par. It was, therefore, quite natural that anyone having idle funds in bank should ask him-

MORE LIBERTY BONDS, OR MORE INCOME?

BY

BENJ. STRONG

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Sept. 28, 1918

There are undoubtedly thousands of Americans who are to-day puzzled in endeavoring to determine how many Liberty bonds they should buy. It is not intended in this article to formulate rules by which one may accurately decide his duty in this matter. That decision must be made by each individual according to his ability, his personal needs, and his patriotic impulses. But some light may be thrown on the subject by presenting various aspects of the question which may not have occurred to the reader. The question certainly involves perplexities which many who are unacquainted with the relations of Government finances to the security markets find difficulty in solving to their own satisfaction. Needless to say the financial officers of our Government are confronted with like perplexities, only from quite a different standpoint. The individual is considering his own comforts, or, possibly, what he believes to be his necessities. His viewpoint is a narrow one compared with that of the Secretary of the Treasury, who is charged with the duty of borrowing a large part of the money required for the prosecution of the war but who, at the same time, must so shape his plans, within the limits imposed by Congress, so that the business of the country which is essential to winning the war, may proceed and even be extended without being hampered for lack of capital. But the money must be raised!

In the early months of the war, the Treasury was required to provide funds without any accurate measure by which the amount could be determined. Congress was appropriating billions for war purposes. We were promptly called

self the question, - Is it my duty to buy a 4 1-4% Government bond at par when I can buy other good bonds and stocks which will pay me a return of 6% or 8%, or even more?

Each investor must be his own judge in deciding between his duty to his Government and his own real needs in the way of income. It is not difficult, however, to state some simple examples which may be an aid in arriving at a decision, and the importance of the decision will be appreciated when one realizes that the sum of all of these decisions by all of the investors in the country is what will make war loans successes or failures.

Possibly the first point to consider in choosing between a subscription to Liberty bonds or the purchase of other bonds or stocks which pay a higher return, is whether an investment in some other security may aid or hinder the Government in the prosecution of the war. There is no choice whatever between investing in the war bonds of the Government or in new issues of securities made by enterprises which are engaged in operations which are of no assistance to our war activities. At this time no citizen has a right to divert surplus income to the creation of nonessential industries when that income is needed by the Government for war purposes. That question has already been answered by our Government for every investor. Capital Issues Committees have been appointed, pursuant to Act of Congress, to determine whether it is or is not in the public interest to allow any given issue of new securities to be offered to the public. When bankers offer bonds or stocks which are advertised as having been submitted to the Capital Issues Committee and approved by that Committee as not incompatible with the public interest, it may clearly be understood by the investor that our Government has passed upon the question as to whether investments in such securities will aid or injure the Government's war finance program, and, so far as the investor is concerned, he need make no further inquiry as to whether that particular security is or is not suitable for

investment at the present time. Its issue has received the Government's approval. He may feel justified, because of his own needs and those of his family, in purchasing securities of that class on the ground that it affords indirect aid to the prosecution of the war. There are, however, few in this country who are able by practicing economy to increase their savings fund at this time who cannot also afford the trifling sacrifice of additional income involved through the purchase of Liberty bonds rather than some other investment, and their satisfaction in rendering direct aid to the Government will certainly more than offset the slight loss in income. But this does not answer the investor's question as to whether he may not purchase some existing security which pays a higher return than Liberty bonds. Here a nice question arises which will be discussed later.

Another example may be used to illustrate the state of mind of an investor who must consider his own personal necessities. He may be a poor man who has been dependent upon a small salary or a small income from a nest egg of investments accumulated after long years of toil; he may have saved a small part of this income, or, possibly, some of his investments paying a high rate of interest may have been repaid at maturity. He is conscious of the fact that it costs him more to live, with prices at their present high level, than it did before the war. Must he make the sacrifice involved in accepting 4 1-4% interest instead of a higher rate, possibly even 6% or 8% which he may have been receiving until his old investments were repaid? This is necessarily one of those doubtful cases where each man must decide according to his present needs, as contrasted with the needs of his Government. If economies can be practiced which will not interfere with the maintenance of his health, or that of his family, or with the education of his children, or with continued efficiency in his work, he is justified, and, possibly, required as a matter of duty to forego a larger income in order that his Government may have his support. By this sacrifice he assumes his share of the burden of the war. On

the other hand, if it really involves impairment of health, or efficiency, or the loss of education for his children, such a person is, doubtless, warranted in making investments of a character that will pay a higher return so as to maintain the standard of living that is essential for the welfare of that individual, and of his family, and, through them, of the nation. But, in selecting an investment which pays a higher return, it is desirable, if possible, to pick out some new issue and, of course, a sound security, which has received the stamp of approval of the Capital Issues Committee, as thereby he gives support to some enterprise which is engaged in work that directly or indirectly promotes the prosecution of the war, and which needs new capital. If this is a fair statement of the position of a man with an income of, say, twenty-four hundred dollars a year, who is able to save two hundred dollars; it is still hard to justify withholding his savings from the Government. Two hundred dollars invested at 4 1-4% produces \$8.50 a year and at 7 1-2% \$15.00 a year. He foregoes an additional income of \$6.50 per annum, which even the poorest man can afford, and it must not be overlooked that the income from his new investment is free of any taxes whatsoever. This may seem an insignificant contribution to the Government's war effort, but 10,000,000 people making an investment of this size can furnish the Government with \$2,000,000,000, which is one-third of the probable amount of the Fourth Liberty Loan.

