

THE SECOND LIBERTY LOAN

AND THE CAUSES OF OUR WAR WITH GERMANY

ADDRESS

OF

HON. W. G. McADOO

SECRETARY OF THE TREASURY

DELIVERED AT THE ANNUAL CONVENTION OF THE
AMERICAN BANKERS' ASSOCIATION,
AT ATLANTIC CITY, N. J.

September 28, 1917



PRESENTED BY MR. SHAFROTH
SEPTEMBER 29, 1917.—Ordered to be printed

WASHINGTON
GOVERNMENT PRINTING OFFICE
1917

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THE SECOND LIBERTY LOAN AND THE CAUSES OF OUR WAR WITH GERMANY.

MR. GOEBEL AND GENTLEMEN OF THE AMERICAN BANKERS' ASSOCIATION: It would be difficult for me to express adequately to you my gratitude for the generous introduction of your president and for the cordiality of this reception.

I should like to repeat here what I said in Kansas City, Kans., Mr. Goebel's home town, when I had the pleasure of speaking there on the first Liberty Loan. I should like to testify here, as I did there, to my admiration of the sturdy and virile patriotism of this adopted citizen of the United States. He is a man whose unswerving integrity of character, unbending courage, and love for America have set an example to men even of native birth. I would that some men who claim to have been born American citizens could be infected with his splendid qualities of patriotism.

It is a great pleasure, gentlemen, to meet you here in this convention, and to thank you in person, and to express to you my deep appreciation of the assistance that the American bankers have given to the Treasury Department during this last year of stress and trial. The responsibilities of that department can not be discharged, my friends, without your support and without the support of every American citizen. We face a time in the history of America when, with the cooperation of everyone, the humblest as well as the highest, we can do the impossible. But without that kind of support, without seemingly a spirit of exalted patriotism animating at all times the people, and animating particularly men of your stamp and character, who must be leaders in the business life of your respective communities, these great tasks can not be performed. I know, however, that the American people will respond to the call of their country, that they intend to make America more than she has ever been in her history—regnant for right, for justice, for democracy throughout the world.

I would also take advantage of this occasion to express my appreciation of the splendid work the American bankers did in helping to provide that monumental fund of mercy, the Red Cross war fund. You not only contributed your money, but your services, and you had the opportunity—and you discharged it well—of rendering another great and creditable service to your country.

The credit of the Federal Government throughout its history has been maintained inviolate; its obligations have always been scrupulously observed; its engagements have always been honorably fulfilled. The national credit is the first bulwark of defense of the Nation's rights. If that credit be impaired, the whole economic and financial structure of the country is imperiled. Finance is so fundamental to war that the first duty of every nation upon the outbreak of hostilities is to conserve its financial resources and to make the national credit impregnable and sufficient for all the purposes of the war.

In all of the great financial operations in which the Government has been engaged in the past, and in all of those in which it must engage in the future, the American banker must, because of his knowledge, experience, ability, and influence, become the first line of defense and offense. His thorough cooperation with the Government relieves the task, however stupendous, of any doubt. To you, the patriotic bankers of America, has come a great responsibility and a great opportunity—the responsibility of helping your Government solve its huge financial problems successfully, and the opportunity to serve your country in ways peculiarly useful and effective at this time.

THE CAUSES OF THE WAR.

It is perhaps important that the reasons why we are at war with Germany should be restated as often as possible. There are some noisy agitators and disloyal writers in this country who have persistently endeavored to confuse the issue and to carry on a seditious and subtle propaganda for the purpose of

producing discontent among the people and of giving aid and encouragement to the enemies of the United States. A large part of this propaganda was undoubtedly financed by the German Government directly, from the outbreak of the European war, August, 1914, until America entered the war, April 6, 1917. Much of this same propaganda has probably been carried forward since America entered the war by German money left in the United States for that purpose by Von Bernstorff, the adroit and malevolent German ambassador, before he was dismissed. With that money and with money provided by German sympathizers and certain disloyal elements in the United States the propaganda has continued, but in a modified form. It would be difficult to ascertain exactly how much money has been expended for this purpose, but some of the recent disclosures by the State Department indicate how active were Germany's own representatives while in this country. It is well for the American people to realize the hypocrisy and disloyalty of all these efforts, and to determine to stamp them out relentlessly and remorselessly, because the interests of the Nation must at no time be imperiled more by the traitors within our walls than by the enemies without.

It has been repeatedly stated that America entered this war to make liberty and democracy secure throughout the world. While that is true, it must always be remembered that America entered the war for a more immediate reason. Noble and idealistic as is her championship of universal democracy, she entered this war primarily because of the persistent insults and aggressions of Germany, the wanton disregard of American rights within our own borders as well as upon the high seas, the contemptuous violation of international law, and the ruthless destruction of American life and property.

WANTON MURDER AND DESTRUCTION ON THE HIGH SEAS.

Before this war broke out, every civilized nation accepted and honored the rule that in time of war a merchant vessel, neutral or belligerent, should not be sunk by an enemy war vessel unless the lives of the passengers and crew were first made safe. Under this long-observed law an American citizen had the right to travel upon a British or a French merchant ship with the full knowledge that that ship would not be sunk by a German war vessel until the passengers and crew were taken from the ship and their safety secured. Civilized warfare has always respected the lives of noncombatants.

If a German regiment should capture a French town or city, and, while marching through the streets, should fire upon a crowd of unarmed and helpless men, women, and children, killing a great number of them, crippling and wounding others, the whole world would gasp with horror; and yet this would be far less inhuman than to sink a ship at sea containing noncombatant men, women, and children, because on land those who are wounded may be rescued, taken to the hospitals, and saved, while many who are not hit by bullets may actually escape. The reason the rule of the sea has always been rigidly enforced by every civilized nation is that if you sink an unarmed ship without giving the noncombatants a chance to escape, they are thrown into the water and all must perish. There is no chance for the wounded or the uninjured to escape. The remorseless sea engulfs them all and obliterates life "without a trace." What, therefore, would be a crime of the first order in the killing of noncombatants on land is a crime of colossal and inexcusable proportions when it is committed upon the high seas.

