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Chapter VII

Committees on Small Savings

There had been a Committee on "War Loans for Small Investors" in the first World War. Lord Cunliffe served on it and it reported on 26th January 1916. This time a Committee was appointed before the outbreak of hostilities, by a Treasury Minute of 24th June 1939. It consisted of -

Lord Kindersley	Chairman
Sir Herbert Brittain*	(Treasury)
Sir Theodore Chambers	(Vice Chairman, National Savings Committee)
Mr. G. Ismay	(Comptroller of the Post Office)
Mr. R. Dixon Kingham	(Secy. National Savings Committee)
Sir Kenneth Peppiatt**	(Chief Cashier, Bank of England)
Mr. L. Simon	(Controller, Post Office Savings Bank)

with Mr. M. T. Flett of the Treasury as Secretary.

The Committee held seven meetings and reported early in August. Their conclusions may be summarised as follows:

Two conditions were necessary if the flow of small savings was to be increased. The terms offered must have some regard to those offered by non-Governmental institutions and the public must be informed by a nation-wide publicity campaign that it was their duty as well as to their advantage to put their savings at the Government's disposal.

The small investor's savings in recent years had largely gone to the Building Societies and in a lesser degree to the Co-operative Movement, the former offering rates as high as 3½%, tax free and easily withdrawable;*** while the Post Office Savings Bank and Trustee Savings Banks paid 2½% subject to Income Tax. The current

*Then Mr. H. Brittain: created K.B.E. 1944.

**Then Mr. K. O. Peppiatt: created K.B.E. 1941.

***~~Mr.~~ Sir Kenneth Peppiatt commented that the Building Societies, with their high rates and illiquid assets, were a menace to the whole financial system. (Steps were later taken to meet this point.).

current issue of National Savings Certificates, though not subject to tax, yielded only about £1:13: -% in the first two years, did not reach 2½% until the Certificate had been held for five years, and only £2:18: 4 at the end of the full period of ten years.

The rate of increase in savings through these three channels was greatest in 1936 and then fell off; indeed there had been a net withdrawal from Savings Certificates since 1935 (amounting to £9 millions).

The only possible way of increasing Savings Banks deposits would be to increase the limit of £500 placed on individual deposits <u>in any one year</u>, since there could be no question of increasing the 2½% interest rate. "There is evidence that a certain part of the money already in these Banks is really volatile short-term money which is placed there by comparatively well-to-do depositors." The Committee therefore proposed no change in the limit.

The reasons for the declining popularity of National Savings Certificates were mainly the low rate of accumulation in the early years, the fact that the overall rate of accumulated interest was less than 3%, and that sales had not been very actively pushed. An investment of 15s. was valued at 17s.3d.at the end of five years and £1 at the end of ten, the compound interest rates at these periods being respectively £2:16: 8 and £2:18: 4. But Savings Certificates should be attractive, i.e. secure, easy to purchase and free of tax. It was necessary to improve the terms, but not by so much as to encourage any large encashment of existing issues for reinvestment; hence they should carry a rather low rate in their early years. But there was evidence that money placed in Certificates was not usually volatile. In spite of an attractive Conversion offer in 1932, there was still (1939) about £19 million of capital subscribed to the first issue untouched, though the issue had closed in 1922 and the effective rate of interest was under 3% (as compared with over 5¼% at the end of the tenth year from purchase date). And on 14th July the Chief Cashier stressed the dangerous repercussions which an over-generous rate of accumulated interest might have on the terms which the Government would have to offer on its larger flotations.

The Committee

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The Committee recommended the following scale:

Purchase Price 15s.

Year	Addition during year	Value at end of year	Rate % p.a.compound interest over period
	Pence	£ s d	£ s d
1	3	15: 3	1:13: 4
2	3	15: 6	1:13: 1
3	6 + 3 Bonus	16: 3	2:14: 1
4	6	16: 9	2:15:11
5	6	17: 3	2:16: 8
6	6 + 3 Bonus	18: -	3: 1: 8
7	6	18: 6	3: -:10
8	6	19: -	3: -: -
9	6	19: 6	2:19: 2
10	6 + 6 Bonus	20: 6	3: 3: 5

These terms gave a higher yield than the current issue during the third and fourth years, and from the sixth year onwards, and a satisfactory final yield. There were three bonuses, instead of two as hitherto, and the round sum of 18s.was reached after six years. The rates were, however, considerably lower than others suggested, and resisted by the Bank's representative. As a maximum holding, the limit of £500 was to be retained.