A third class of investors, now a much larger one than is realized, comprises those patriotic men and women who have abandoned business or professional occupations to enter the army or navy or Red Cross, or other branches of the service, in consequence of which their incomes have been greatly reduced and often the good-will of a business or of a professional practice jeopardized for all time; frequently, in fact, notwithstanding that these men and women may have dependent children to support. Let us take as an illustration a

successful young lawyer who has built up a practice which has been paying him \$10,000 a year; he has accumulated, say, \$10,000 by economy and saving; he has a wife and children. In surrendering his practice to enter the Government's service, his income may be reduced to a salary of \$2,000 a year or less. His income from his securities may bring this up to \$2,700 a year. In winding up his practice he collects outstanding bills from his clients totaling \$10,000 and must decide whether to spend this money in maintaining his former standard of living or to invest it in some security paying a high return so as to help mitigate the hardship of enforced economy, or to buy Liberty bonds. A man of strong character, with a family loyal to the purpose for which he has made the sacrifice of his practice, may be able to readjust his plan of living to an income of \$2,700 a year, plus the \$425. additional income from the Liberty bonds that he buys, and still be perfectly happy and comfortable and feel that he is doing his duty both to his family and to his Government. On the other hand, he may be tempted to believe that in order to educate children who are at school and college, and to maintain his own health and efficiency, it is necessary to obtain a larger income than is possible by the investment in Government bonds. There is certainly no reason why that man should be condemned for risking the future of his family, the education of his children, or even his own health, by declining to make the additional sacrifice of income involved in the purchase of a 4 1-4% Government bond. But he had already made a sacrifice of great proportions and while the nation can well afford to insure his efficiency by permitting him to obtain the largest income possible from an investment in some security issued by a corporation which is engaged in war work, the chances are that one who makes such sacrifices as this can be relied upon to make the small additional sacrifice of income involved in purchasing the war bonds of his Government.

A fourth type to consider is the man of large income who spends but

a fraction of it and has large amounts to invest every year. This man should have little difficulty in his decision - if he is engaged in some business directly promoting the prosecution of the war, which requires for its necessary development the employment of increased amounts of capital, he should not, of course, hamper the efficiency of his business by withholding from it the capital which possibly he, alone, can furnish by so employing a portion or all of his surplus income. This applies to the manufacturer of war materials particularly. On the other hand, if he is a retired capitalist, with an income beyond his needs, it is unquestionably his duty to the nation to invest every dollar of the surplus which he accumulates in the bonds of the Government, beyond, possibly, a moderate amount in new security issues bearing the stamp of approval of the Capital Issues Committee, which he may consider safe.

These are only a few of a great variety of types of possible investors who face a decision which is vital to the nation and they are referred to simply for illustrative purposes. There are, however, principles of great importance underlying the whole question of the purchase and sale of securities by investors in these war times, which should be considered by every investor before he decides what he shall do with his savings.

When one buys a security in the security market, it may be that the seller, in turn, will invest the proceeds in Government bonds. On the other hand, it may be that the person selling the securities desires funds for some purpose not at all related to the war, or, in fact, to waste in quite unnecessary living expenses or extravagances. The buyer can hardly stipulate with the seller as to how the latter shall spend the money, but can he take the risk of the seller's intentions? Of course the existence of a security market where investment securities are bought and sold is a facility which in many ways aids Government financing, and, deprived of that facility, the Government would

encounter difficulties which would not arise if a security market did not exist. An active market where the ownership of securities can be promptly shifted from one person to another is one of the means by which those who desire to buy Government bonds, and are willing to sell existing investments for the purpose, are enabled to do so without delay and often without great loss. Not every sale of investment bonds and stocks is, however, inspired by that desire, although these constant transfers of investments do to some unknown extent result in the transfer of bank balances from those who have accumulated them without expectation, and, possibly, without ability to buy Government bonds, to the ownership of those who are able and willing to do so. When the Government places a Liberty Loan, all those who have money to invest are brought under the influence of a great campaign of education, which is, in fact, a great selling campaign. Those who have accumulated the bank balances by selling their investments are just as subject to the influence of the campaign as are those who in the first instance accumulated the bank balances by thrift or otherwise and later transferred them to other persons in exchange for securities. It can hardly be claimed, therefore, that the available investment fund of the nation is reduced as the result of such transfers of securities. The important thing is to reach all owners of idle bank balances, however those balances may have arisen, with the Liberty Loan propaganda and induce them to buy Government bonds; those who can not afford to invest in low-rate securities making it possible for others who can afford to do so by purchasing from them the securities which they are willing to sell. To illustrate this point, if we assume that the total value of all investment securities in this country aggregate \$50,000,000,000 at the time of a Liberty Loan offering; that at the same time the total of idle bank balances in the country aggregates \$6,000,000,000; and that the Government is inviting subscriptions to \$6,000,000,000 of Liberty bonds, it makes no difference in the result whether the \$6,000,000,000 is turned over to the Treasury in exchange for Liberty bonds