Yet this is exactly what Germany has done consistently since the outbreak of the war. She has destroyed merchant vessels on the high seas without warning, killing noncombatant men, women, and children without mercy and in the most brutal and ruthless fashion, in defiance of all international law and every accepted rule of humanity and civilization.

The rights of Americans upon the high seas have been wantonly disregarded. It is not an answer to say that Americans should not have sailed on merchant ships bearing the British or the French flag. They had a right to sail on those vessels, and were compelled to sail on them because there were not enough merchant ships under the American flag to furnish transportation for American business men, American consular and diplomatic officers, and others engaged in peaceful and rightful pursuits to go upon their legitimate errands. They were forced to sail under foreign flags and were entitled to the protection accorded by universally accepted international law and the mandates of civilization and humanity, viz, that the ships would not be sunk by an enemy vessel until the safety of passengers and crew was first assured.

PIEDGES VIOLATED WITH IMPUNITY.

On September 1, 1915, the German Government gave the following assurance to the United States:

"Liners will not be sunk by submarines without warning and without safety of the lives of noncombatants, provided that the liners do not try to escape or offer resistance."

This promise was promptly violated. On October 15, six weeks thereafter, the British steamship *Arabic* was sunk and three American lives were lost. The German Government said to the United States:

"The Imperial German Government regrets and disavows the act and has notified Commander Schneider accordingly."

Scarcely had this assurance been received before the Italian steamer *Ancona* was torpedoed without warning and seven American lives were destroyed. On the 29th of November, 1915, the American vessel *William P. Frye* was sunk in violation of international law. Following that, attacks were made upon several American vessels in gross violation of these promises, and on December 30 the British liner *Persia* was sunk in the Mediterranean without warning and more than 300 passengers and members of the crew were lost, among them being an American consul traveling to his post. This American consul was obliged to sail on this British vessel because there was no American vessel upon which he could travel, and he was killed while in the line of duty, bearing upon his person the flag of the American Republic. He was entitled to protection under international law, as well as under the repeated assurances of the German Government.

On January 7, 1916, the German Government again assured the United States that German submarines in the Mediterranean would not sink enemy merchant vessels, except in accordance with the general principles of international law, and "only after passengers and crews had been accorded safety." On February 16, 1916, the German Government said to the United States:

"Germany has limited her submarine warfare because of her long-standing friendship with the United States, and because of the sinking of the *Lusitania*, which caused the death of citizens of the United States, the German retaliation affected neutrals, which was not the intention, as retaliation should be confined to enemy subjects."

The German Government promptly proceeded to disregard these assurances, sinking numerous ships without warning, injuring a number of American citizens and imperiling the lives of many more. Whereupon the American Government notified the German Government on the 18th of April, 1916, two months thereafter, that—

"If it is still the purpose of the Imperial German Government to prosecute relentless and indiscriminate warfare against vessels of commerce by the use of submarines, without regard to what the Government of the United States must consider the sacred and indisputable rules of international law and the universally recognized dictates of humanity, the Government of the United States is at last forced to the conclusion that there is but one course it can pursue. Unless the Imperial Government should now immediately declare and effect an abandonment of its present methods of submarine warfare against passenger and freight carrying vessels, the Government of the United States can have no choice but to sever diplomatic relations with the German Empire altogether."

Whereupon the German Government, on the 4th of May, 1916, about two weeks thereafter, gave definite assurances to this Government that new orders had been issued to German naval officers "in accordance with the general principles of visit and search in the destruction of merchant vessels recognized by international law."

Again, and in spite of these repeated assurances, the German Government proceeded to sink merchant vessels without warning and without securing the safety of the lives of passengers and crew. One American was killed on the British steamer *Cabosha* on October 20, 1916, 8 Americans were killed on the British steamer *Marina*, October 28, 1916, 17 Americans were killed on the British steamship *Russia*, December 14, 1916.

DIPLOMATIC RELATIONS SEVERED.

On January 31, 1917, the German Government gave this notice to take effect the following day:

"Germany will meet the illegal measures of her enemies by forcibly preventing in a zone around Great Britain, France, Italy, and in the eastern Mediter-

anean, all navigation, that of neutrals included, from and to England, from and to France, etc. All ships met within that zone will be sunk."

Whereupon the United States on February 3, three days afterwards, severed diplomatic relations with the German Government in the following statement:

"In view of this declaration which withdraws suddenly and without prior intimation the solemn assurance given in the Imperial Government's note of May 4, 1916, this Government has no alternative consistent with the dignity and honor of the United States but to take the course which it explicitly announced in its note of April 18, 1916, that it would take in the event that the Imperial Government did not declare and effect an abandonment of the methods of submarine warfare then employed and to which the Imperial Government now purposes again to resort."

All diplomatic relations between the United States and the German Empire were thereupon severed, the American ambassador at Berlin was immediately withdrawn, and the German ambassador, Von Bernstorff, was given his passports.

Between February 3 and April 1, 1917, almost two months, 1 American was killed on the British steamship *Eavston*, 10 Americans were killed on the British steamer *Vedamore*, 1 American was killed on the British steamship *Torino*, 1 American was killed on the French steamer *Athas*, 8 Americans were killed on the British steamship *Laconia*, 1 American was killed on the Norwegian steamship *Sjostad*, 5 Americans were killed on the American steamship *Vigilancia*, 7 Americans were killed on the American steamship *Hcaldton*, and 19 Americans were killed or missing from the British steamship *Crispin*. Besides this, seven American steamships were sunk by German submarines in these two months, but no Americans, except five on the *Vigilancia*, were killed.

Moreover, the British steamer *Yarrowdale* was captured by a German auxiliary cruiser prior to our entry into the war, and 72 American citizens were taken as prisoners of war by Germany, which was a clear violation of American rights. They were maltreated and abused and subsequently released.