On 11th September the Committee slightly revised these terms, in order to raise the value at the end of the fifth year to 17s.6d., which it was felt would have more appeal to a half-time holder. Subsequently a change was also made in the second year, to give an addition of sixpence instead of threepence, a yield of 15s.9d., and a compound interest rate of £2: 9: 5. Three bonuses were reduced again to two, threepence after the fifth year and sixpence at maturity. These changes were recommended and adopted. The issue (the 7th) was made on 22nd November 1939.

The Committee also recommended in their Report a new small bond issue to attract money from people who had reached their maximum holdings in the other forms of investment, and to whom the receipt of half-yearly payments of interest might be important.

(The

(The Treasury strongly favoured some such bond issue).

This security should conform to the requirements specified by the Committee in 1916, which were that there should be no depreciation of capital, that the lender should be able to obtain repayment at short notice, and that the interest should not be less than that obtainable by the large investor.

The currency of the bonds, the Small Savings Committee thought, should be not less than seven years or more than ten, and should not be identical with any period for which the Government was borrowing concurrently on the market. The bonds should be available in units of £5 and multiples thereof, and the issue price par. Interest should not be taxed at source, and the bonds should be registered at the Post Office and transferable. To ensure that most holders would retain the bond to maturity a premium should then be payable.* There should be a right to obtain repayment at the issue price at any time on six months' notice; this delay should be a sufficient deterrent to withdrawals without a reduction in the rate of interest during this six months' period. In case of urgent need the investor should be able to have his loan repaid at once, on satisfying the Postmaster General that there was good reason for the request. In this event there should be an arbitrary sum deducted from the capital or, perhaps better, a loss of six months' interest. The latter proposal was adopted. The bonds should be on tap for as long as possible, but in view of the special concessions on taxation and repayment individual holdings should be restricted to £1,000 (as with previous Post Office Register issues).**

The first issue of bonds (3% Defence Bonds) was made by the Post Office (there was no market issue) on the same date as the new National Savings Certificates, viz. 22nd November 1939. The bonds were issued at par, had a seven years' currency, were redeemable at 101 and yielded £3: 2: 7% if held for their full life. At that time there was no large

*The Bank's representative resisted this as an unnecessary concession.

** Maximum later raised to £1500 (15.9.1945), to £2,000 (17.12.1945) and finally to £2,500 (1.5.1946) large issue "on tap" and the nearest comparison was the 2½% National Defence Bonds, whose average life was then reckoned to be about seven years. This stock was being dealt in at about 98½ to yield 2 7/8%. The terms of the 3% Defence Bonds, however, were governed to a large extent by the factors indicated above, allowing also for the considerations that the bonds should be issued at par for the sake of simplicity, that the small investor is apt not to appreciate technical differences in his favour as compared with the large investor, and that the Committee's desire was for a redemption premium to encourage investors to hold to maturity.

The Committee also drew up the programme of a publicity campaign.

The Committee did not meet again until 12th April 1940, when it was called to consider whether the limits of £500 per annum on Post Office Savings Bank deposits, £500 in all in National Savings Certificates, and £1,000 on Defence Bonds should be raised. The Committee decided not to recommend any change as the percentage of holders with the maxima (estimated by sampling) were only 8% for Defence Bonds, 5% for Savings Certificates and (more or less a guess) 1% for Savings Banks.

The Keynes Plan for compulsory savings was at this time said to be adversely affecting the Small Savings Campaign. There was also believed to be some fear that existing small savings (about £1,500 millions in all) might be affected by the deferred payment provision.

After the lapse of some fifteen months, another meeting was held, on 29th July 1941, to discuss possible changes in the terms of the Defence Bonds and Savings Certificates. The yield of Savings Certificates was then felt to be rather high; but though market rates would have justified a change downwards, little saving could be made if, as the Committee held necessary, the Post Office deposit rate were held at 2½% and the ten-year yield on Certificates at not less than 3%. (It was considered politically impossible to reduce the rate below 3% while the large investor was receiving 3% on Savings Bonds.).

The Committee thought, however, that the life of 3% Defence

Bonds

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Bonds might well be extended from seven to ten years. The removal of the premium of 1% at maturity was debated but considered inadvisable (except by the Bank's representative).