by those who originally accumulated the \$6,000,000,000 or by others who have acquired these bank balances by selling the portion of the \$50,000,000,000 of securities which they formerly owned. This process of shifting of ownership between investors, as stated above, does, indeed, to some extent, facilitate the Government's borrowing operations. But there is another aspect of the security markets, which bears on this matter, where influences may arise which could be highly detrimental to the Government's borrowing program. Suppose a large number of people with idle funds became interested in the market in a speculative way, rather than simply as purchasers of investment securities; and because they believed that stocks and bonds would advance, were led to use their surplus income as margin for the purchase of securities which they could not fully pay for, and, in consequence, borrowed heavily from the banks in order to carry them. Such a movement might gain speculative headway and result in a general advance in security prices, particularly those of a speculative nature. People in this country only too readily develop an insatiable appetite to buy securities "for a rise." The result of such a movement would be a great increase in bank loans; - speculators can borrow more money on stocks as they advance in price, and generally do; bank credit would, as a result, be absorbed and the surplus earnings of many individuals, which might have been applied to the purchase of Government bonds, would be used as margin in speculative operations which would serve only to clog the banking machine. This would clearly be a diversion of investment funds from legitimate to illegitimate purposes when it is considered that the nation is at war and needs those funds. It may, in general, be said that the existence of a security market, where investment securities may be readily bought and sold, is a good thing, probably even an essential thing in order to preserve the stability of financial affairs during war time; - but that on the contrary, the existence of a speculation which attracts capital to speculative operations is

an unessential and often a dangerous thing. We must not overlook the fact that the existence of a market for securities enables thousands of investors to use their securities as the basis for quite legitimate borrowings, frequently when funds are desired in order to subscribe for Government bonds in anticipation of expected savings, also when capital is required to develop industries that are essential to the prosecution of the war and when credit is needed to pay off existing debts, as well as for many other valid purposes. Without a market for securities, banks would be reluctant to lend on them and billions of dollars of investments in the hands of the people of the country, which might be usefully employed as the basis of necessary and desirable credit, would be rendered unliquid and unavailable as security for bank loans. Nor can we fail to overlook the existence of a great mass of loans now held by our banks, which are secured by bonds and stocks, and which have no relation to speculative operations whatever, where the protection of the lending banks, as to the value of the collateral, depends upon the continued existence of a market where securities can be liquidated if need arises.

The financial officers of our Government are confronted with a difficult situation which they do not control and which, under our system, they have power to influence to only a slight extent. Expenditures are mapped out by the various departments of the Government, the largest now being by the war and navy departments; they are submitted to Congress and appropriation bills result, which authorize the expenditure of the various amounts demanded by the departments, as finally approved by Congress. At no point have the Treasury Officials any legal standing to control, and they can but slightly influence, the amounts of these expenditures, outside of those relating to the administration of their own department. The Treasury, therefore, is called upon to raise money, the amount of which it has no voice in determining, and the expenditure of which it has no means of controlling.

Its policy must be governed, under the archaic procedure which our Government

follows, by very simple rules. Sound financing of the Government requires that as large a proportion of war expenditures as possible

follows, by very simple rules. Sound financing of the Government requires that as large a proportion of war expenditures as possible be raised by taxation, but not so large an amount as to impair business enterprise, and particularly those enterprises which must be developed to high speed in order to produce goods required for war purposes. If, therefore, the Treasury is provided by Congress with a given proportion, say, one-third, of the expected Government outlay from taxation, whatever else is spent must be raised by the Secretary of the Treasury through various forms of borrowing authorized by Congress at his request. Right here the attitude of the people of the country, even more than the decisions of Treasury Officials, controls developments in future years which will be of vast importance to our welfare. If we are able to pursue a policy of gradually increased taxation as industries are able to bear it, but never raising taxes to the point where essential business is injured, and if we can raise the balance of our war expenditures from voluntary subscriptions to bonds and the bonds are paid for out of savings, the country's financial condition after the war is over will be substantially unimpaired and certainly vastly better than that of some other belligerents. On the other hand, if these voluntary subscriptions are not, or can not be made, no one for a moment would assume that on that account we must stop fighting. The war must be won and the funds must be raised to win it, even if bond issues fail. The failure of a bond issue simply means that other methods must be employed, possibly methods less sound in principle and certainly less palatable in application than those which are now being pursued. The choice of methods can not be said to rest any more upon Government Officials than upon the decision which must be made by each individual who has possibly imposed upon himself rigid economy so as to be able to buy the maximum amount of Government bonds.