The crowning act of infamy in Germany's ruthless policy, however—and I mention it last, although it was the first in occurrence—was the sinking on May 7, 1915, of the British steamship *Lusitania*, an unarmed passenger vessel, and the killing of 114 American citizens—men, women, and children.

Each and every American life and each and every American vessel destroyed by Germany during these two years was an act of war upon the American people, the consequences of which were avoided from time to time by the plausible assurances and excuses of the German Government, each and every one of which was perfidiously and insincerely made, and each and every one of which was deliberately disregarded.

GERMAN INTRIGUE AND PERFDY.

But this is not all. Germany, while professing friendship for America, and while her ambassador, her representatives, and her citizens were enjoying our hospitality and receiving our protection, was plotting against the domestic security of the United States by blowing up munitions plants, fomenting strikes and disturbances in the labor world, disseminating false information and poisoning the minds of the American people against their own Government, plotting its downfall, and seeking to influence our Congress, as evidenced by Von Bernstorff's dispatch of January 22, 1917, to the Berlin foreign office, in which he said: "I request authority to pay up to \$50,000 in order, as on former occasions, to influence Congress through the organization you know of, which can perhaps prevent war." And while Von Bernstorff was busy upon our own shores with intrigue through his spy system and through the corrupt use of money to influence public opinion and the national policies of the American people, Zimmermann, the foreign secretary in Berlin, had sent a dispatch to Mexico urging her to make war upon the United States and begging Mexico to invite Japan to join her in this dastardly work, promising Mexico that California, Arizona, New Mexico, and Texas would be restored to Mexico in the event of success. What more perfidious conduct could have characterized the government of any nation with which we were at peace? What must be the judgment upon a government capable of such infamies? And yet there are those who undertake to defend Germany and to say that the American people did not have sufficient grounds upon which to enter this war.

Why, my friends, if there is an American who, knowing this record, says deliberately that America did not have ample provocation or justification for

this war, that it was not essential to protect America's integrity and honor, then yellow blood runs in his veins; there is not a drop of the red blood of our ancestors in him.

If there be a man, woman, or child in America who has the slightest doubt about the rectitude of your Government, I want them to know this record, to realize the patience and forbearance under the most extreme provocation of your noble President—I want them to know that record, because, knowing it, they can look any man in the face, they can face their God, with the knowledge that America went to the utmost limit in its endeavor to preserve an honorable peace.

The outrages committed upon American rights through the persistent destruction of American life and property during the years 1915, 1916, and 1917 were provocation enough, but when the German Government undertook, by its edict of January 31, 1917, to mark off hundreds of miles of the high seas surrounding Great Britain, France, and Italy, and to declare that it would sink on sight every American vessel which entered these prohibited waters, although, in pursuance of lawful commerce and of international right, and actually proceeded to carry out the threat, there was nothing left for America to do but to fight or else submit to this tyrannical and monstrous edict of the German military despot.

SUBMISSION IMPOSSIBLE.

We chose to fight—and why? Because, first, national honor and self-respect imperatively demanded it, and, second, because we can never concede the right of any nation, however powerful, to order American vessels and American citizens to keep off the high seas and prevent America from selling her surplus products of the farm, the factory, and the mine to other nations of the world.

If we had tamely submitted to that order it would have brought disaster and ruin to the American people. Not only would it have been a mortal blow to their honor, self-respect, and standing as a nation, but it would have brought irreparable injury, loss, and suffering to our people. If any foreign nation in this war could with impunity order vessels of the United States to keep off of any portion of the high seas, which are the common property of all the nations of the earth, and if we had submitted, we would have established a fateful precedent. In a future war some other nation might conclude that American vessels carrying American citizens and American commerce should be ordered off of some other portion of the high seas, and we would be obliged to submit or to fight under all of the disadvantages of having yielded in the first instance. If we had been submissive, it would not be an illogical next step for the nation which ordered us off of 500 miles of the Atlantic Ocean to order us to keep off the entire Atlantic Ocean except that part within 3 miles from our own shores, over which we have acknowledged jurisdiction. We could never submit to such a destruction of our vital rights.

AGRICULTURE AND OTHER INDUSTRIES THREATENED.

On the material side the disaster of submission is most striking. The Kaiser's order forbade our ships from carrying our people and our commerce to Great Britain, France, and Italy. Our prosperity and our welfare as a people are inseparably connected with our right of free and unmolested intercourse with those nations. In the fiscal year 1917 our total exports to Great Britain, France, Belgium, and Italy were \$3,457,000,000, in round numbers; in 1916 they were \$2,247,000,000, in round numbers. Our exports to those countries constitute more than one-half of our export trade with the entire world. These exports represent the surplus products of our farms, of our mines, of our factories. If we are denied a market for them, these farm products would rot or go to waste upon our own soil, the production of our mines and factories would be greatly reduced, labor would be thrown out of employment, stagnation of industry would result, and suffering and want would stalk in the land. Our production always has exceeded the home demand, and if we are denied foreign markets and attempt to sell the whole of our products at home, the result would be demoralized prices, with returns far below the cost of production, and consequent injury to every man, woman, and child in America. No one more than our farmers, the grain growers and the cotton growers particularly, would be so injured by obedience to the Kaiser's order. While our export trade would be destroyed, our import trade would disappear. Certain imports are essential to our national life and existence. We must have them, and we can never submit to any tyrant who forbids us to sail the high seas in the peaceful pursuit of our

legitimate interests and in the unmolested enjoyment of the rights we won by the blood and courage of our ancestors.

If we had yielded to this insolent order signed by the Kaiser in his palace in Berlin, he would have destroyed by one stroke of his pen more than \$3,400,000,000 of our commerce, and American vessels and American citizens would have been excluded from all intercourse with the great and friendly nations of Great Britain, France, and Italy. By one stroke of the Kaiser's pen he would have accomplished more destruction on our farms, in our factories, and in our mines than he could achieve with all the armies and navies of the German Empire. It is a monstrous edict, and it would be a monstrous thing for America to submit to it.

