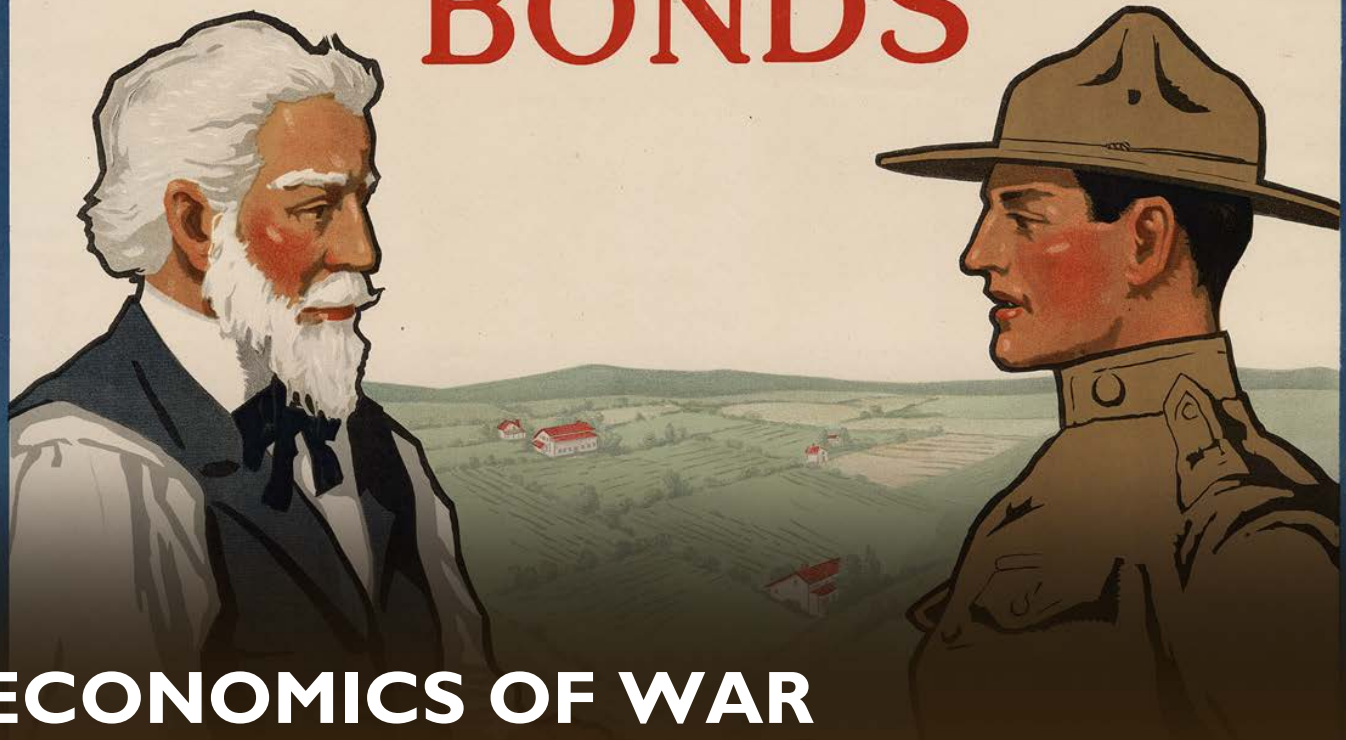


“Good Bye, Dad, I’m Off To Fight For Old Glory, You Buy **U.S. GOV’T BONDS**”



ECONOMICS OF WAR

A Study of Finance and Patriotism

Recommended Grade Levels: 9-12

Course/Content Area: Economics, American History, Current Events

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ESSENTIAL QUESTIONS:

- How does a government pay for a war?
- What are bonds? Can you buy one today?
- What methods were used by the American government to encourage Americans to support the war effort?
- How could Americans not involved in combat show their support for the war effort?
- In what ways does buying war bonds show patriotism?
- What effect does war have on a government’s economy?



SUMMARY: War bonds are a financial concept that have been around since the Civil War.
The bonds, whose campaigns were often patriotic in nature, were readily used to decrease financial burdens in conflicts from WWI to the Vietnam War, and briefly in support of anti-terrorism. Using Liberty Loan bonds of WWI as a point of study, students can create connections to financial obligations the United States government faced in Iraq and Afghanistan.