No patriotic citizen, whatever his means, who can afford to pur-

chase his Government's war bonds can afford to take the risk that the hard won results of his economies will be wasted by some other individual to whom he delegates this decision. That is what he does when he turns the product of his economy over to some one else in exchange for some other kind of an investment, because that other individual may see fit to waste it.

Our success in financing the war from now on will absolutely depend upon the extent to which people are willing to economize. There is no doubt as to the results which can be achieved by such economies, whether they be voluntary or enforced. They can be made to produce, in this country of wealth, extravagance and waste, a sufficient fund of savings to absorb all the war bonds which the Government must issue in order to win the war.

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B.S. speech
at St. Louis
university

D R A F T

This is a very informal meeting - but with a very specific object.

And I shall take little time for the few remarks that I have to make as we are anxious to hear from Secretary Glass, and, afterwards, if possible, to have a general discussion.

4/3/19

FEDERAL RESERVE DEPT.

APR 3 1919

In April 1917, just as soon as Secretary McAdoo decided to make extensive use of the reserve system in carrying out his war finance program, he was good enough to accept an invitation to attend a luncheon in New York, to which we invited a number of the bankers of the city.

FEDERAL RESERVE DEPT.

It afforded opportunity for a very frank discussion of plans and purposes and laid the foundation of an understanding between the Treasury Department and the banking fraternity in this city which has been of inestimable advantage I believe both to the Treasury and to the banks.

Secretary McAdoo has frequently expressed that to me, and my own observations justify the statement as to the banks.

Commencing with that meeting, the relations between the Treasury Department and our bankers have steadily grown more intimate, more personal, and the relationship one of greater mutual confidence and respect.

It is with just that object in mind that we have invited you here this evening - To have a similar discussion, and, above all things, to perpetuate that understanding of mutual confidence and respect.

It has unfortunately been a fact that for many years, almost during the entire period of my own life in Wall Street, that the men of the street and the street as an institution have been the object of abuse and vilification from other parts of the country.

Opinions developed ^{as} to the financial men of this city based upon superficial evidence

of what sometimes took place without any understanding or regard for the causes.

Wall Street as an institution was the victim of a banking system started in the time of the Civil War which provided for the classification of banks in our cities by such a system as resulted in the banks in New York being the ultimate dumping ground of the reserves of the banks of the nation.

These reserves flowed into New York and out of New York in great tides according to business and other conditions, causing at times superabundant ease and at other times acute shortage of loanable funds.

But that was the least of the ill consequences.

When money became over-abundant in New York, it became the object of exploitation by financial schemers, and many indeed were the deals and transactions of questionable character which seemed to justify some of the abuse heaped upon the men of this district without regard to whether they were the beneficiaries or victims of the system.

New York became the Mecca for ^{the} financial adventurers of the country.

Men of large fortunes and small morals came to New York from every part of the country to promote questionable schemes; they bought banks and wrecked them.

And unintelligent observers, without discrimination, charged these performances to an institution, without discriminating between individuals.

These were positive occurrences, which attracted attention and caused comment.

We are all too prone to permit our minds to be influenced by things that happen, and to overlook the influence of events that do not occur.

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Looking over the past four years, you must admit how singularly immune Wall Street has been from talk of the character I have mentioned, for, with one or two negligible exceptions, it has been absent.

There has been fault on both sides.

Wall Street has been guilty of excesses; of speculation; of promotion.

It has been the victim of sweeping and indiscriminating abuse, in some cases not inspired by pure motives, but by selfish political advantage.

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It may be claimed that the greatest achievement of the Federal Reserve System has been its successful functioning as fiscal agent of the Government.

But I believe in the long future it will be agreed that the greatest achievement of the System has been - - or in time will be -- the elimination of this sectional feeling and abuse, and a better understanding and better feeling throughout the country as to the function of the financial center of the United States.

And I devoutly hope that the record of the future will prove this statement to be true

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But whether we regard the real achievement of the system to have been war finance or the promotion of the better understanding to which I refer,

We must all agree that for this system; for the protection it has afforded the bankers for the service which it has preformed for the country and for the particular service which it has performed for the bankers of this city, we are indebted more to the present Secretary of the Treasury than to any other man.

I know with what indefatigable energy he devoted himself to the preparation and passage of the original Federal Reserve Act, and with what sympathy and encouragement he has turned his mind to the various measures suggested for the perfection of the legislation and for the development of the system itself.

No bankers of the country can be more sensible of the debt which all owe to Mr. Glass than those of Wall Street.

