Chapter X

COMMITTEE ON POST-WAR DOMESTIC FINANCE

HAM

This Committee was appointed by the Governor on the 26th March 1943 with the following members:-

Sir O.E.Niemeyer (Chairman)
Mr.E.Holland-Martin
Sir K.O.Peppiatt
Mr.H.C.B.Mynors
Mr.R.N.Kershaw

Mr.E.H.D.Skinner and Mr.G.L.F.Bolton also assisted the Committee as required. The Secretaries were Mr.L.P.Thompson-McCausland and Mr.C.C.Excell.

~~Professor~~ Sir Henry Clay took the place of Mr.Mynors from the 14th meeting on the 11th August on his return from the U.S.A.

The Terms of Reference were:-

To report on the methods that could best be adopted in the immediate post-war period to ensure effective co-operation between H.M.Government and

The Bank of England
The Banks
The Market, and
Other Lenders

in meeting the financial needs of the Community - both long and short term - and having regard, inter alia, to the necessity for:-

(a) initiating and administering effective control;

(b) establishing some means of judging the validity of demands, especially for new industries;

(c) co-ordinating allocation of capital with the allocation of materials;

(d) dealing with the needs of industry in such a way as to encourage maximum employment and the extension of research.

The Committee held 19 meetings and their Report* was dated the 19th October 1943. They felt that,

~~It may be mentioned that no reference was made in the Report to the encouragement of research. The Committee felt that~~

apart

*Appendix ...

apart from enjoining a favourable attitude on the part of the Capital Issues Committee, nothing much could be done on the financial side. As regards controls, it will be observed from the Report that the Committee assumed the existence of a number of controls other than those of a financial character which it suggested.

The Chairman sent the first thirteen paragraphs of the Report to Sir Wilfred Eady at the Treasury in November 1943 (C.T. 3.11.43). The remaining parts were deferred for further consideration. By August 1944 the Governor was able to inform the Committee of Treasury that progress had been made on the proposal that the Clearing Banks and the Bank of England should form an organisation to finance small businesses. It was probable that the Bank would subscribe to the share capital in a nominal amount of possibly £1 million, and certainly not exceeding £2 million, but would not participate in the loans to be made to the organisation. Proposals for the reorganisation of the Bankers Industrial Development Company awaited decisions on the Government's industrial policy.

The Report proposed the setting up of an Industrial Development Company with a capital of £30 million 3½% Preference Shares, subscribed by Insurance Companies, Financial Trusts, etc., and £20 million £1 Ordinary Shares (only 1/-s per share called up, unless in unexpected circumstances) to be subscribed by the Bank of England and the Clearing Banks, and power to issue Debentures. The Bank of England's participation in the Company registered on 20th July 1945, the Industrial and Commercial Finance Corporation,* was in fact £500,000 only. They might make loans up to £1,500,000. A copy of the Report will be found among the Appendices (No......).

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* ~~[illegible]~~ Finance Corporation for Industry (registered 19th May 1945) ~~which~~ was designed to fulfil a different purpose - the granting of loans of ~~£50~~ £200,000 or more.

APPENDIX ......

COMMITTEE ON POST-WAR DOMESTIC FINANCE

1. We were asked to suggest the best means of securing in the immediate post-war period effective co-operation between H.M.Government and the City in providing short and long-term finance; particularly having regard to the necessity for establishing effective control, for co-ordinating the allocation of capital with the allocation of materials, and for providing a means of judging the validity of demands for finance with a view to encouraging maximum employment.

2. We find it impossible to deal with our terms of reference without first endeavouring to envisage the framework within which this co-operation will have to function. In considering these questions therefore we have been forced to make certain assumptions, the validity and, more particularly, the duration of which is uncertain. We are fully conscious that the machinery which we contemplate for the beginning of the post-war period will probably have to be progressively modified as these assumptions become less valid, and will at all times need continuous supervision and adjustment. These assumptions are referred to in Paragraph 10 below. We feel obliged, however, at the outset to refer in some detail to the monetary situation with which we are likely to be confronted in the early post-war years.

3. H.M.Government has announced its intention of maintaining after the war its policies of -

(a) low interest rates, and

(b) reasonable stability of commodity prices.

Low interest rates are demanded in order to encourage the rapid development of the capital equipment and durable goods industries and so assist the turnover from war to peace. At the same time as low interest rates stimulate expenditure on the products of these industries they also discourage saving and encourage expenditure in general. The influence of low interest rates as a whole is therefore to force up commodity prices, which is indeed the object of lowering interest rates in a depression, but is an obstacle to securing the Government's other objective of stable prices when for other reasons people are already spending freely. It is necessary, therefore, to glance at the conditions under which these two policies can be reconciled.

