When Uncle Sam Introduced Main Street to Wall Street: Liberty Bonds and the Transformation of American Finance

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We study the effects of the liberty bond drives of World War I on financial intermediation in the 1920s and beyond. Using panel data on U.S. counties, and an instrument that captures differences in the approaches used to market the bonds, we find that higher liberty bond subscription rates led to an increase in investment banks and a contraction in commercial bank assets. We also find that in the late 1930s, individuals residing in states where liberty bond subscription rates had been higher were more likely to report owning stocks or bonds. Although they were conducted to support the American effort in World War I, the liberty loan drives reshaped American finance.

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After the war, those who had subscribed to Liberty Bonds were more likely to invest in stocks and bonds, advancing the development of...

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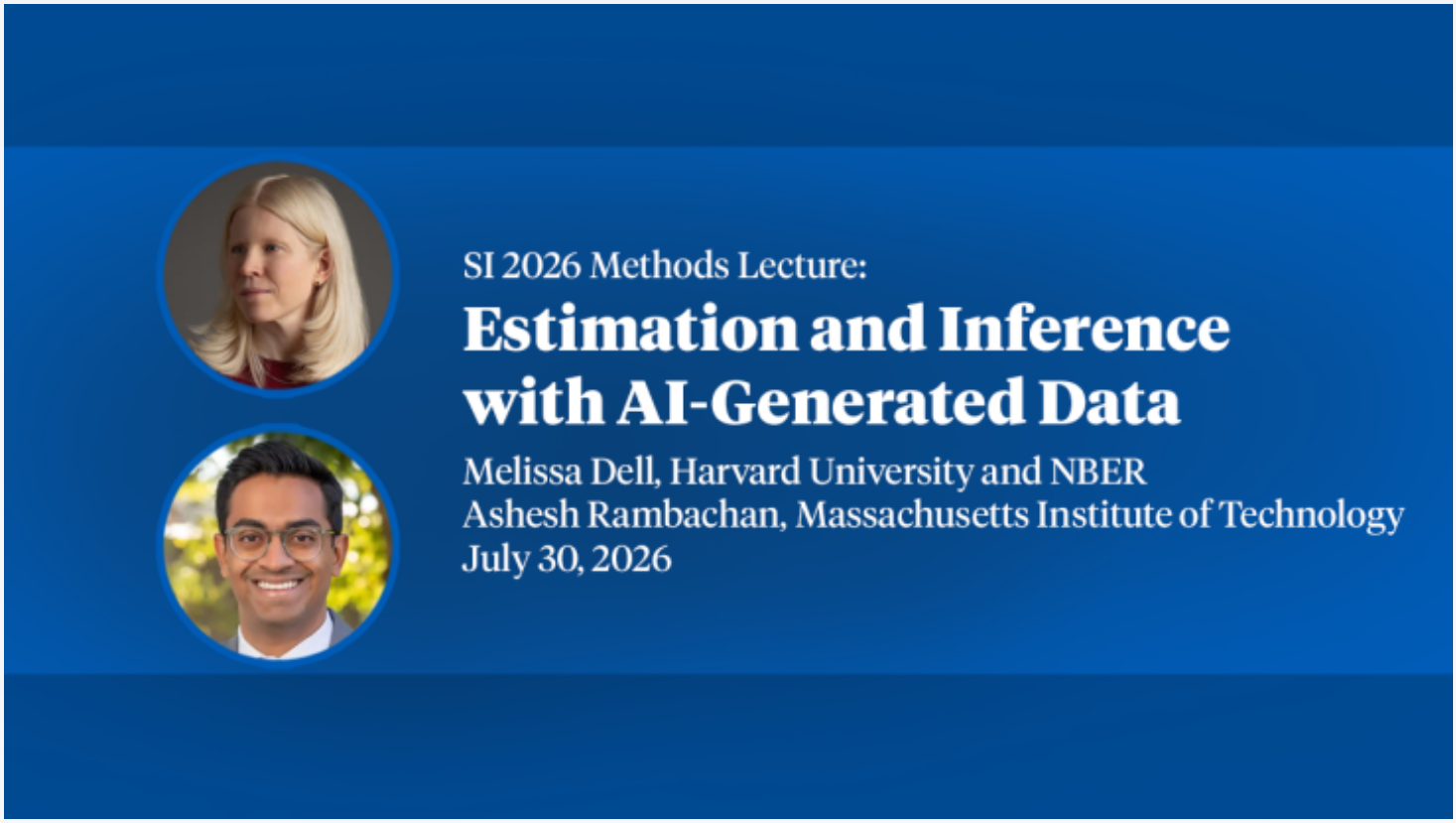


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