Our banking machinery would have completely broken down during the war without the Federal reserve banks,

And I am very confident that the blame for that break-down would have been promptly laid at the door of Wall Street.

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Now a singular thing, and what seems to be a most appropriate thing has happened.

The man who was most largely instrumental in legislative authority for this advance in American banking has come to be the Secretary of the Treasury, in which

position his fiscal operations bring him into the most intimate relationships
with the system,

And as Secretary of the Treasury he becomes chairman of the Federal Reserve Board,
and at the head of its direction and supervision.

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We have entered upon a new era of banking and finance.

If Mr. Glass was responsible for designing the plan, he now accepts a large share of
the responsibility for its execution.

And another most appropriate development results from this fortunate change, for, in
the nature of the circumstances, he becomes the largest customer of these
Wall Street banks.

He is the largest depositor in them, and he is the largest borrower from them.

So, indeed, it is fitting that he should be here with us to discuss, as a customer
would with his banker, or as a father would with his child, the operation
of this great machine -- the Treasury Department and its coordinating
agents the Federal reserve banks and the depository banks.

- - - - -

This meeting affords opportunity for me to say in behalf of the bankers of this city
to Secretary Glass, that we welcome him as Secretary McAdoo's successor.

We pledge him our unqualified friendship and support.

We wish him a happy and successful administration.

We have confidence in his wisdom and courage to make sound decisions,

And we hope that he will enjoy a long and prosperous life so that in later years he
may see his policies and decisions vindicated.

750 B.S.

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The Liberty Loan *and* Bank Deposits

A Discussion of the Movement
of Funds during the Flotation
of Government War Loans



Issued by the
LIBERTY LOAN COMMITTEE
Publicity Department
Second Federal Reserve District
120 Broadway, New York

*Extract from a Speech Delivered by
Benjamin Strong, Governor of the Fed-
eral Reserve Bank of New York, before
the American Bankers Association, At-
lantic City, September 28, 1917.*

WERE I asked to state in the fewest words the functions of the Reserve System in relation to government financing, I would say that the reserve banks keep the books of bank reserves and of government credits for the entire country. In a banking sense they run the general ledger.

The amount of banking accommodation required in any well-organized country may be said roughly to correspond to the volume of the country's business. As business increases, bank loans and deposits increase in somewhat like proportion. As business declines, liquidation takes place, bank loans and deposits go down and the proportion of reserve to deposits increases. As an illustration of this formula, take our own experience in the past few years. When the war broke out, after a short period of disturbed business we were flooded with war orders, and at the same time flooded with gold. Business became increasingly active. Bank deposits and loans increased along with a rapid increase in our gold reserves. The production of our mills had to be speeded up to meet these increasing demands, so at the same time, the circulation of credit had to be speeded up to finance an increased trade. Now our government has entered the war and is making further demands upon our productive capacity. The volume of these demands may be gauged—roughly, it is true, but still with a fundamental accuracy—by the amount of the borrowings and increased tax collections of the government, and we must again speed up the machine of credit to keep pace with the machinery of production. The reserve banks form the center or hub of this credit machine, and I will briefly describe how the conduct of their operations is actually accelerated when the pressure is applied.

Credit Balances Withdrawn From New York

When the government makes an offering of securities, whether of long term bonds or short term notes, the banks of the country immediately realize that their customers or clients will subscribe to the offering, and that they, (the banks), will be called upon to make the payment on the subscriptions in their respective localities. Banks located outside of New York

City, practically all of which have money on deposit there, prepare for this by drawing on their New York balance or calling in their New York loans, and withdrawing these credit balances to the interior. As a rule they do not take cash but take credit on the books of the reserve bank of their district or of their local reserve agent. This is the first spin of the wheel. The Federal Reserve Bank of New York receives from the other eleven reserve banks a vast sum of New York exchange for collection and remittance in advance of each loan being placed. It must settle with the other reserve banks every Thursday through the Gold Settlement Fund maintained in Washington. This results in a pull on the reserves of all the banks in New York City. The checks we collect from them reduce their reserve balance at the Federal Reserve Bank of New York and cause the wide fluctuation in excess reserves shown by the New York Clearing House statement. To meet this drain the member banks in New York come to the Federal Reserve Bank and borrow money in one form or another. Sometimes other means can also be employed to recoup their reserves. For example, at the time of the last loan, the Federal Reserve Bank of New York purchased from the British Government \$120,000,000 of gold in a period of two weeks, and in addition received payment in gold of certain international obligations amounting to over \$50,000,000 which matured on June 20th. All of this gold came to the Federal Reserve Bank of New York but was for the credit of a large number of New York banking institutions. Their reserves were immediately built up and, to that extent, the drain was offset.

