

DID WORLD WAR ONE NEARLY BANKRUPT BRITAIN?

AUDIO SLIDESHOW TRANSCRIPT - What did the government do?

As summer turned to winter in 1914, it was clear that the war was not going to be over by Christmas. Britain was in for the long haul.

The government had to find ways of sustaining the huge expense of the war machine.

It did that using the three main weapons in its economic armoury – taxes, borrowing and printing money.

Indirect taxes on things like alcohol, tobacco and imported commodities would not be enough. So the government also turned to direct taxes on property and income.

It wasn't the first time income tax had been used – Pitt the Younger had introduced it to raise money for war with France in the 18th century. Once again, such methods were to prove a way of bolstering the war chest.

At the start of the war, income tax was immediately raised from six per cent to twelve per cent. This trend continued right up until 1918. By the end of the war the government had increased tax to thirty per cent.

The government decided to borrow money from the public by inspiring them to invest in the war effort. People were encouraged to go to local banks and buy up 'war bonds' – colourful certificates that promised a financial return, and feeling of national pride, in exchange for money being lent to the government.

Campaigns were introduced using patriotic posters to sell the idea. A big promotional campaign toured the country. The so-called 'Tank Banks' rolled into 168 towns and cities across England, Scotland and Wales to spread the word.

The government also looked abroad for financial support – finding it mainly in loans from the United States.

The final element of the government plan was to boost the supply of Britain's money.

Freed from the constraints of the 'Gold standard,' the government was able to lean upon the Bank of England to create more money for the economy by printing it, even if that risked higher inflation.

So with pre-war assets to draw on, increased income from taxes, war bonds from the public and loans from abroad – as well as the ability to print money – the government had plenty of strategies at its disposal to generate the vast sums required to fuel the war machine.

But just how well did these plans really work?

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