

## RELATION OF LIBERTY LOAN TO THE WAR SAVINGS PLAN.

Statement by John S. Drum, State Director  
of War Savings for California (Northern)  
before Liberty Loan conference in San  
Francisco on January 16, 1918.

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In calling for public subscriptions to Government securities issued in aid of the war, the Treasury Department has not definitely established the relation which exists between the two types of securities, but has promulgated plans which contemplate that during at least a part of the year both types will be on sale at the same time.

The very nature of the situation precludes any idea of competition between the Liberty Loan committees and the War Savings committees. At the same time it is advisable to analyze carefully the relationship between the two campaigns, which I shall attempt to do under the headings of (a) objects, (b) methods, and (c) results.

1. OBJECTS: Of course, the primary object of the Liberty Loan Campaign is to obtain vast credits needed by the Government for the prosecution of the war. Credits in the amounts necessary can only be obtained through large subscriptions to Government loans by <sup>the</sup> great financial, commercial, and industrial interests of the country acting together, and utilizing the resources of the Federal Reserve Banking System. It is barely conceivable that the war might be financed entirely in this manner, but the results, to be discussed later, would not be satisfactory from either an economic or a political point of view.

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The secondary object of the Liberty Loan Campaign is to stimulate the patriotism of the people by appealing to everyone to invest in the future of the country to the extent of his ability, and at the same time relieve the pressure upon the financial, commercial, and industrial interests which must in any event subscribe the bulk of the loan.

The primary object of the War Saving Plan, on the other hand, is not to obtain credits for the Government, but to stimulate patriotism by making it possible for everyone to have a direct financial interest in the outcome of the war. Equally important is the object of educating all of the people to save on nonessentials and <sup>by</sup> reducing their spending, to release labor and materials needed by the Government for war purposes. A third object is to encourage the practice of thrift and saving, to the end that these may become a national habit and lay the foundation for our economic security after the war.

Finally, there is the practical object of raising \$2,000,000,000, for war purposes, not one cent of which contributes to an increase in the tremendous inflation which results from the flotation of a credit loan as distinguished from a strictly thrift loan.

To summarize the objects, then, we find that on the financial side, the war could go on for a time at least without the War Savings Plan; but on the political side, it is the policy of the Government to attempt by every means possible to obtain the financial help of all of its citizens; and on the economic side, it may be stated as axiomatic that our war financing will be sound exactly in proportion as we accomplish it without undue inflation.

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2. **METHODS:** The method of the Liberty Loan Campaign is a spectacular drive; the method of the War Savings Campaign is a broad educational movement involving minute organization reaching into every home, however poor. The Liberty Loan Campaign is directed especially to amounts subscribed; the effort of the War Savings Campaign is directed especially to numbers of subscribers. The one is designed, as I have said, to raise credits regardless of the manner; the other is designed to bring home to every man, woman, and child enjoying the benefits of American life a realization of the obligations of citizenship and how each may help through saving, even in the smallest amounts.

This is not to say that there is no overlapping, for the Liberty Loan Campaign is largely an appeal to patriotism. The same arguments can be made for the purchase of both types of securities. The money goes to the same uses. The only difference is that Liberty Bonds may be subscribed in large amounts and on a credit basis, while War Savings Certificates can be purchased in amounts not exceeding \$1000 for any purchaser, and they can not be used as collateral.

To summarize methods, then, the Liberty Loan Campaign is primarily a drive for subscriptions; the War Savings Campaign is primarily an educational campaign to teach the people why everyone must help finance the war, as a concrete patriotic duty, by refraining from wasteful and needless spending and loaning the money saved to the Government.

3. **RESULTS:** The over-shadowing result of the Liberty Loan Campaign is the immediate creation of ample credits with which to carry on the war. This result brings with it, however, the inevitable inflation of credits,

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which reacts upon our whole economic life and contributes largely to the increase in prices. Inflation is a necessary evil; the effort of the Treasury Department is to reduce it to a minimum. Hence the campaign to obtain small subscriptions, either (a) from existing wealth, such as money on deposit in savings banks, which is already represented by funded investments which are placed in jeopardy by the withdrawal of deposits, or (b) on installment contracts involving tremendous detail labor for the banks and employers who advance the money and carry the subscribers during the period of their payments.