And so we had to fight for our rights, and so it is that we are engaged in a righteous war—a war which we intend to bring to a successful issue by the organized might of this Nation. We intend to match organization against organization, science against science, American skill against German skill, American valor against German valor, and I have not the shadow of a doubt that the victory will be complete, that America's honor will be vindicated, that America's vital rights will be preserved, that peace upon a stable and just basis will be reestablished, and that democratic institutions will be extended throughout the earth.

MONEY THE FIRST ESSENTIAL.

When war comes to a nation the first essential is money. We must keep our soldiers and sailors armed and equipped with the best that money can buy and American skill devise. We must constantly provide them with necessary clothing and food; we must pay their wages; we must, as a humane and just Nation, support their dependent families while they are risking and giving their very lives for us; we must supply them with a reasonable amount of life insurance.

The first duty of the Nation to its gallant sons who go forth to die upon the field of battle to protect your lives, your property, and your honor is that it shall retribute to them what it destroys when it drafts them into the service of their country or when they volunteer to go into the service of their country. Do you realize that when the Government reaches out its hand and takes the young man who is earning \$1,200, \$1,500, \$2,400, \$5,000 a year, more or less, it not only says, "You must put your life in the balance and give it, if need be," but it conscripts that man's income and earning power down to \$396 a year, because that is all it pays to a soldier? Not only that, but if he has loved ones at home whom he must support, can you imagine his emotions when he is taken out, to die perhaps, knowing that his wife and his babies may starve behind him or be dependent upon charity? The Nation also destroys the insurability of that man. He finds instantly that no matter how healthy his sinews, nor how strong his heart, no matter how good a risk he would be in peace time, he can get no insurance. With his earning power reduced, he is at the same time unable to make any sort of insurance provision for those dependent upon him. Is it asking too much of the generous, just, and humane people of America to retribute also the insurability of that soldier, to give him the opportunity of buying insurance from his own Government at reasonable rates, so that he may make the last loving provision that every man should make for his family if he has to face death? The House of Representatives has answered that question by passing the war insurance bill by a unanimous vote, and the Senate, I am satisfied, will soon follow suit; so that our brave defenders will go forth with the knowledge that everything that the love, affection, and sense of justice of a great people can do for them has been done.

We must increase, strengthen, and maintain our Navy; we must provide a predominant fleet of aeroplanes and air fighters; we must build a great merchant fleet, so that our long line of communication with our gallant soldiers in France may be maintained and our commerce carried across the high seas in defiance of the German Kaiser and his submarines; we must succor our noble compatriots in arms—the British, the French, the Italians, the Belgians, and the Russians—by lending them money with which they can buy arms and food and other supplies in our markets. All these things must be done and done quickly.

The money that we are raising by taxation and by bond issues is being devoted to these purposes, and to no other purposes. More than \$1,000,000,000 of the money that you are going to provide this fiscal year is being expended or will be expended upon your Army, upon from 1,800,000 to 2,500,000 of the

bravest and the most gallant soldiers that ever donned the uniform. And your Navy, recruited to the full with brave tars under whose uniforms beat the true hearts of American freemen, is being built up, equipped, and manned with this money.

After this war is over all of these expenditures will not be lost, because the great fleet of merchant ships we are now going to construct at last and put into operation will give American commerce the one thing that it has needed all these years. We shall spend more than \$1,000,000,000 for merchant ships.

It is a most unhappy fact—and I allude to it not as criticism but simply to show that it is not always wise to form hasty judgments upon measures that seem at the moment radical—it is a most unhappy fact that when we endeavored in September, 1914, one month after this war in Europe broke out, to make the beginnings of a Government merchant marine to protect our commerce and our people, it was filibustered to death, and that it was only after the lapse of two years of hard struggle that a bill was finally passed. But we have got the bill now, and we have got the Shipping Board, and we have got the money. American skill and ingenuity are giving an example to the world of what an aroused nation can do. We are going to turn out ships and more ships, standardized and perfected, and put them on the high seas with more rapidity than has ever been done before in the history of the world.

It is upon the Treasury of the United States that every demand in time of war focuses, because everything goes back to the gold pile. I should like you to realize that every dollar that is paid to a soldier, every pair of shoes he puts on his feet, every piece of clothing he wears, every gun he carries, every cartridge he fires, every 18-inch shell that is hurled from the monster guns of our battleships, and every shovelful of coal that is consumed in their boilers, everything that touches this war and involves a Government expenditure, depends upon the money in the United States Treasury.

When you turn on the electric light in this building, and turn it on in other buildings miles from here, it must come from the power plant. The strain is there, and unless that power plant is constantly supplied with fuel with which to keep those lights burning, you have darkness. And so, in the same way, unless you keep the gold pile in the Treasury of the United States sufficient for the demand, unless you keep it so large and so ample that whatever strain your Government puts upon it for the purposes of this war will find a ready response, then the light of liberty goes out in the world and where is America?

The problem of the American Treasury is the problem of the American banker and the problem of the American people; it is the problem of keeping the Treasury supplied with the means to carry forward these great objects under the direction of the Commander in Chief of the Army and Navy of the United States, your President, whose glorious stand for America's honor and America's rights, for justice, civilization, and democracy have made him one of the greatest of the world's outstanding figures.

The problem is twofold: To supply essential credits to the allied Governments, because it is vital to the cause that their strength and credit shall be sustained; and, secondly, to meet our own requirements.

BETWEEN \$12,000,000,000 AND \$14,000,000,000 IN BONDS.