The second issue of Defence Bonds came out on the 1st September 1941, the only change being the recommended extension in the currency of the Bonds from 7 to 10 years, with a consequent reduction in the yield over the full period to £3: 2: -%. The "tap" for 2½% National War Bonds 1946/48 had just been turned off, and the new issue, which came out at the beginning of the next month was the 1949/51 series (a ten-year Bond). In effect, therefore, the Government improved on their borrowing terms to both large and small lenders to the same degree by an almost identical extension in the currency of the issues available to both classes.

The Committee met again on 2nd December 1941, and once more discussed limits, which question was frequently raised in the House of Commons. The Chairman favoured a limit of £1,500 in place of £1,000 on Defence Bond holdings, but was not supported by the Committee (including the Bank's representative).

It was pointed out, incidentally, that in industry everything was being sacrificed to output; it was difficult even to get permission for speakers to visit factories to encourage the Savings Movement. More "Street Groups", sub-Post Offices in works, or travelling Post Offices were suggested.

Two meetings were held in 1942, on 30th June and 14th October. In June representations were made by the Post Office that a spread of dividend dates was desirable and that the Register would not stand up to much further handling. A new issue of 3% Defence Bonds (again redeemable at 101) was then proposed, to commence on 1st September.* Savings Stamps were criticised, because of allegations (on the basis of some Birmingham figures) that nearly half of the stamp sales in that district were then being encashed. Children were apt to cash them at once.

In October a majority of the Committee agreed to a proposal to issue a supplementary series of Certificates, for the

benefit

* For net receipts through all issues (to 31st March 1946) see table below.

benefit of those who already held the maximum of 500. About 750,000 out of 15 million "active" holders had reached their limit, and some 40% of the maximum holdings (and 60% of those acquired in Wartime) had been bought in blocks of 500 units. The Committee did not approve of a maximum of 500 for the new issue and cut it to 250; nor were they prepared to issue single Certificates for this reduced amount..."as critics might use their existence as evidence that the demand for the new issue came from the rich". The Committee endorsed the proposal that the new Certificate should be issued at £1 and grow in value to 23s. at the end of ten years, giving a yield of £1: 8: 2% compound interest over the period. No interest was to be earned if the Certificate were cashed before the end of the first year; threepence was added at the end of the first year, and one penny at the end of each completed four months thereafter, with a bonus of sixpence at the end of the tenth year. This issue (Still known as 7th Series) was made on 11th January 1943, and remained until withdrawn on 31st March 1947 in favour of the Eighth Series (of 10/- units) issued on 1st April, 1947.

A further Committee, to consider "the National Savings Campaign after the War", was set up by a Treasury Minute of 10th August 1943. Of its seven members five had sat on the Small Savings Committee of 1939. Its full membership was:

Lord Kindersley	Chairman
Sir Herbert Brittain	H.M.Treasury
Mr.Compton	H.M.Treasury
Mr.Ismay	Post Office
Mr.Kingham	National Savings Committee
Sir Kenneth Peppiatt	Bank of England
Mr.J.L.Wells	Scottish Savings Committee
and Mr.Hardie	Secretary.

A further Treasury Minute (18th October 1943) appointed Sir Harold Mackintosh, Bt., Chairman of the National Savings Committee, a member also of the above Committee.

The Committee first met on 20th August. During about a dozen further meetings, held between September 1943 and April 1944, they considered exhaustively the manifold aspects of savings, the

continued

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continued need for them after the war and the probable (and many certain) reconstructional needs they would have to satisfy. Their views gradually crystallised into the form of a Report, presented some months later. One early document of importance in clarifying objectives was a short note by the Chief Cashier submitted to the Committee at their third meeting (29.9.1943).

At the first meeting Sir Kenneth had said that in his opinion the main problem would not be a market problem (turning on e.g. changes in the terms of existing securities) but one of propaganda. His memorandum now presented developed this idea, but doubted whether any new slogan could be found equally effective in its peace-time appeal to the appeals made in war-time. He believed that the right approach would be..."to develop further the war-time development of reasoned appeals, directed to showing the economic effects of saving". Some broad statistics, illustrating the scale of reconstruction which would become necessary, and a few careful statements showing how saving would meet them, with an attempt also to "show the bearing of the above on the danger of inflation" were among his practical suggestions.

