

# The Liberty Loan Bond

## 2007 Marks the 90th Anniversary of the First War Bond of the 20th Century

By *Lawrence D. Schuffman*

THIS YEAR MARKS AN IMPORTANT ANNIVERSARY in American financial history. Ninety years ago the United States declared war on the Imperial German government and entered into World War I. And on April 24, 1917, “The Great War” brought the first in a series of Liberty Loan and Victory Loan Bonds.

Liberty Loan Bonds were conceived by then-Secretary of the Treasury William Gibbs McAdoo to finance and support the war effort; Victory Loan Bonds were issued after the war ended. These bonds were usually sold in maturities of 30 years with call provisions for earlier redemptions, although shorter maturities (five to 15 years) were also sold. They could be redeemed for their face value plus interest, and they had coupons which could be clipped for redemption purposes. Some Registered bonds, similar to our Savings and “I” Bonds, were issued as well.

Registered bonds had semi-annual interest payments mailed to the holders of record. At the time of issue, these bonds were redeemable in gold.

McAdoo realized he had to fund the war effort with publicly generated funds while at the same time not harming the banking system. Consequently, the interest rates paid on Liberty and Victory Bonds were lower than those paid by the banking institutions. McAdoo needed to appeal to the innate patriotism of Americans to succeed, so he launched an aggressive campaign to raise money from those who supported the war effort by selling Liberty Bonds.

The government used famous artists and illustrators such as Howard Chandler Christy, J.C. Leyendecker, Henry Raleigh, and J. Scott Williams to motivate, inspire anger, and create fear among Americans to the realization of how horrible life would be if America and its allies lost the war. The premise of these propaganda posters ranged from patriotic and majestic to frightening.

Popular actors and actresses of the day, such as Al Jolson, Mary Pickford, Douglas Fairbanks and Charlie Chaplin, hosted bond rallies. Even the Girl and Boy Scouts were enlisted into the cause; they went door-to-door selling bond subscriptions. School children saved their nickels and dimes and added their change to their parents’ dollars to buy special stamps, which were then mounted into their War Savings Certificate booklets to buy war bonds.

The entire allotment of the First Liberty Bond issue of \$2 billion worth was sold in denominations of \$50 to \$10,000. The \$50 and \$100 denominations enabled lower income groups to participate, while the higher denominations were purchased by high-income individuals, banks, and by U.S. corporations to pay dividends to shareholders. For example, U.S. Steel purchased \$125 million in Liberty Bonds.

Some complained that the interest rate of 3.5 percent was too low, but this was the same as other govern-



\$50 First Liberty Loan Converted Bond, 1918.



\$100 Third Liberty Loan Bond, 1918.

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\$50 Liberty Loan Bond, 1917.

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ment instruments, and the interest on these bonds was tax exempt except for estate and inheritance taxes.

This may not seem like a benefit under our current tax structure, but with the maximum tax rate then of 67 percent, a bond paying a 3.5 percent federally tax-free interest rate is equivalent to a risk free taxable 10.6 percent yield.

The wartime economy surged, interest rates rose and bond prices fell.

Many of the first two issues of Liberty Bonds were redeemed or converted to higher rate issues. Those bonds converted were exchanged into the “First Liberty Bond Converted” or “Second Liberty Bond Converted” issues. The first two Liberty Loan Bond issues that were not redeemed or converted are among the rarest of the bonds issued. Many of these bonds have not survived the last nine decades

because they were redeemed due to the need for money during the Great Depression of the 1930s.

There were a total of four Liberty Loan Bond issues and one Victory Loan Bond issue. Of the \$24 billion in total subscriptions offered, \$21 billion dollars of bonds were issued. The average purchase of five issues was \$445. Analyzing the denominations of the war bonds still outstanding as of June 30, 1920, only \$3.9 billion or about 20 percent, were issued in the denominations of \$50 and \$100, representing average Americans with modest means who supported the war effort. As a point of comparison, the financial cost to the U.S. of WWI was approximately \$32 billion, or approximately \$500 billion in current dollars. **[EH]**

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