Roughly speaking, and after allowing for the amount of revenue to be raised by taxation for the fiscal year ending June 30, 1918, we shall have to raise by additional bond issues between thirteen and fourteen billions of dollars. It is estimated that \$5,000,000,000 will represent additional loans to the allied Governments, which, in turn, will give us their obligations bearing interest. This \$5,000,000,000 will not, therefore, represent expenditures; it will represent loans based upon the good faith and honor of these foreign Governments—loans which will ultimately be repaid to the American people. But as we must finance these loans, they are an integral part of our general financial operations. To raise thirteen to fourteen billions of dollars on or before the 30th June, 1918, by the sale of bonds in recurring installments seems to some people an impossible task. It is a stupendous undertaking, but it is not impossible for America. It is not easy, but it can be done. Our resources are adequate; our will is perfect; our spirit is indomitable; and our success is certain. We have only to pull together—bankers, lawyers, doctors, manufacturers, farmers, wage earners, laborers, men and women alike. Girl Scouts and Boy Scouts, and every other classes of our people—and we can do the job. Already we have demonstrated what a united people can do when partisanship is subordinated to

patriotism; when love of country becomes supreme. I look forward, therefore, with confidence to the success of the recurring campaigns we must make for the sale of Liberty Bonds, and I am comforted by the reflection that the Government has the solid and unswerving support of the patriotic men who compose the American Bankers' Association.

THE BONDS OF THE SECOND LIBERTY LOAN.

The new bonds bear 4 per cent interest and are exempt from all State, municipal, and local taxation, except estate and inheritance taxes, and all Federal taxes except superincome taxes, excess-profits taxes, and inheritance taxes. They are convertible into another issue of bonds, if authorized by the Congress, bearing a higher rate of interest than 4 per cent. I shall not enter into the details, because Treasury circulars and regulations will explain them fully. I do desire, however, to advert briefly to the taxation feature of these bonds.

The first Liberty Bonds bore 3½ per cent interest and were exempt also from supertaxes. These bonds did not make the widest appeal. To be successful with recurring issues of Liberty Bonds, it is necessary that they should appeal to the masses of the people. In order to give the exemption from supertaxes on the first Liberty Bonds, it was necessary to make the rate of interest correspondingly low. The returns show that of the 4,000,000 subscribers to the first Liberty loan 3,000,000 subscribed in amounts of \$10,000 and less. The aggregate of such subscriptions was approximately \$1,300,000,000, or 62½ per cent of the first offering. To most of these subscribers exemption from the supertaxes was of no value, or in any case of little value, whereas to the 40,000 subscribers who bought large blocks of Liberty Bonds the exemption from the supertaxes gave an undue advantage. In order that they might have this advantage, the small holder was obliged to receive a lower rate of interest. It was estimated that under the pending House bill the exemption from supertaxes would make a 3½ per cent Liberty Bond in the hands of a man with a large income equivalent to a taxable bond bearing 9½ per cent interest per annum for that part of his income in excess of \$2,000,000. The inequality of this plan is obvious. It sets at naught the principle now firmly grounded in our national policy, that graduated taxes shall be laid upon wealth in order that the burden of taxation may be equitably distributed and made to bear more heavily upon the rich than upon the poor. No one now challenges the correctness of this principle. It is, therefore, essential that Government bonds should be issued upon a basis which will be equally just to the poor man and the rich man, so that each may purchase these bonds upon practically the same interest basis after allowing for the different scales of taxation. The present law accomplishes that object.

It should be borne in mind, moreover, that if the Government should continue to exempt from supertaxes bonds issued during this war, the time would come when there would be created in this country a class of people of great wealth, enjoying great incomes wholly free from tax burden. A grave risk would be involved in such a policy. It would be fraught with great danger to the State and would be well calculated to produce discontent with tax burdens falling thus heavily on the many to the exclusion of the few.

For the purpose of illustration, let us suppose that the war continues so long that \$20,000,000,000 of bonds, bearing 4 per cent interest, should be outstanding, and that they were exempt from all taxation, including supertaxation. The interest charge on these bonds would be \$800,000,000 per annum, almost as much as the entire expenses of the Government at the outbreak of this war. Let us suppose that half, or \$400,000,000, represented the exemption from supertaxes which was accorded to people of great wealth. Bear in mind that I am taking arbitrary figures merely for the purpose of illustration. This \$400,000,000 would have to be raised by taxation upon the masses of the people; in other words, they would have to be taxed directly in order that the \$400,000,000 of tax exemption could be accorded to the people of great wealth who bought the Liberty bonds. This is manifestly unfair, because, although the total exemption affects more or less the price for which the bonds may be sold for the United States, yet no adequate return can be had for it. We can not sell bonds in billions on the basis of what they may be worth to the very rich. They must be offered to all the people alike at one price, and should appeal to all alike and upon equal terms. The result of selling a bond which bears a low rate of interest and carries exemption from graduated and superincome taxes will be this: The poor and the people of modest means will buy them for patriotic reasons, but will be unable to hold them, because the return is too

small. It will be less than they can get from banks of deposit or savings banks, and the tendency will be all the time for these bonds to be purchased from them and accumulated by the very rich without any adequate consideration moving from them either to the United States or to the original subscriber. In these circumstances the value of the tax exemption depends not upon the bonds themselves, but upon a wholly extraneous fact, the extent of the wealth of the holder.

Much might be said for subjecting the bonds to normal income taxes as well as to supertaxes. Practical considerations, however, make such a discussion academic. If the bonds were not exempt from normal taxes it would probably be necessary to offer a higher rate of interest than 4 per cent. To do that would involve too sudden an adjustment in the markets for other securities to be healthy. It is important that the United States, in becoming a great borrower of money, should adjust the terms of issues in such a way as to avoid, as far as practicable, any break in the general market for securities. It is apparent that the reasons I have given, which are controlling against exemption from supertaxes, apply, if at all, only to a very limited extent to exemption from stamp taxes and normal income taxes. These taxes are levied upon all wealth at a level rate, and the exemption carries approximately equal value to every bondholder, rich and poor alike. There is a very natural feeling that the holder of a United States bond ought not to be harassed by little taxes and returns incidental to its ownership. The United States ought to be able to get full value for exemption from such normal and stamp taxes in the price and interest rate at which it will be able to sell its bonds. The bonds will, of course, continue to be exempt from all State and local taxes throughout the United States.

CONVERSION PRIVILEGE.