STANDARDS **Economics:**

ALIGNMENT: Index of Standards from the National Council on Economic Education
NCSS-EC.9-12.2 Marginal Cost/Benefit
Effective decision making requires comparing the additional costs of alternatives with the additional benefits. Most choices involve doing a little more or less of something; few choices are “all or nothing” decisions.
NCSS-EC.9.12.4 Role of Incentives
People respond predictably to positive and negative incentives.
NCSS-EC.9-12.11 Role of Money
Money makes it easier to trade, borrow, save, invest and compare the value of goods and services.
EC.9-12.12 Role of Interest Rates
Interest rates, adjusted for inflation, rise and fall to balance the amount saved with the amount borrowed, which affects the allocation of scarce resources between present and future uses.
NSS-EC.9-12.16 Role of Government
There is an economic role for government in a market economy whenever the benefits of a government policy outweigh its costs. Governments often provide for national defense, address environmental concerns, define and protect property rights and attempt to make markets more competitive. Most government policies also redistribute income.
NSS-EC.9-12.17 Using Cost/Benefit Analysis to Evaluate Government Programs
Costs of government policies sometimes exceed benefits. This may occur because of incentives facing voters, government officials and government employees, because of actions by special interest groups that can impose costs on the general public, or because social goals other than economic efficiency are being pursued.

Civics and Government:

National Standards for Civics and Government from the Center for Civic Education
NSS-C.9-12.5 Roles of the Citizen
What are the Roles of the Citizen in American Democracy?

United States History:

National Social Studies Standards (NCSS - National Council for the Social Studies; National Center for History in the Schools)

United States History Content Standards for Grades 5-12

United States Era 7: The Emergence of Modern America (1890-1930)

Standard 2: The changing role of the United States in world affairs through World War I

Standard 2C:

The student understands the impact at home and abroad of the United States involvement in World War I.

TIME NEEDED: One or two 80-minute blocks or two-four 50-minute periods
Much of the lesson can be modified to fit time constraints contingent upon the students' familiarity with the topics of financial bonds and propaganda. Time in class can be shortened if assessment projects are assigned as homework.

OBJECTIVES: *Students will:*
explore financial savings concepts, to include bonds.
investigate the impact of war bonds on the economy.
illustrate examples of patriotism in WWI and Iraq/Afghanistan.
connect WWI finance to current day economic choices in Iraq/Afghanistan.
construct a commercial aiming to sell war bonds in support of today's conflicts.

INTERDISCIPLINARY: This lesson can be adapted to fit within any of the following curricular areas:
Economics
Finance
Marketing
Government
History
Current Events

THEMES & CONNECTIONS: This lesson works best when included in a broader study of the First World War, including instruction on the following:
Personal Finance Concepts
Economics / Gross Domestic Product
War Bond Propaganda

MATERIALS NEEDED: Fact Sheet (**Appendix A**)
Lecture Notes to support PowerPoint presentation (**Appendix B**)
Technology aids or posters from the Liberty Loan series
Refer to the National WWI Museum and Memorial's Online Collections Database: <https://www.theworldwar.org/explore/online-collections-database>
Computer-access for Part Two of the lesson

BACKGROUND INFORMATION

Whether received as graduation gifts or won in a grade school pumpkin decorating contest, savings bonds have always been considered one of the safest investments available to consumers. For as little as \$50, you can have an investment backed by the government, earning you interest and providing a predictable income. In addition to the familiar savings bond, there are over 16 different types of bonds. Bonds can fund things from personal retirement to school projects and even corporate investors.

Long before President Franklin D. Roosevelt authorized bonds for personal use in 1935, these certificates served a much different purpose. As far back as the Civil War, bonds were used to finance wartime expenditures and provided the government with a means of paying for a vast array of expenses. With the United States entry into World War I in April 1917, the government once again was faced with answering the question of how to pay for a costly war.

It has been well-documented by economists that the three most common ways to finance a war are through borrowing money, creating money and raising taxes. The debate over finance options in 1917 was an opinionated one, with those involved all favoring different approaches. However, everyone agreed too much of any one method would be bad for the economy. Secretary of the Treasury William McAdoo believed the optimal solution would be a 50-50 split between raising taxes and borrowing from the public. As it turned out, the war would be supported through a blend of 25% taxation, 50% public lending and borrowing and 25% money creation.

