

Liberty bond

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A **Liberty Bond** was a war bond that was sold in the United States to support the allied cause in World War I. Subscribing to the bonds became a symbol of patriotic duty in the United States and introduced the idea of financial securities to many citizens for the first time. The Act of Congress which authorized the Liberty Bonds is still used today as the authority under which all U.S. Treasury bonds are issued.

Securities, also known as , were issued in the aftermath of the September 11, 2001 terrorist attacks to finance the rebuilding of the areas affected.^[1]

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Interest rates and issuing history

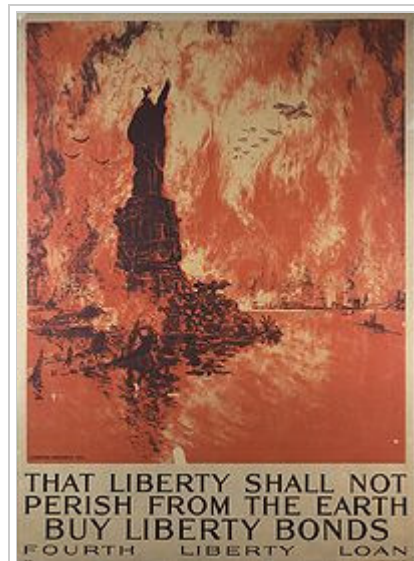
There were four issues of Liberty Bonds:^[2]

- Apr 24, 1917 Emergency Loan Act authorizes issue of \$5 billion in bonds at 3.5 percent.
- Oct 1, 1917 Second Liberty Loan offers \$3 billion in bonds at 4 percent.
- Apr 5, 1918 Third Liberty Loan offers \$3 billion in bonds at 4.5 percent.
- Sep 28, 1918 Fourth Liberty Loan offers \$6 billion in bonds at 4.25 percent.

Interest on up to \$30,000 in the bonds was tax exempt.^[2]

First Liberty Bond Act

The **1st Liberty Loan Act** established a \$5 billion aggregate limit on the amount of government bonds issued at 30 years at 3.5% interest, redeemable after 15 years. It raised \$2 Billion with 5.5 million people



Joseph Pennell's poster *That Liberty Shall Not Perish from the Earth*, for the fourth Liberty Loan (1918)



Douglas Fairbanks, movie star, speaking to a large crowd in front of the Sub-Treasury building, New York City, to aid the third Liberty Loan, in April 1918



Mary Pickford signing the entrance to the Mary Pickford

purchasing bonds.

War Funds bungalow.

Second Liberty Bond Act

The **2nd Liberty Loan Act** established an \$8 billion aggregate limit on the amount of government bonds issued, allowing \$3 billion more offered at 25 years at 4% interest, redeemable after 10 years. The amount of the loan totaled \$3.8 Billion with 9.4 million people purchasing bonds.

Sales difficulties and the subsequent campaign

The response to the first Liberty Bond was unenthusiastic and although the \$2 billion issue reportedly sold out, it probably had to be done below par because the notes traded consistently below par on the street.^[3] One reaction to this was to attack bond traders as "unpatriotic" if they sold below par. The Board of Governors of the New York Stock Exchange conducted an investigation of brokerage firms who sold below par to determine if "pro-German influences" were at work. The board forced one such broker to buy the bonds back at par and make a \$100,000 donation to the Red Cross.^[4] Various explanations were offered for the weakness of the bonds ranging from German sabotage to the rich not buying the bonds because it would give an appearance of tax dodging (the bonds were exempt from some taxes).



First Service Star pamphlet

A common consensus was that more needed to be done to sell the bonds to small investors and the common man, rather than large concerns. The poor reception of the first issue resulted in a convertible re-issue five months later at the higher interest rate of 4% and with more favorable tax terms. Even so when the new issue arrived it also sold below par.^[5] This weakness continued with subsequent issues, the 4.25% bond priced as low as 94 upon arrival.^[6]