If a subsequent series of bonds bearing interest at a higher rate than 4 per cent per annum should be issued by the United States before the end of the war, then the holders of these bonds will have the privilege, at their option, at any time within six months after such issue is made, of converting their bonds at par into bonds bearing the higher rate of interest at the price, not less than par, at which the bonds bearing interest at the higher rate shall be offered for subscription to the public. Of course, bonds bearing interest at a higher rate than 4 per cent can not be issued without further legislation by Congress, and if such an issue should be authorized, not only the interest rate but also the general character of the bonds will be determined by Congress or by the Secretary of the Treasury under the authority of an act of Congress; and the holders of the 4 per cent bonds will be entitled, if they wish to do so, to receive bonds of the character so determined, except that the bonds issued to them, if they exercise the privilege of conversion, will have the same date of maturity, the same interest dates, and the same date for redemption before maturity as the 4 per cent bonds now offered. If this new conversion right arises it must be exercised within the period prescribed by the Secretary of the Treasury or it will come to an end. The object of this privilege of conversion is to place the investor in 4 per cent Liberty bonds in a position of substantial equality with the purchaser of bonds of the next issue at a higher rate, if any be made—not to give him a position of superiority from which he might pick and choose between various bargains which from time to time might be offered by the United States during the course of the war. If the new bonds into which conversion is made carry also a conversion privilege, then that privilege may be exercised with respect to a subsequent issue at the holder's option.

These provisions for conversion are substantially determined by the act of Congress recently approved by the President, and under which the bonds are offered for subscription. Of course, this act of Congress does not affect in any way the rights of the holders of the $3\frac{1}{2}$ per cent Liberty bonds of the first issue. Their rights were fixed by the previous act, and by the terms of the circular offering these bonds for subscription, and by the terms of the bonds themselves. They may convert their bonds into new 4 per cent bonds just like those now being offered for subscription, except that the bonds issued upon such conversion will have the same maturity of principal and interest and redemption date as the old $3\frac{1}{2}$ per cent bonds, or they may keep their $3\frac{1}{2}$ per cent bonds if they prefer.

The old law under which the $3\frac{1}{2}$ per cent Liberty bonds are issued differs in one respect from the new law under which the 4 per cent bonds are issued. The holders of the $3\frac{1}{2}$ per cent bonds, while they must exercise the privilege of conversion into the 4 per cent bonds within the period of six months beginning

November 15, if they desire to exercise it at all, would have the right, if subsequently bonds should be issued at a still higher rate, say $4\frac{1}{2}$ per cent, again for a period of six months beginning at the date of the issue of those bonds, to convert their bonds into $4\frac{1}{2}$ per cent bonds, even though they had not made an intermediate conversion into the 4 per cent bonds. This arrangement, resulting from the language of the old law, seemed to Congress and to the Treasury Department to be rather more than fair to the old bondholders and to carry with it burdens of administration and difficulties in connection with the future financing of the United States which ought not to be repeated.

AN INVESTMENT OF MATCHLESS CHARACTER.

It has been urged upon me that many men of wealth will refuse to buy the 4 per cent bond with liability to superincome taxation. I should be loath to believe this; but if it is true, the position of the Government must always be to offer a bond upon terms fair and equitable to all alike and which will make the widest possible appeal to all the people without regard to the extraneous fact that a man may be poor or rich. The Government can not finance this war by making an appeal alone to the rich, nor to the man of moderate means, nor to the poor. Its appeal must be to all the people, and all the people must respond to that appeal and by united effort sustain the Government in these great credit operations. It has been suggested to me that patriotism should play no part in the sale of Government bonds. I do not concede this, although I believe that the American people will buy these 4 per cent Government bonds on their merits. Patriotism is, first, love of country above everything—above life itself; second, love of country combined with that vital interest in the Nation's welfare and safety which will make secure the material interests of each individual and promote his happiness and prosperity.

If this is true, the man of wealth, with patriotism or with modified patriotism or without patriotism, has a greater stake in the security of Government than any other class, because if the Government's credit is destroyed and disaster comes upon the country, as it inevitably will if the Government's credit fails, what is property worth to the rich man, what is life worth to the free man? By buying Government bonds the rich man obtains the safest investment in the world and, at the same time, by helping to sustain the national credit, promotes the national safety and makes property secure.

But upon the merits of the investment the man of wealth secures in a Government bond, subject even to the supertaxes, an investment of matchless character. His principal is safe beyond peradventure. Neither storm nor stress can shake it. Its market value is the same in every State in the Union; it is exempt from taxation in every State in the Union and not, as in the case of State, municipal, or local bonds, only in the State of issue; it pays an adequate return; it is convertible into another bond bearing a higher rate of interest during the war with Germany. What could be more liberal to the investor? I know of no instance where a bond has been issued by a State, or any political subdivision thereof in the United States, or by any private corporation, which gave to the investor the opportunity of converting that bond into a subsequent issue of bonds at a higher rate of interest. There may be, but I am not aware of it.

The question naturally presents itself as to how these great operations of the Government are to be financed. They can be financed only through the united support of all the people of the United States. The kind of support I mean is that every individual, every partnership, every corporation, shall invest not only their available means from time to time in Government bonds, but that they shall make sacrifices of comfort and convenience; that they shall economize; that they shall avoid waste; that they shall save in every possible direction in order that they may increase their available resources for the purpose of assisting the Government in these prodigious operations upon which the national security absolutely depends. We must encourage thrift and industry throughout the land, and we must make everybody understand that the first duty of the hour in this critical time is to place all their available resources at the disposal of the Government.

THE RESOURCES OF AMERICA.

Fortunately the resources of America were never so ample for ourselves and so formidable for our enemies as now. The value of our farming and agricultural products for the year 1917 is the greatest ever recorded. In a state-

ment I have just received from the Secretary of Agriculture he estimates the value to be \$17,000,000,000. The combined resources of the National and State banks (including trust companies) of the United States are now \$37,000,000,000. At the outbreak of the Civil War the combined resources of the banks were estimated to be \$1,500,000,000, and yet with these limited banking resources the Union Government raised \$3,000,000,000 by bond sales, or twice the amount of the banking resources of the country. Upon the same basis we should now be able to raise \$74,000,000,000 through Government loans. I am not suggesting that this may be done; I am only drawing a comparison.