When it came to selling bonds, appeals to patriotism and pressuring the public with a sense of obligation to support the cause were unleashed in full force. Labeled the Liberty Loan, McAdoo explained bond proceeds “are dedicated to the cause of human liberty. Success of the loan is a genuine triumph for Democracy.” A failure or shortfall in the selling of bonds would have been a public relations nightmare. Luckily, the campaigns for the four issues of Liberty Loans and one issue of Victory Bonds were generally thought to be quite a success. In fact, over 2/3 of war funds used during actual hostilities were raised through the war bond effort. Whether due to patriotic values or financial incentives, Americans showed up in droves to buy Liberty Loan bonds in World War I.

As the United States is currently looking at expenses of over 2 trillion dollars in Iraq and Afghanistan, students will analyze current war finance and economic choices. They will research the brief issuance of Patriot Bonds, and create their own campaign to sell bonds and support the war effort within their own communities.

LESSON

PRE-ASSESSMENT:

Display an image of an expensive object, maybe a dream car, extravagant vacation or even a college education to the entire class. Have students brainstorm and write down as many ways possible they could pay for one of these objects. This leads to the essential question: “How do you pay for your obligations or things you want?”

DIRECTIONS:

Lesson - Part One

- 1) Show and discuss the PowerPoint available at:
https://theworldwar-prod.s3.amazonaws.com/prod/s3fs-public/Economics_of_War_PPT.pptx
(Refer to Presentation Notes - **Appendix B** - to aid in the discussion.)
 - a. Introduce Objectives, Standards and Essential Questions to guide learning.
 - b. Introduce bonds by discussing their purpose, types and where students most commonly see their use. An example would be bond issues within school districts as the most familiar concept for some students.
 - c. Via direct instruction and the PowerPoint, cover some of the basics of war finance with students, discussing how the government pays for “things” they need.
 - d. AFTER SLIDE 5, provide students with the handout on the history of war bonds and their use during WWI (**Appendix A**). Discuss this information. Conclude with SLIDE 6.
 - e. Cover the topic of Advertising vs Propaganda - Emotional and Patriotic Appeals, using SLIDES 7-15.
 - f. Have students compare the role of patriotism in WWI and during the Iraq/Afghanistan conflicts.
 - g. Using SLIDE 16, go over the current status of war finance with students. Discussion: Would war bonds work today? Why/why not?

Lesson - Part Two (Creating a Bond Campaign)

- 2) After looking at examples of WWI war bonds and propaganda, students will create their own campaign for selling bonds in support of today’s conflicts. Format of student projects will vary. Show SLIDE 18 of the PowerPoint for ideas.
 - a. A visual essay
 - b. A commercial in iMovie or a recorded radio ad. Scripts must be turned in.
 - c. In tribute to WWI’s “Four-Minute Men,” students prepare a 4-minute speech to convince others to buy bonds to support the war in Afghanistan.
- 3) Students present their essay, commercial or 4-minute speech to the class.

POST-ASSESSMENT:

Students will write one paragraph determining whether a bond campaign would work today to pay for a modern war. They should include the method they believe would be the most effective to convince Americans to participate in such a campaign.

MODIFICATIONS/ACCOMMODATIONS:

If you have only 90-100 minutes for this lesson, you may assign the commercial as homework or bonus points.

Students with accommodation needs may require a copy of the PowerPoint for Parts One and Two of the lesson. You may also provide them a copy of the background information if they are having difficulty with the concepts in the PowerPoint discussion.

Assessment can be adjusted for students who need a more familiar format; they can create a visual board or PowerPoint for their campaign.