Building Up The Reserves

A further means of relieving the loss is to offset it by transfers of government deposits from these sections of the country which have drawn so heavily on New York that their own reserves have been increased to an amount unnecessarily large. These transfers are accomplished by telegraph through the Gold Settlement Fund, and start currents flowing in the opposite direction, so that the movements between New York and each of the other Federal reserve districts largely offset each other, leaving only net amounts to be transferred.

Still another method has been provided for achieving the desired result with a minimum of delay: Every Federal reserve bank has adopted a resolution authorizing its officers to re-discount its portfolio with any other Federal reserve bank. This procedure is authorized by Section 11 of the Reserve Act which gives the Federal Reserve Board, upon the affirmative

vote of five members, the power to require such rediscounts, and authorizes the Reserve Board to fix the rates. At first this appears to be in the nature of a borrowing operation, but in point of fact it is really not so at all. The Federal reserve bank, in this case, New York, which loses its reserves through the Gold Settlement Fund, is usually simply paying out to the other reserve banks the reserve money which has been deposited with it by its own member banks whose accounts are depleted by these drafts from the interior. The reserve accounts of the members in New York are restored by the New York bank rediscounting their paper. If any considerable amount of reserves is moved to the other reserve banks and the amount of these discounts becomes sufficient to impair the reserve position of the Federal Reserve Bank of New York, then it can simply turn over its portfolio in part to those reserve banks which are correspondingly strengthened. Expressed differently, instead of settling balances through the Gold Settlement Fund with gold, we would in that case settle our debit balances by the use of paper out of our portfolio, apportioning it with due regard to the reserve position of each of the other reserve banks. This plan for speedy and almost automatic transfers of credit has not yet been put into operation, though in the future it may become a resource of vast strength.

Co-operative Use of Reserves

This explanation seems necessary to make clear that the normal function of the Reserve System expressly authorized by the statute and very wisely provided with regard to just such a situation is simply being exercised for the benefit of the member banks as a whole. The statute provides for the co-operative use of reserves and credit facilities of the twelve reserve banks in time of emergency so that their combined strength may be as effective as though they were one bank instead of twelve.

Reserve Bank Book-keeping

To return to our chronology: the next step in these financial operations, after the subscriptions are closed, is their actual payment into the reserve banks by the banking institutions of the country. The preliminary readjustment of credit to enable them to do so, you will observe, has already taken place. The payments as made are credited to the government on the books of the reserve banks, in some cases actually, in other cases only constructively. Where actual payments are made, the reserve banks, acting as fiscal agents of the government, at once re-

deposit these payments with the national and state banks where they originate. Where the payment is constructive, it simply means that the bank originally subscribing (either for itself or its customers) for the government securities, instead of making a remittance to its reserve bank, merely credits the government on its books with the amount to be remitted, having previously furnished the government with collateral. At this stage the government has hundreds, and possibly thousands, of accounts on the books of banks throughout the country. It is now in position to make disbursements either for its own purchases or for loans to the allied nations. But as these payments must principally be made in New York at the present time, it becomes necessary for the reserve banks gradually to withdraw these deposits and shift them through the Gold Settlement Fund to New York. Then a new set of entries must be made in what we may call the general ledger. The deposits in other districts are drawn down and remitted to New York through the Gold Settlement Fund. As this may reduce the reserves of the banks that held the government deposits throughout the country, the reserve banks of those districts must stand prepared to discount the paper for them to the extent necessary to make good the reduced reserves. This was done in a small way when the last loan was placed, and is being done to some extent, although very moderately, to-day as a result of withdrawals of deposits now arising from sales of certificates of indebtedness. As these funds are withdrawn to New York from the interior reserve banks they are immediately disbursed by the government in New York and increase the deposits and reserves of the New York banks generally. The New York banks can then repay the advances which they have received from the Federal Reserve Bank of New York which builds up its reserve. It can then in turn repay to other reserve banks any paper which it previously might have delivered to them if rediscount transactions had taken place between Reserve banks. Gradually the whole set of entries arising from the preliminary withdrawals from New York will have been reversed and canceled as a result of the ultimate disbursements of the Government. The reserve banks have stepped into the breach simply to make some temporary advances. They have provided the machinery to move a great mass of credits rapidly from one part of the country to another and back again. In a sense the placing of these huge government loans is like moving a crop. When we have a large crop, the credit machinery must move faster. These large government borrowings make it necessary to speed up the credit machine, and that is exactly what the Reserve System is doing.