In connection with the resources of the United States and the sale of these bonds, I wish to say that the money derived from the sale of these securities, the money derived from taxation, including even the money we lend to foreign Governments, is largely, if not wholly, spent within the limits of the United States; only a small fraction of it is expended in any other direction. These operations involve in very considerable measure merely transfers of credit, and the proceeds of these bonds are rapidly being sent back into the channels of business for the purpose of promoting and enhancing the prosperity of the people of the United States.

There has been much speculation as to what are the annual savings in the United States, as to whether or not they are large enough to meet the demands of the Government in this war, and as to how much will be left after the needs of the Government are satisfied. I have myself been greatly confused by the many conflicting estimates and theoretical observations with which I have been favored. Recently there was placed in my hands an interesting and illuminating paper on this subject by Col. M. W. Thompson, now in charge of the Finance Division of the Signal Corps of the United States Army. The argument and the figures arrayed in this statement are impressive. I quote two paragraphs therefrom:

"Careful investigation of the present available supply of capital suggests the conclusion that the present needs of the Government may be adequately met, and that the entrance of the Government into the market as a competitor for capital need not prevent necessary expansion. The needs of the country must be and will be first served, but there will be sufficient capital left for industrial purposes. Patriotic response to the needs of the country need not force bankers into a policy of retrenchment. These conclusions are striking. Indeed, they are at variance with the general attitude of financiers, but they are soundly based upon accurate statistical information.

"In a normal year, savings from all sources in the United States, from corporations, business men, farmers, and investors generally, amount to from \$5,000,000,000 to \$6,000,000,000. In 1916 the supply of capital in the United States was about two and a half times the normal amount. In that year savings in this country, including those reinvested by corporations in their own enterprises, amounted to \$15,000,000,000. Conservative estimates for the current year indicate that the aggregate for 1917 available for the use of the Government in prosecuting the war and for the general purposes of financing industry may reach \$18,000,000,000."

I have not had opportunity yet to study the elaborate tables and the argument which have been submitted to me in support of these conclusions, but I have examined them sufficiently to convince me that they are worthy of deep study. I am greatly indebted to Col. Thompson for the service he has rendered in making this analysis, and for the privilege he has given me of making use of it. I hope to be able to publish Col. Thompson's statement in the near future.

Whatever differences of view there may be about the annual savings of the American people, it is undoubtedly true that they are so large that with the other resources of the country upon which we may draw, there can be no doubt whatever of the ability of the people of the United States to finance every demand which the Government may make upon them for the purposes of this war. If the ordinary savings which have been made heretofore voluntarily are now augmented by the savings which can be effected under the pressure of patriotism and necessity, by prevention of waste, the practice of genuine economy, the cutting off of luxuries during the period of this war, what may not the American people be able to do? No one can gauge the latent power of the people of the United States in that respect. Already the country is aroused to the importance of the situation, and there is a spirit of determination and co-operation throughout the land which augurs well for the success of every financial undertaking of the Government, and for the continued maintenance of our industrial and commercial situation unharmed and unimpeded by the essen-

tial financial operations of the Government. This sounds at variance with what I am going to say subsequently about the necessity of stopping unnecessary capital expenditures during the war, but it is not. That action is none the less desirable, because, as a matter of prudence and of wisdom, we should conserve the resources of the Nation in every possible direction.

WAR SAVINGS CERTIFICATES.

In the matter of savings, which are of such prime importance, the Treasury proposes to issue in the near future and to sell to the people war savings certificates in as small denominations as \$5, maturing in five years, and upon such a reasonable plan that the humblest person in the land may be encouraged to save all that he can and to invest in an absolutely safe security bearing interest, while at the same time doing his part to sustain the Government and help win the war. I have appointed a War Savings Committee to take charge, under the direction of the Secretary of the Treasury, of this important branch of the work. This committee consists of Messrs. Frank A. Vanderlip, chairman; Frederick A. Delano, of the Federal Reserve Board; Henry Ford, of Detroit; Charles L. Baine, of Boston; Eugene Meyer, of New York; and Mrs. Elizabeth Bass, of Chicago. It will not be possible to offer the war savings certificates during the forthcoming liberty loan campaign, but as quickly as possible these certificates will be made available for the people of the country through the post offices, internal-revenue offices, customs offices, the banks, and other agencies that may be designated by the Government.

The value of this campaign for war savings certificates is not alone in the amount of money that may be saved, but in teaching the people of the United States on a nation-wide scale and through an intelligent presentation of the facts, the value of thrift and saving. Its beneficial effects ought to survive the war and have a permanent influence upon the future economy of the country.

Upon the bankers rests a peculiar duty and responsibility at this time. They can render inestimable service, not alone in promoting savings, but also in exercising a wise discrimination as to loans involving new capital expenditures and in discouraging every unnecessary undertaking involving fixed investments until after the close of this war. We must realize, my fellow countrymen, that the gravity of the situation for the Nation and for the entire world is so impressive that the Government must preempt and occupy exclusively, if necessary, until this war is over the entire investment field in the United States.

THE CONSERVATION OF FINANCIAL RESOURCES.

It should be the first duty of every citizen to invest gladly his available means in Government bonds, and it should be the duty of the patriotic governors of our States, the mayors of our cities, and the controlling authorities in every political subdivision in the country to discontinue unnecessary public works and improvements until this war is over. Private enterprise should be governed by the same principle. I do not mean to have you infer that this is a definite suggestion that an immediate attempt be made upon any organized scale to discourage unnecessary capital expenditures; but I do wish to urge that you, the bankers of America, make a deep study of this question so that if the time comes when it is desirable to take action, you will be prepared to cooperate quickly with the Government.