Appendix A: Quick Facts

Financial Picture

Average household earned \$1,518 in 1918 (would equate to \$23,900 today) - Bureau of Labor & Statistics

Bonds

		# of Buyers	Amount Subscribed
Apr 24, 1917	1st Liberty Loan	4.5 million	\$3,035,226,850
Oct 1, 1917	2nd Liberty Loan	> 9 million	\$4,617,516,850
Apr 5, 1918	3rd Liberty Loan	17 million	\$4,176,516,850
Sept 28, 1918	4th Liberty Loan	21 million	\$6,989,047,000
April 1919	5th Liberty Loan	12 million	\$5,249,908,300

\$50-\$10,000 denominations

Ranged from 3-4.5% interest, usually a semi-annual payout
10 – 30-year maturation terms (Table 1 Rockoff)

An increase in the number of subscribers was directly connected with the operation of the Selective Service Act. Families of those drawn into service felt an intimate personal interest in supporting war necessities. In turn, they became insistent that others in the community take on some of the financial burden of the war. (Whitney)

Financial incentives were the real motives; there was a tax-exempt status on certain denominations of bonds. Morale and patriotism were also important to the campaigns.

Every Federal Reserve district oversubscribed its quota in each war bond issue.

War Savings Certificates (1918)

Sold for \$4.12 - \$60 in today's money

However, 25-cent stamps could also be purchased. When the buyer had enough stamps to complete a "board", it could be exchanged for a war savings certificate. These matured to a worth of \$5 in 1923. (Rockoff) This avenue provided a vehicle for people of limited means to express their patriotism.

War Finance Comparisons

WWI: \$548 billion (adjusted for inflation)

Iraq: \$1.06 trillion

Afg: \$1.07 trillion

Today: \$3.9 million to keep one soldier in Afghanistan for a year FY2015
(http://stats.areppim.com/stats/stats_afghanwarxcost.htm)

Appendix B: Presentation Notes to Support PowerPoint

SLIDE NO. CONTENT

1 Title Slide

Economics of War: A Study of Patriotism and Finance

2 Lesson Objectives

Students will:

- explore financial savings concepts, including bonds
- investigate the economic impact of war bonds.
- illustrate examples of patriotism in WWI and contemporary conflicts.
- connect WWI finance to contemporary economic choices in Iraq/Afghanistan.
- construct a commercial aiming to sell war bonds in support of contemporary conflicts.

3 Essential Questions:

- How do you pay for your obligations or things you want?
- What do you value about this country?
- How does a government pay for a war?
- What methods were used by the American government to encourage Americans to support the war effort?
- How could Americans not involved in combat show their support for the war effort?
- In what ways does buying war bonds show patriotism?
- What effect does war have on a government's economy?

4 Economic Situation

In 1916, the U.S. was virtually debt-free. Only 2.7% of the economy was occupied by debt. Europe's war goods buying had created an economic boom in the United States. An increase in the labor force matched a decline in unemployment.

5 Dollars and Sense

There were three ways to finance a war and all of them had their downsides. It was a very hotly debated topic at the time.

- Taxes - potentially you frighten the wealthy which significantly reduces support
- Borrowing - some economists felt that this hid the true cost of the war, AND made it too easy. - - borrow, borrow, borrow until all of a sudden you've got a \$20,000 credit card bill
- Printing money - causes inflation

Economist Adam Smith argued that taxes were the best way to pay because they conveyed the real cost of wars to the public.

What's the balance?

6 **How do you pay for a war?**

Secretary of the Treasury William McAdoo wanted a 50/50 split between taxes and borrowing

In reality the split was:

- 25% financed through taxes
- 50% through borrowing - the benefit here is that we borrow from ourselves, not other countries
- 25% through money creation

Once the financial plan was established, other questions arose:

- How do you convince people to cough up this money for the borrowing?
- What will it take for a person to sacrifice their hard-earned income in support of the war?

7 **Lend or Lose**

The government relied on public patriotism and conscience. Savings bonds were rebranded as “Liberty Loans” and the people were offered financial incentives to participate in the program.

8 **Patriotism – Why did people buy the bonds?**

- People bought bonds because of feelings of patriotism, nationalism, and anti-German sentiment.
- The nation’s best artists and actors were recruited to campaign and sell Liberty Loan bonds.
- Each state had a quota of bonds to sell and put pressure on the public to buy.
- Strong social pressures caused people to buy, including pressure from employers:
 - Workers were strongly encouraged to buy bonds by their employers.
 - Teachers were dismissed if they presented anything other than the Allied point of view.

