ECONOMIC EFFECT OF THE LIBERTY LOAN

PRECAUTIONS ARE TAKEN AGAINST ILL EFFECTS OF LIBERTY LOAN BONDS—MONEY SPENT HERE

A TRANSFER OF CREDIT MONEY REMAINS HERE

One Provision Which Helps Reduce the Ill Effects to a Minimum Is the Fact That the Secretary of the Treasurer Has the Right to Deposit the Money Subscribed for Bonds in Banks Throughout the Country.

BY FRANK R. WILSON.
(Written for the United Press.)

Washington, May 31.—Floating a seven billion dollar indebtedness within a few weeks sounds colossal. To the minds of those familiar with the history of large governmental financial tranactions, it suggests dire possibilities. Heavy borrowing by nations has often resulted in price inflations and greatly added to cost of living. Such a result might be predicted for the Liberty Loan were it not for the fact that precautions against these ill effects have been taken.

Uncle Sam now practically is in the position of the boy who can eat his candy and keep it. While borrowing to an extent greater than any nation has ever borrowed at one time, he is, at the same time, providing greatly increased stimulus to business within his own realm.

It is not as if this seven billion dollars were to be borrowed and taken out of the country for investment elsewhere. This is to be merely a transfer of credit, one of the conditions of the credit extended to foreign nations being that the money borrowed from the Government must be spent for supplies within this country. So when the United States lends two hundred million dollars to Great Britain, this Government merely assembles the credit of its people and lends that credit to Great Britain to enable Great Britain to enlarge its operations of buying our supplies. So while we are aiding Great Britain, by giving her a lower interest rate than she otherwise could get, we are aiding ourselves by providing new demands upon all of our industries, new demands for labor, larger requirements of raw materials and a greater market for food supplies.

The administration has profited from the costly experience of other nations by outlining a policy which provides for a combination of borrowing and taxation in order to keep down the bad effects usually resultant from large borrowing. The most pronounced ill effects that have come from large borrowing have come where nations have raised all of their war revenue by the sale of bonds. Wherever a nation has undertaken to raise its taxation proportionately with its rate of borrowing, this tendency toward price inflation has been reduced. The secretary of the treasury has made suggestions to congress for an increase in taxation which would produce nearly two billion dollars annually. Germany has raised practically all of its war revenue by selling bonds and has added very little to taxation. Great Britain has followed the customary accepted policy of making increased taxation take care of at least the interest on increased indebtedness.

But this tendency to minimize price inflation is not the only saving grace in the new program of war finance. The secretary of treasury, instead of calling for subscriptions to the entire loan at one time, called for only two billion dollars at once. His object was, manifestly, to distribute the shock of the loan. Such a program makes it possible for this money to be subscribed, to be loaned to European countries; to be expended for supplies in this country and to be again distributed to its normal channels of business before the next installment is called for. Such a plan makes it possible to handle the Liberty Loan by degrees with the least percentage of business displacement.

Another provision in the making of the Liberty Loan which helped to reduce its ill effects to the minimum was that giving the secretary of the treasury authority to deposit the money subscribed for bonds in banks throughout the country. It is his policy to distribute these deposits where the money originates. Thus again is provided an excellent safeguard against business displacement.

The floating of this great loan will afford opportunity for getting a new angle on the savings habit of Americans. Heretofore Americans have not been satisfied with the low returns provided for government securities. They have not been buyers of government bonds. It is said that less than one-fifth of 1 per cent of the people of the United States are bond owners, and of course only a small portion of these are holders of government bonds. In Great Britain and France nearly 12 per cent of the people have actually participated in the raising of war revenue by the purchase of bonds. On the basis of patriotic duty a great many Americans will now become bond holders and the practice of buying this class of securities will be stimulated. In order to make this great loan a complete success; in order to minimize the evil effects; in order to distribute the shock so that business will not feel it, it will be absolutely necessary for the people at large to particpate generously in the Liberty Loan. To require the banks and trust companies of this country, whose total loans for commercial purposes now are eighteen billions of dollars, to assume the bulk of a government credit of an additional seven billions would be subjecting the business of the nation to too great a strain.

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