It should be remembered that the National Government has no power, through legislation, to regulate or control capital expenditures of States, municipalities, or political subdivisions of States, nor has it the power to legislate with regard to such investments by private corporations, except those engaged in interstate commerce. Through the cooperation of the States, effective measures could in time be concerted, no doubt, to meet this question if the necessity arises. But that would take time. In the absence of State action it is possible, however, for the bankers of the country to discourage, to a very great extent, unnecessary or unwise investment of capital in private and public enterprises during the period of this war. I hope that this association will appoint a committee to study this problem and be prepared to act as the public interest may require.

It is also a matter of great importance that the bankers of America shall conserve their own resources, having always in mind the supreme necessities of the State, so that they may be able, as the first bulwark of the Government's credit, to respond quickly and effectively to any calls the Government may make upon them. In this connection it is most important, gentlemen, that interest

rates should be kept at a reasonable level throughout the country, that sufficient expansion of credit should be had to carry on the great commercial and industrial operations of the Nation and to assist in the flotation of successive issues of Government bonds. Proper credit expansion at this time is extremely essential to the Government in this war—and I emphasize "proper"—and you men of knowledge, ability, and experience are the best judges of that. Proper credit expansion is just as essential to carrying these great operations forward as food is necessary for human life. You must not be afraid of it. We must not be afraid to break old dogmas; we must not be afraid to do any things that are manifestly sound things; we must not, gentlemen—if you will permit me to assume for a moment that I am a banker—we must not hug this poor dogma of not rediscounting when it is essential that banks should rediscount to carry forward the legitimate operations of the war. Why does any banker want to keep himself in a vise when your Government and you have framed the law which gives you the opportunity of making disaster impossible?

TREASURY CERTIFICATES OF INDEBTEDNESS.

I should like to impress upon you the importance of a prompt and widespread response on the part of the bankers of the United States to the offerings of short-time Treasury certificates which will be made from time to time. These certificates, as you know, have maturities of from thirty days to four months, and are sold in anticipation of bond offerings and the payment of taxes. Through their use, the necessities of the Government during the interval between recurring bond issues are met, and the process of financing these bond issues is not only eased but simplified. Undue strain upon the credit resources of the country is avoided because payments are spread over a period and adjusted in such a way as to prevent disturbance and inconvenience. The banks can render highly valuable and patriotic service to the Government by purchasing promptly, and to the extent required, these Treasury certificates as offered.

THE GREAT VALUE OF THE FEDERAL RESERVE SYSTEM.

We are fortunate in having the Federal Reserve System, whose usefulness is now becoming increasingly manifest. This system is demonstrating every day its tremendous importance and value to the banks and to the American people. It not only gives strength and security to our financial structure, but it offers the essential means of legitimate credit expansion and flexible note issues, for which the country has so long stood in dire need. This system has already won the approval of the bankers and people of the United States. I wish that the State banks would realize the great opportunity they now have of promoting their own interests by joining the Federal Reserve System, and by doing so to make that great system more impregnable for their interest and the common interest of the country. It would consolidate the financial strength of the Nation in such a way that the operations of the Government in this war could not be put in question. It is a commanding duty of self-interest and patriotic service to the country.

The next offering of the Liberty loan has just been announced. The amount is \$3,000,000,000, with the right reserved to allot 50 per cent of the oversubscription. I should like you to understand, gentlemen, that in the determination of the amount of these offerings I am controlled by inexorable facts. These facts are the actual necessities of your Government. I do not determine these questions arbitrarily. We are face to face with a situation where the needs of the Government must be met. When I announce the amount of an offering of Liberty bonds, please remember that it is the minimum with which the Government's business can be carried on and the war effectually conducted.

It is the first duty of patriotism, gentlemen, that the needs of your Government for this war shall always be met, because if you fail once, disaster will overcome the entire Nation, and we can not contemplate that. I should feel happier if the loan were larger, but I have endeavored to make it as small as possible in order that the least possible strain may be put upon the country's resources during the crop-moving season.

THE SECOND LIBERTY LOAN MUST BE A SUCCESS.

We must make this loan a success. We can make it a success. The failure of a single issue of Government bonds would be worse for America than a disaster upon the field of battle. We must never let that happen.

A few days ago I read the following manifesto issued in Berlin by the League of German Municipalities:

"If money talks, the President of the United States may learn by October 18, when the subscription lists close, that the echo of the new war fund given by the German people will have drowned out completely the clamor of unending protests to which his reply to the Pope has given stimulus."

Let us meet that challenge by a subscription to our Second Liberty Loan on the 27th day of October, nine days after the close of the German loan, which will make clear to the German military despotism that America marshals not alone her brave soldiers upon the field, her invincible Navy upon the high seas, her industries throughout the length and breadth of this land, but, as well, her financial resources, and that she is determined to use them all without stint and regardless of sacrifice to vindicate American rights, outraged too frequently by German infamies. Let us answer this challenge by making clear to the world that the American people, with transcendent love of justice and of country, stand solidly behind their great President and support unequivocally the purposes of this war.

AMERICA'S RESPONSIBILITY.

Fellow countrymen, we are at one of those great points in the progress of civilization where pregnant issues for the whole human race are to be determined. It is an inspiring thought that noble, free, peaceful, and liberty-loving America has been called by God to powerfully influence, if not to determine, the course of future events. We have a grave responsibility, and I know that we shall discharge it worthily, of American patriotism and American idealism. These problems are of unparalleled novelty and magnitude. The means of determining action must frequently be more instinctive than logical. We are traversing unknown and uncharted seas. Our compass must be the steadfast cooperation of the best wisdom and intelligence of the country, inspired by a lofty patriotism which neither obstacles can discourage nor death defeat. America's sacred rights must be vindicated; a just and lasting peace must be established; democracy must be triumphant; despotism must be destroyed; and, when these great things have been accomplished, everywhere throughout the length and breadth of the civilized world men shall proclaim noble America as the valiant knight who came upon the scene in the blackness of the night and rescued civilization.