The final version of the Committee's report (May 1944) bears many signs that the above principles had been well digested. In its second paragraph the Report says...."the facilities which the State has offered to the 'small saver'....should continue, without substantial change....after the war, and as at present advised we are not able to suggest any new type of security". The public would be asked to (continue to) save in the national interest rather than in the private interest of the individual saver - an appeal needing an enumeration of the nation's needs, which it would be the task of the Savings propagandist to explain.

In considering prospects and difficulties the Committee had in mind three factors, two adverse and one favourable: the large increase in war savings corresponded in part to an accumulation of personal shortages of consumer goods; a natural result of concentration during the war on patriotic appeal would be that savers should regard their savings as required by the State only for the prosecution of the war; but, on the other hand, one result of war savings was the

formation

formation of a numerous class of savers with considerable sums to their credit, and these as a class would not be eager to spend, but would rather have acquired the taste for saving, some even reaching the point where savings were regarded as a producer of income and not merely as a reserve.

The post-war appeal, in the Committee's opinion, should have the following main themes:-

(i) The continuing need for war savings;

(ii) Relief and rehabilitation of liberated Europe;

(iii) Reconstruction;

(iv) The danger of inflation;

but also

(v) Enlightened self-interest; the thrift appeal.

The above were re-iterated in the summary of conclusions and recommendations, where the principle of 'no change' was also made plain - not only in the issues of securities adapted to the needs of the small saver (as mentioned above) but in the limits to holdings, and purchase price of Savings Certificates and the terms of reception of Savings Banks' Deposits; though the "question of the limit on deposits should be kept under review".

In the light of legislation since passed the Deputy Governor's comments on the Report and the ensuing short correspondence with the Treasury are of some interest. The Deputy Governor's first letter (17.5.1944) concluded....."I observe that the Committee have tactfully refrained from referring to the apparent contradiction in Government policy of encouraging on the one hand the accumulation of small savings while on the other using the total of such savings as a Means Test in connection with Old Age Pensions and the like. You may tell me that some kind of "Beveridge" is the answer to this obvious inconsistency. But in the absence of some such scheme I venture to suggest that the subject should receive careful consideration".

The Treasury (Brittain) replied (23.6.1944).....

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"I am doubtful whether there is any real, or even apparent, contradiction between encouraging savings and taking them into account in assessing need. The object, and reward, of saving is to avoid or minimise dependence on others. This reward is not in any way lost, because, in the last resort, the community is prepared to stand between the person without resources and starvation. The answer will have added force if a new Social Security plan provides for improved benefits. For "national assistance" will more than ever represent the assistance of last resort, for which disregard of any resources would be difficult to justify".

The Deputy Governor's rejoinder (29.6.1944) reads.....

"I couldn't disagree with you more. I am afraid I still believe that a Means Test is no kind of encouragement to thrift and indeed I go much further and say that any idea of regarding Old Age Pensions as Poor Law Relief is, in my humble opinion, completely out of date."

The Committee do not appear to have met subsequently to the issue of their Report. There does not seem, either, to have been any material departure from the principles laid down therein; though, in conformity with the general level of interest rates on Government Credit some modification of the terms of subsequent issues of Savings Certificates and Defence Bonds was perhaps inevitable. Thus, the Budget speech of 9th April 1946 included a statement that the current issue of 3% Defence Bonds would be discontinued after the end of April, and replaced on 1st May by a new series bearing 2½% interest, but otherwise on the same terms. Six months later, after consultation with the Bank and the National Savings Committee, the Treasury announced that the current (7th) issue of National Savings Certificates would be discontinued after 31st March 1947 and replaced by a new series on terms to be announced later. Like the seventh series, in order to encourage holding to maturity, the terms of the new issue gave differential rates between the earlier and later years (or periods) into which the full term was divided for the purpose. The eighth series yielded £2:13: 2 per cent per annum on a full 10 year life, as compared with the £3: 3: 5 per cent of the seventh series.

Savings Certificates

As the foregoing will have shown, the Committee on Small Savings spent a good deal of time discussing the terms of the various issues of National Savings Certificates made during the war. Savings Certificates contributed about $1\frac{1}{3}$ times as much as Defence Bonds towards the finance of the war, and these two together just over 13% of total Government borrowing in the six years 1940/45. It will be convenient to have a record of these two types of small savings attached to the account of the Committee which deliberated them.