9 **For Home and Country**

There were five major campaigns. The first four were to pay for war costs and were called Liberty Loans. The fifth took place after the war and was called a Victory Loan. It paid for things like bringing soldiers and volunteers home from war fronts.

The first loan campaign began just two weeks after the U.S. declared war on Germany.

Bonds were sold in denominations from \$50 - \$10,000. Everyone from ordinary citizens to very successful companies were encouraged to purchase the bonds.

Liberty bonds had a rate of 3-4.5% interest. This was roughly the same rate that bank saving options offered at the time.

War Savings Certificates were also sold and had a 4.5% interest rate. People could purchase 25-cent stamps and when they had purchased enough, they

could exchange them for a war savings certificate. This way there was no excuse for not supporting the program.

10 **Effectiveness**

Though it took some time, Americans rallied behind the Liberty Loans program and a big percentage of the population purchased bonds to support the war.

11 **Effectiveness**

People bought the war bonds out of a sense of patriotism and public duty, but they were also excited about the financial aspects of the program. They used it as an investment for their future. Bonds were set to mature in 15-30 years.

Many methods were used to encourage people to buy bonds: propaganda, social pressure, neighborhood door-to-door campaigns and celebrity promotions.

The successful program offered a real boost of support for the war, the soldiers fighting and for volunteers. This is very important because falling short would have been awful for morale and damaged the war effort.

12 **Images**

Liberty Loan posters

13 **Images**

These pamphlets instructed people about the sale of Liberty Loan bonds and would've been used by local groups who sold bonds in their communities.

The pendant would have been displayed in house windows so neighbors could see a family's support of the war. Social pressure was intense and visible proof of participation was common in a variety of war programs.

14 **Other Sales Methods – CPI**

The Committee on Public Information was created by President Wilson just a few weeks after the war began. He understood the value of public support for the war and the use of propaganda as a tool to achieve his goals. Headed by George Creel, the CPI was responsible for the creation of posters, pamphlets, patriotic films and other methods of garnering public support. A speaker's campaign was designed where male and female volunteers spoke in public places on specific topics. A frequent speaking forum was the movie theater. At intermission, these speakers would talk to the audience, persuading them to conserve food, volunteer to help the war effort or buy Liberty bonds. These speakers came to be known as "four-minute men" because it took four minutes to change a film reel. They took advantage of a captive audience they knew would not leave during their talks.

15 **Final Outcome**

In the end, the Liberty and Victory Loan campaigns were seen as very successful.

In an interesting twist, the program taught people to invest their money and set up many who would be affected by the stock market boom and crash in the 1920s.

16 **Cost of War Today**

Important note: It is difficult to arrive at an exact number regarding the cost of present day conflicts. This is due to the way costs are factored in, ranging from direct costs like weapons and supplies to indirect costs like post-war disability costs for veterans. Reputable sites claim the Iraq War has cost anywhere from \$1 trillion to \$3 trillion. This is also true of the war in Afghanistan. (These numbers do not reflect aid to nations.) For the purposes of this lesson, numbers have been taken from *The Balance*, an unaffiliated and presumably non-politically affiliated economics and personal finance site.

Iraq War – 2003-2011: \$1.06 trillion

Afghanistan – 2001- 2017: \$1.07 trillion

The Center for Strategic and International Studies, a think tank in Washington D.C., reports “the Afghan and Iraq/Syria wars are more than five times more expensive than World War I”. Their calculations are taken from assessments of official Department of Defense budget reports.

Today it costs \$3.9 million dollars to keep one soldier in Afghanistan for a year.

Discussion:

Iraq & Afghanistan wars are funded through debt.

Why not Liberty Bonds?

We’ve gone from a Total War situation to one where war is more of a spectator’s sport. Do you think a Liberty Bond campaign would be successful in our current situation?

17 **Chart – Accumulated Gross Federal Debt from US FY 1792-2020**

18 **Assessment**

STUDENTS WILL CHOOSE ONE OF THE FOLLOWING OPTIONS:

1. Create a comparison of patriotism between WWI and today in a visual essay.
2. Create a commercial to sell war bonds for today’s conflicts (iMovie or radio).
3. Give a “Four-Minute Man” speech to sell war bonds for today’s conflicts.
4. Another idea that is not listed above? Just ask!

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