

DID WORLD WAR ONE NEARLY BANKRUPT BRITAIN?

VIDEO TRANSCRIPT - Introduction

World War One was a conflict on an unprecedented scale – and it would come with a bill to match.

The demand on Britain's economy would be immense requiring the marshalling of vast resources, all of which would need to be funded from the government's purse.

At the turn of the 20th century, Britain's Empire made it an economic superpower with access to vast international wealth, and the Bank of England – here in the city of London – stood at the heart of that economy.

The outbreak of war in 1914 would change things forever. The first signs that war would upset the comfortable economic stability came with the banking crisis of the summer of 1914 – the like of which the city had never seen.

Here in the vaults of the Bank of England, rarely seen archives demonstrate just how panic was beginning to set in.

This extraordinary book shows how even the prospect of war was really beginning to destabilise the financial system. What it shows is how commercial banks would go to the Bank of England and exchange their bonds – IOUs, pieces of paper if you like – in exchange for cash.

Now in a normal week – even in early July 1914 – there wouldn't always be a lot of business. One day records 'Nil' transactions. But look at July 31st 1914 when fears of war were really gripping the City. A huge number of transactions as banks scramble to get cash out of the Bank of England. In fact on that day, nearly eleven million pounds was withdrawn – a lot of money in those days!

And during this period, the Bank's official interest rate – known as the Bank Rate – was rising rapidly. Even on the 29th July it was still at three per cent but on the 31st it had been cranked up to eight per cent. The next day – Saturday 1st August – it was right up to ten per cent. At the end of that day – just illustrating how bad the crisis had become – there's a note 'Banks did no re-open till 7th August.'

Once war broke out, Britain was faced with the daunting prospect of mobilising an entire country for war.

There were troops to recruit and feed, armaments to manufacture and transport to the frontline...war was certainly not going to be cheap.

Government spending more than doubled in the first full year of the war and then tripled again the following year

So how did Britain's economy survive? Just how close did World War One bring the country to financial ruin?

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