Secretary of the Treasury William Gibbs McAdoo reacted to the sales problems by creating an aggressive campaign to popularize the bonds.^[7] The government used famous artists to make posters, and used movie stars to host bond rallies. Al Jolson, Elsie Janis, Mary Pickford, Douglas Fairbanks and Charlie Chaplin were among the celebrities that made public appearances promoting the idea that purchasing a liberty bond was "the patriotic thing to do" during the era.^[8] Chaplin also made a short film, *The Bond*, at his own expense for the drive.^[9] Even the Boy Scouts and Girl Scouts sold the bonds, using the slogan "Every Scout to Save a Soldier". Beyond these effective efforts, in 1917 the Aviation Section of the U.S. Army Signal Corps established an elite group of Army pilots assigned to the Liberty Bond campaign. The plan for selling bonds was for the pilots to crisscross the country in their Curtiss J4 "Jenny" training aircraft in flights of 3 to 5 aircraft. When they arrived over a town, they would perform acrobatic stunts, and put on mock dog fights for the folks below.

After performing their air show, they would land on a road, on a golf course, or in a pasture near the town. By the time they shut down their engines, most of the townspeople, attracted by their performance, would have gathered to see them. At that point in time, most people had never even seen an airplane, much less had a chance to ride in one. Routinely each pilot stood in the rear cockpit of his craft and told the assemblage that every person who purchased a Liberty Bond would be taken for a ride in one of the airplanes. The program was successful in raising a substantial amount of money which was used to pay for the war effort. The methodology

developed and practiced by the Army was later followed by numerous entrepreneurial flyers known as Barnstormers, who purchased war surplus Jenny airplanes and flew across the country selling airplane rides.

Vast amounts of promotional materials were manufactured. For example, for the third Liberty Loan 9 million posters, 5 million window stickers and 10 million buttons were produced and distributed.^[10] The campaign spurred community efforts across the country and resulted in glowing, patriotically-tinged reports on the "success" of the bonds.^[11] For the fifth and final loan drive in 1919 the Treasury Department produced steel medallions made from melted down German cannon that had been captured by American troops at Château-Thierry in NW France. The inch-and-a-quarter wide medallions suspended from a red, white, and blue ribbon were awarded by the Department to Victory Liberty Loan campaign volunteers in appreciation of their service in the drive.

Peak United States indebtedness was in August 1919 at a value of 25,596,000,000 for Liberty Bonds, Victory Notes, War Savings Certificates, and other government securities. As early as 1922 the possibility that the war debt could not be paid in full within the expected schedule was raised and that debt rescheduling may be needed. In 1921 the Treasury Department began issuing short term notes maturing in three to five years to repay the Victory Loan^[12]

According to the Massachusetts Historical Society, *Because the first World War cost the federal government more than 30 billion dollars (by way of comparison, total federal expenditures in 1913 were only \$970 million), these programs became vital as a way to raise funds.*^[13]

Despite all these measures, recent research^[14] has shown that patriotic motives played only a minor role in investors' decisions to buy these bonds;

Through the selling of "Liberty bonds," the government raised around 17 billion dollars for the war effort. Considering that there were approximately 100 million Americans during that time, each American, on average, raised 170 dollars on Liberty bonds.

Victory Liberty Loan

A fifth bond issue relating to World War I was released on April 21, 1919. Consisting of \$4.5 billion dollars of gold notes at 4.75% interest, they were convertible in 3 or 4 years. Exempt from all income taxes, they were called at the time "the last of the series of five Liberty Loans."^[15] However they were also called the "Victory Liberty Loan," and appear this way on posters of the period.

Default of the Fourth Liberty Bond

The first three Liberty bonds, and the Victory Loan, were retired during the course of the 1920s but the fourth Liberty Bond lasted into the 1930s leading to a technical default on the bond, the terms of which were for payment in gold. This default affected the large majority of Liberty bond debt because the terms of the bonds allowed holders of earlier bonds to trade them for the later bonds which had superior terms. For this reason most



1919 Victory Liberty Loan drive steel medallion made from "captured German cannon".

of the debt from the first, second, and third Liberty bonds had been rolled into the fourth issue. The fourth Liberty Bond had the following terms:^[16]

- Date of Bond: October 24, 1918
- Coupon Rate: 4.25%
- Callable Starting: October 15, 1933
- Maturity Date: October 15, 1938
- Amount Originally Tendered: \$6 billion
- Amount Sold: \$7 billion