As mentioned in "War Savings Weeks", there was a good deal of much criticised duplication of "large" savings during the campaign; and the same was true of "small" savings, which category includes both Defence Bonds and Savings Certificates. While subscriptions far outweighed withdrawals, this misrepresentation was perhaps not of much consequence, though the figures published by the National Savings Committee* were, of course, incorrect. Correct figures could be obtained by deducting withdrawals from Receipts in the weekly Exchequer Returns, but the weekly statement of the National Savings Committee was the standard reference for the progress of small savings. When, as happened for considerable periods after the war, the volume of savings fell off and withdrawals of Savings Certificates were in excess of purchases, the figures were capable, in the absence of withdrawals (which the National Savings Committee did not deduct), of masquerading as a continuance of net saving. The main grievance, it is true, was against post-war figures; but in the Committee's understandable anxiety to show as large a total of saving as possible during the war, they had all along published gross figures.

It was not until the spring of 1947 that the National Savings Committee published the campaign figures - a convenient collection of statistics measuring total net small savings so

long

*Not to be confused with the Committee on Small Savings.

long as correct - in a new form, and something much nearer the true position was shown.*

The weekly Exchequer Receipts and Issues, however, do give a just account throughout, and for the period of the war these showed a net increase of just over £1,200 million (from the commencement of the campaign to the end of 1945). Meanwhile, about £120 million interest accrued on the newly subscribed Certificates.

The appearance of much larger withdrawals with the approach of the end of the war will be noted.

£ millions

NATIONAL SAVINGS CERTIFICATES

From the Opening of the Campaign (25th November 1939) to 31st December 1945

	Issues	Withdrawals	Net Issues
1939 November 25th - December 31st	22	3	19
Year 1940	183	24	159
1941	224	26	198
1942	250	38	212
1943	314	45	269
1944	293	62	231
1945	222	101	121
	1,508	299	1,209

(Statistics Office)

* Even then, to get a true total of net saving, repayments at maturity of Defence Bonds (which the Committee never published) had to be deducted.

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Defence Bonds

Four issues of Defence Bonds were made during the war, on recommendations of the Committee of Small Savings, all through the Post Office, where Bonds were obtainable in denominations of £5 (and multiples) in which units they were also transferable.

The first issue coincided with the opening of the savings campaign. It was made on 22nd November 1939, and had raised £60 million by the end of the following March. Three further issues followed, on 1st September 1941, 1st September 1942 and 27th May 1945. All issues were made at par, interest was payable half-yearly, and Bonds were repayable in ten years or less at 101, or at par (with accrued interest) on six months' notice. In cases of private emergency Bonds were repayable at short notice, but such early repayments involved loss of six months' interest. Income Tax was not deducted, but persons liable to tax had to declare their interest on their tax returns. Interest was tax-free to non-residents.

Before the end of the war these issues had raised nearly £900 million (net) as shown in the table to follow. They were popular in the early years and again as the war approached its end, and raised well over £100 million in each of the intervening years 1942/3, 1943/4 and 1944/5.

3% Defence Bonds were replaced by a 2½% issue from the 11th May 1946.

(£ millions)

3% DEFENCE BONDS

From the Opening of the Campaign (25th November 1939) to 31st December 1945

	Subscriptions less Withdrawals	Outstanding at End of Year
1939 25 Nov.-31st Decmr.	22	22
Year 1940	180	202
1941	174	376
1942	134	510
1943	121	631
1944	112	743
1945	154	897

(Statistics Office)

The Channels of Central Government Net Borrowing

United Kingdom 1940-45

(£ million)

	1940	1941	1942	1943	1944	1945
Finance through Government agencies	540	243	187	- 68	- 39	257
Post Office and Trustee Savings Banks	119	214	234	301	325	355
National Savings Certificates, including increase in accrued interest	167	214	232	297	265	159
Defence Bonds	180	174	134	121	112	154
Other public issues (net)	567	1,031	1,047	1,060	896	1,176
Increase in fiduciary issue	50	150	170	150	150	150
Increase in Treasury Bills outside Government Departments and Bank Ways and Means	129	279	151	433	537	565
Treasury deposit receipts	338	474	155	434	394	- 158
Tax reserve certificates	-	17	453	177	113	41[illegible]
Central Government borrowing	2,090	2,796	2,763	2,905	2,753	2,699

(From White Paper Cmd.6784 : p.30)