Credits Return to Their Points of Origin

It appears as though at this point the ultimate effect of subscriptions to government loans, the withdrawal of their proceeds to New York and their disbursement in New York by the Government, has resulted in a permanent loss of deposits, and consequently of reserves by the banks of the interior. The fears many bankers have expressed to me on this score would in some sections appear superficially to be well grounded, but the effect will not be permanent. If it were so, that section of the country which suffered a permanent loss of deposits would suffer permanently a corresponding contraction of savings realized from its productive capacity whether it was in manufactured goods, food stuffs, the products of mines or of forests, or what not. This great credit fund being expended by the government, with the exception of the pay of soldiers abroad and of negligible purchases abroad, is being expended in this country in the purchase of materials of great variety, and the amounts loaned to our allies are almost entirely being spent here as well. It means that in all sections of the country these credits must inevitably move back to their points of origin, directly or indirectly through government purchases. New ships, oil and coal, and products of mills, mines and forests in every part of the country now go to the government and each pulls back a share of this great fund. Even those sections which do not directly receive government contracts indirectly receive the benefit. Purchases of materials of various kinds in one part of the country either develop demands for raw materials or create a vacuum of goods which must be supplied or replaced from other sections. The intricate commerce of the country is so interwoven that it is difficult exactly to trace these movements, but the result is inevitable, and in those sections where this movement does not reach, it means that production and saving have been arrested, since the amount subscribed in any locality for loans to the government is measured by the amount which that locality saves out of the profits on what it produces.

It must be admitted that our agricultural products, which are one of the chief instrumentalities for bringing about this readjustment, are in the main marketed at one short season of the year. In the interval, withdrawals of bank credit from those sections of the country will leave vacuum somewhat longer than in manufacturing sections where production and marketing are continuous the year around. But when crops are moved and paid for this credit will move back inevitably to the agricultural sections so long as profitable crops are produced there.

What the Reserve Banks Are For

I refer to this particularly and emphatically because of the fears which some bankers entertain which might induce them to withhold their best efforts from assisting the government in placing the next loan. The last work of assurance on that point, very properly must come from the Reserve banks, for during the interval between the marketing of one harvest and the next, when banks in the agricultural sections must both finance the farmers and assist in financing the government, reserves must be bridged by reasonable accommodation at the reserve banks. That is what the reserve banks are for. They expect to be used, and no time like the present will ever arise in our history when this use of our new banking system will be so important to every citizen.

Speaking of these matters from the standpoint of the reserve banks themselves, I fear you may have heard careless discussion of their possible intention to attempt arbitrary control of these money matters. Only one kind of control is required, and that is self-control. The reserve banks should not be expected to tie up their reserves in permanent financing for the government or anybody else. Their function is to make these temporary loans during periods of strain, whether occasioned by war and government financing, by domestic difficulties or by any other cause. The exercise of self-control in these matters means that the reserve banks will see to it that the expansion which they afford to our banking system is that temporary expansion which is represented by a portfolio containing self-liquidating bills and loans which mature within a reasonably short time and which Congress has wisely fixed at ninety days and no longer.

CHERISHED GRAVES IN FRANCE

**A Visit to One of the Little Cemeteries
Where Our Soldier Dead Lie Buried**

By BENJAMIN STRONG
**Governor of the Federal Reserve Bank
of New York**

*Reprint from the New York Times
Sunday, April 18, 1920.*

SINCE the war ended articles have appeared from time to time in the daily papers relating to a project to bring home the bodies of American soldiers who were buried in France. I had wondered how the plan had originated, and have been told, although it may be that the statement is somewhat exaggerated, that there is some element of commercialism in the suggestion. Difficult as it is to believe, it is said that this agitation comes from some who hope by reason of their business to gain for themselves some commercial advantage or profit.

It has led me to think that it may be of some interest to the parents and relatives of these boys who gave their lives in a great cause to read of an experience which I had last Summer in motoring along the front in France.

Before sailing for Europe, I had received a letter from an associate whose only son, a Lieutenant in the Aviation Corps, was killed in the region of Château-Thierry in August, 1918, asking if I could conveniently visit the cemetery where his boy was buried and advise him of the conditions which I found there.

I left Paris on August 2, 1919, driving up the valley of the Marne to Château-Thierry. After passing through a part of this beautiful country, just beyond the city of Meaux, we left the main road to make a short detour to the village of Jouarre, where my friend's son is buried in the grounds of the Château de Pereuse. It is a peaceful and lovely spot, on high ground, overlooking one of the most delightful scenes in France. The château had been occupied by the Germans before the Battle of the Marne and used for military purposes. It was not damaged perceptibly and was recovered by the French, who used it as a hospital. My friend's son was brought there after being shot down and died at the château.

I was particularly interested in satisfying myself that the parents of our boys who lost their lives abroad need have no anxiety as to the respect and affection with which these burial places are cared for by the French. And what

I found at the Château de Pereuse I found likewise at three other cemeteries that I visited.

We were met at the gate by the daughter of the caretaker of the place (the family being away). She took us at once to a little field on one side of the château, which I judge had formerly been an orchard, and here were buried 72 French soldiers, 19 American soldiers, 1 French officer and 1 American officer—the boy whose grave I went to see. This little graveyard was laid out with the most painstaking care. Gravel walks surrounded each grave, and each group of graves, and had newly planted borders of boxwood.

At the time of my visit the flowers were in bloom and every grave was covered with a mantle of flowering violets.