It can not be overlooked that thousands of subscribers to Liberty Bonds, on whom the Liberty Loan Committees expend time and energy during the campaigns, do not retain the bonds they buy but "spend" them exactly as currency, in the satisfaction of personal wants which it has not been the effort of the Liberty Bond Campaigns to curtail. It is obvious that whenever a subscriber parts with his bond, except for reasons of necessity, the work of the Liberty Loan Campaign is to that extent undone. The bonds that find their way back into the market must be absorbed, and in practice are absorbed, by the financial, commercial and industrial interests which were intended to be relieved by the original wide placement or distribution.

Moreover it is plain that the subscriber whose bond does not "stay put" is doing absolutely nothing to help the Government, for when he "spends" his bond, he is competing with the Government which his subscription was supposed to help. If I do without a suit of clothes which I do not need and put the money I saved into a Liberty Bond, I am giving the Government the first

call upon the wool on the sheep's back and all of the productive factors between the wool and me. But if I later trade the bond for the suit, I have undone all the good arising from the first transaction.

The War Savings plan is designed to encourage investing and holding. A War Savings Certificate is not negotiable, but as an offset, it is made redeemable at any time without loss to the investor. The campaign will emphasize the vital importance of saving to invest, primarily because saving reduces the individual's demands upon the limited supply of labor and materials available for war purposes, and secondarily because the thrift wealth or savings of the people will be our chief economic security after the war.

Ten per cent of the people bought Liberty Bonds, under the most favorable conditions for securing wide distribution. At least thirty per cent are expected to invest in War Savings Stamps during the coming year. Just as the Liberty Loan Campaign is far more important financially, it is far less important politically, where the main consideration is numbers rather than amounts.

To summarize results, then, the Liberty Loan Campaign produces money, but it must be recognized that only ten per cent of the people have been reached. On the economic side, it must be recognized that the Liberty Loan Campaigns make for inflation, whereas the War Savings Campaign does not. On the political side, the War Savings Campaign will be a failure unless it reaches three times as many people as have been reached by the Liberty Loan Committees.

C O N C L U S I O N

It would seem that both campaigns have an important part to play, one dove-tailing into the other. Briefly stated, the object of the Government is to finance the war promptly; with a minimum of inflation and a maximum of subscriptions. The Liberty Bond Campaign is addressed primarily to obtaining the necessary credits, regardless of consequences entailed to our financial system. The primary object of the War Savings Campaign is to secure the greatest possible number of small individual investments, representing thrift wealth solely, and without inflation.

Our appeal to patriotism is the same. The investor in one type of security is helping exactly the same as the investor of a similar amount in the other type of security. Experience of the first two Liberty Loans has shown that what is needed most is propaganda addressed directly to the individual, not for a brief period but as a part of every day routine.

This is the object of the War Savings Campaign. It is a propaganda of patriotism, and in order that it may be effective, the Government has offered special inducements to the people to save and invest small amounts, in order to keep the evils of inflation at a minimum and to awaken the patriotic interest of the whole public.

If the War Savings Campaign is successful, the movement will be the most active feeder for successive Liberty Loan Drives. If we can impress upon the people the vital necessity of saving, larger amounts will be available for subscriptions to future Liberty Loans, . and without inflation.

We hope to educate the public to an understanding of why Government securities should not be sold, through the emphasis we shall place upon the reasons why no one should redeem his War Savings Certificates except as a matter of extreme necessity.

On the other hand, the Liberty Loan Campaign will be an effective means, through its publicity and advertising, of bringing home to the people the importance of everyone doing his part, whether his ability is measured by a Liberty Loan subscription of fifty thousand dollars or the purchase of a single War Savings Certificate Stamp.

(Signed) JOHN S. DRUM.

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