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War Bonds

By Steffen Bruendel

The governments of all belligerent countries issued special loans to finance their expenditure after the war began. To mobilize the financial resources of their peoples required concerted war bonds propaganda. War bonds were seen as the home front's contribution to victory.

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Overview

War bonds are a means for governments to borrow money in times of war. They are debt securities issued by the government to finance the country's efforts related to the war. These certificates were to be purchased as temporary loans to the government by a large number of investors. As retail bonds they were marketed directly to the public and, made available in a wide range of denominations, were affordable to all social classes even though the majority of investors were not individuals but institutions and large corporations. Motives to sign war bonds were not only the high interest rates but also patriotism and social pressure. Thus the campaigns to buy bonds were often accompanied by appeals to patriotism and conscience. However, the returns of the various war bonds campaigns in all countries also depended on the military situation. In all countries an increasingly sophisticated propaganda drove the campaigns for war bonds mobilising the home front to support the troops and to contribute to the common aim: victory.

War Finance by Central Powers and Russia

Germany, Austria-Hungary and Russia primarily financed their war efforts with war bonds. Since the Central Powers were excluded from international financial markets after the outbreak of the war, both countries had to largely rely on domestic borrowing. Their governments were reluctant to raise taxes so they took out war credits and war bonds (*Kriegsanleihen*). Germany's nine war bonds generated a total of 97 billion marks and Austria-Hungary's eight war bonds generated 53 billion krones. However, beginning in 1916 the discrepancy between the revenues and the costs of the war increased such that the roots of the post-war inflation can be seen in a financial policy that sought in vain to impose the costs of the war on the enemies after victory.

War Finance by Western Allies

The allied policy also wanted to make the enemies compensate for the costs of the war. In contrast to the Central Powers they were eventually able to do so. The French government issued a total of four National Defence Bonds (*Emprunts de la Défense Nationale*) whereas the British government relied on taxes being complemented by short-term treasury bills and exchequer bonds. However, the three British war bonds generated a total revenue of approximately 3.3 billion pounds. Between 1917 and 1919, the United States government issued five so-called "Liberty Bonds" to raise money for its military engagement generating a total of over 20 billion dollars. The fatal article 231 of the Versailles Treaty (known as the "War Guilt Article") that made Germany responsible for all damages that were to be compensated must be seen in light of the wartime economy and the huge debts of all allied powers.

Steffen Bruendel, Goethe Universität Frankfurt am Main

Section Editor: Emmanuelle Cronier

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