The graves of all the French soldiers were grouped at the left, the American soldiers at the right, and between, lying side by side, were the graves of the two boy officers—French and American. Over the grave of Lieutenant Galland was a cross, with the Tricolor and a little tablet bearing the following inscription:

Sous Lieut. Galland,
Theodore,
174th Infantry,
5th Coy.
Mort pur la France.

And over my friend's son's grave was a cross made of the blades of the propeller of his machine, to which was affixed the American colors and a small aluminium plate bearing the following inscription:

Lieutenant ———
Pilot
1st Aero Squadron.
Killed in Action
August 1, 1918.

We took a number of pictures, but the real impression I brought home was that given in a conversation with the caretaker and his wife and daughter.

As we were leaving they asked us to step into their cottage for a few minutes' visit. I thought it was a simple

act of courtesy with no other object. My companion, however, who had been an officer in the French Army, after a few minutes' conversation with them drew me one side and asked if this boy was a relative of mine. I explained that he was the son of a warm friend. He then went on to say that these good people were alarmed by my visit, fearing that it evidenced an intention to disinter the boy's body and take it home. They then told me that this little graveyard had been laid out by the peasants in the village; that every scrap of the work had been done by them on Sundays; the grass had been planted and cut, the walks had been built, the box planted and the flowers had been planted and cultivated by these people, who found this the only means of expressing their appreciation of what our boys had done for France and their affection for the country from which they came. They explained that to the French a grave is sacred. They regard the graves of these American boys as a sacred trust; they want to keep them there, and they will be grievously hurt and disappointed if the bodies are brought home.

My own son was two years in France and fortunately is safely home. Parents may view this subject differently, but after my own experience I believe as between the satisfaction of having a son who had given his life for his country in France, buried in his own soil or left in France, I should instantly decide that my greatest satisfaction and happiness would be to have his grave serve as one of those ties which perpetuate and immortalize international friendships.

1920

CHERISHED GRAVES IN FRANCE

**A Visit to One of the Little Cemeteries
Where Our Soldier Dead Lie Buried**

**By BENJAMIN STRONG
Governor of the Federal Reserve Bank
of New York**

*Reprint from the New York Times
Sunday, April 18, 1920.*

SINCE the war ended articles have appeared from time to time in the daily papers relating to a project to bring home the bodies of American soldiers who were buried in France. I had wondered how the plan had originated, and have been told, although it may be that the statement is somewhat exaggerated, that there is some element of commercialism in the suggestion. Difficult as it is to believe, it is said that this agitation comes from some who hope by reason of their business to gain for themselves some commercial advantage or profit.

It has led me to think that it may be of some interest to the parents and relatives of these boys who gave their lives in a great cause to read of an experience which I had last Summer in motoring along the front in France.

Before sailing for Europe, I had received a letter from an associate whose only son, a Lieutenant in the Aviation Corps, was killed in the region of Château-Thierry in August, 1918, asking if I could conveniently visit the cemetery where his boy was buried and advise him of the conditions which I found there.

I left Paris on August 2, 1919, driving up the valley of the Marne to Château-Thierry. After passing through a part of this beautiful country, just beyond the city of Meaux, we left the main road to make a short detour to the village of Jouarre, where my friend's son is buried in the grounds of the Château de Pereuse. It is a peaceful and lovely spot, on high ground, overlooking one of the most delightful scenes in France. The château had been occupied by the Germans before the Battle of the Marne and used for military purposes. It was not damaged perceptibly and was recovered by the French, who used it as a hospital. My friend's son was brought there after being shot down and died at the château.

I was particularly interested in satisfying myself that the parents of our boys who lost their lives abroad need have no anxiety as to the respect and affection with which these burial places are cared for by the French. And what

I found at the Château de Pereuse I found likewise at three other cemeteries that I visited.

We were met at the gate by the daughter of the caretaker of the place (the family being away). She took us at once to a little field on one side of the château, which I judge had formerly been an orchard, and here were buried 72 French soldiers, 19 American soldiers, 1 French officer and 1 American officer—the boy whose grave I went to see. This little graveyard was laid out with the most painstaking care. Gravel walks surrounded each grave, and each group of graves, and had newly planted borders of boxwood.

At the time of my visit the flowers were in bloom and every grave was covered with a mantle of flowering violets.

The graves of all the French soldiers were grouped at the left, the American soldiers at the right, and between, lying side by side, were the graves of the two boy officers—French and American. Over the grave of Lieutenant Galland was a cross, with the Tricolor and a little tablet bearing the following inscription:

Sous Lieut. Galland,
Theodore,
174th Infantry,
5th Coy.
Mort pur la France.

And over my friend's son's grave was a cross made of the blades of the propeller of his machine, to which was affixed the American colors and a small aluminium plate bearing the following inscription:

Lieutenant ———
Pilot
1st Aero Squadron.
Killed in Action
August 1, 1918.

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