The U.S. Treasury called this bond on April 15, 1934,^[17] but refused to redeem the face value of the bond in gold as required by the terms of bond which read: "The principal and interest hereof are payable in United States gold coin of the present standard of value."^[17]

Since the United States had devalued the dollar from \$20.67 per troy ounce of gold (the 1918 standard of value) to \$35 per troy ounce in the preceding year, the 21 million^[2] bond holders lost 139 million troy ounces of gold, or approximately 41% of the bond's principal. This was the equivalent of \$2.866 billion (in 1918 dollars), or approximately \$200 billion at the 2011 price of \$1500 per troy ounce.

The legal basis for the refusal of the U.S. Treasury to redeem in gold was House Joint Resolution 192, dated June 5, 1933.^[18] This resolution was later held to be unconstitutional and thrown out by the U.S. Supreme Court.^[19] Chief Justice Hughes writing for the majority elaborated the precedent that Congress may not legally nullify its own contracts:

We conclude that the Joint Resolution of June 5, 1933, insofar as it attempted to override the obligation created by the bond in suit, went beyond the congressional power.

—Chief Justice Charles Evans Hughes, *Perry v United States*, 294 US 330 (1935), Page 294 U. S. 354

However, due to the significant restrictions placed on gold trading by Roosevelt's reforms, the Court ruled that the bond-holders' loss was unquantifiable, and that to repay them in dollars according to the 1918 standard of value would be an "unjustified enrichment".^[17] The ruling therefore had little practical effect.

References

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3. ^ The Electric Journal, September 1917, p. 51.
4. ^ The Financier, June 23, 1917, p. 1741.
5. ^ New York Times, November 20, 1917.
6. ^ Investment Bankers Association of America Bulletin, Vol. VII, No. 1, September 1, 1918. p. 30.
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9. ^ Chaplin, Charlie. "My Autobiography." (1964)
10. ^ New York Times Magazine, Mar 10, 1918
11. ^ New York Times, March 27, 1918, page 4.
12. ^ Los Angeles Times, October 5, 1922, page IV9.
13. ^ Massachusetts Historical Society, Focus on Women and War, June 2002.
14. ^ Kang Sung Won, Rockoff Hugh, (2006), "Capitalizing patriotism: the Liberty Loans of WW1", NBER Working Paper No. W11919, 55p.

15. ^ Special to The New York Times. (1919-04-14). "New Loan Fixed at \$4,500,000,000; Interest at 4¾%" (<http://query.nytimes.com/mem/archive-free/pdf?res=FA0A1EF9355D147A93C6A8178FD85F4D8185F9>) . New York Times. <http://query.nytimes.com/mem/archive-free/pdf?res=FA0A1EF9355D147A93C6A8178FD85F4D8185F9>. Retrieved 2012-03-29.
16. ^ Garbade, Kenneth D. "Why the U.S. Treasury Began Auctioning Treasury Bills in 1929." FRBNY Economic Policy Review, July 2008.
17. ^ *a b c* Perry v United States, 294 US 330 (1935)
18. ^ Records of the 73rd Congress of the United States, Session I, Chapters 46-48, pp. 112–3.
19. ^ Perry v United States, 294 US 330 (1935), Page 294 U. S. 354

External links

- Illustrated "Buy a Liberty Bond" ad on the cover of (<http://www.ellisarkerbutler.info/epb/coverart.asp?p=Leslie's+Weekly>) Leslie's Weekly, April 6, 1918
- LibertyLoanBonds.com (<http://www.libertyloanbonds.com>) Liberty Loan Bond Images and Descriptions
- Posters for Liberty Bonds (<http://libx.bsu.edu/cdm4/results.php?CISOOP1=all&CISOBOX1=Liberty+Bonds&CISOFIELD1=CISOSEARCHALL&CISOROOT=%2FWWIPosters>) from the * Elisabeth Ball Collection (<http://libx.bsu.edu/cdm4/collection.php?CISOROOT=/WWIPosters>) of World War I posters

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Categories: Military history of the United States during World War I | Bonds | 65th United States Congress

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