4. The experience of the 1930's showed that in certain circumstances interest rates could be kept low by expanding the cash basis while restricting demands on the capital market. The banks being provided with more cash, in order to maintain their customary ratios expanded their discounts and investments. But the volume of Treasury Bills available to them was restricted by funding operations, thus forcing down the Treasury Bill rate and also increasing the appetite for long-term securities; while simultaneously overseas borrowers, who might have increased the supply of securities, were restricted by the embargo on export of capital. It is clear that a policy of this kind requires the inaulation of the market from other countries; otherwise overseas borrowers would take advantage of the low rates at which they could borrow and so force up rates, while at the same time the excess of imports due to the expansion of domestic incomes and the rise in costs would call for a deflationary pressure on incomes and costs to protect the exchange rate.

5. After the war the position will not be quite the same as in the 1930's; at the present time funding of the large volume of short-term obligations is not yet in sight and the market will be faced by an accumulation of demands we indicate in Paragraph 13 below. To meet these large demands by a further expansion of bank resources on an expanded cash basis would run into the difficulty that there is already a dangerous acoumulation of purchasing power in the form of larger bank deposits and currency in circulation (together about £2,000 million more than in 1939) in addition to very large increases in short-term

investments.

investments. The difficulty of reconciling the two policies of encouraging investment by low interest rates while seeking to keep commodity prices down will be much greater after the war than in any previous period.

6. A temporary solution can no doubt be found by maintaining the controls which, in war circumstances, have prevented a similar situation from developing into a serious inflationary movement during the war.

(a) Exchange and import control would up to a point insulate the London Market from many other countries (though not from the sterling area) and would make it possible to restrict imports to the amounts that could be paid for without depressing the sterling exchange.

(b) Capital issues control which applies to domestic and sterling area as well as foreign issues, could prevent the unregulated export of capital and reserve the resources of the market for the Government and approved domestic purposes.

(c) The various commodity controls could restrict capital expenditure to the volume which supplies of materials and industrial capacity make possible without forcing up prices; similarly consumption of finished goods could be restricted by rationing, thereby making possible the maintenance of something like the present level of consumption-goods prices.

7. But these measures, while they carry out the Government's intention, do so merely by perpetuating the lowered standard of life which war involves. The consumer derives no benefit from his increased income if he continues to be denied the imports which added variety to his consumption before the war and the domestic products of which he has gone short during the war. He is forced to save by the impossibility of spending, but his savings do not do him any immediate good so long as the restrictions on spending remain.

It is presumed, therefore, that the country will

wish

wish gradually to remove some, at any rate, of the controls which prevent an inflationary rise in prices by preventing any increase in consumption. The controls can be relaxed as production increases, thus making possible additional consumption without forcing up prices dangerously; but to increase production, industry must be able to attract new capital supplies. Industry thus will be in competition for new capital with the Government's own extensive demands referred to in paragraph 13 below. It may therefore be able to secure capital only at the cost of some forcing up of interest rates, but without new capital it cannot increase production and so make possible the relaxation of controls. Such a rise in interest rates would not necessarily have a restrictive effect on the total of capital expenditure, if consumers are crying out for the products in the manufacture of which capital expenditure is needed. The cost of Government borrowing would go up, but there would be an offset to this increased charge in the industrial activity supported by the new capital investment.

8. On the side of consumption, it may be possible for a time to maintain sufficient control by means of rationing and price fixing for those essentials of life, which enter into the cost of living index number, while permitting a rise elsewhere. If and when rationing and price fixing prove inadequate, the principal measures of control that remain would appear to lie in the fiscal domain. If income tax as we suggest later has to be reduced rather than increased, it is to other forms of taxation that one would have to look as a means of restraint on consumption. In this connection the selective use of the Purchase Tax might be considered, even though the scope of this Tax is limited, since the larger elements in personal expenditure tend to escape it.

Even so some rise in commodity prices as a whole followed by some rise in interest rates would seem, therefore,

difficult

difficult to avoid if there is to be rapid turnover from war industry to peace.

9. Some considerable insulation of this country by means of control of foreign payments will remain necessary in order to permit an expansive financial policy without so encouraging imports and discouraging exports as to force down the sterling exchange. It would be practised because the expansive domestic policy is expected to bring about a fuller employment of the country's resources than would be the case if imports were checked and exports encouraged by a deflationary financial policy. Against the increase in national output so secured must be set, however, the loss of the imports which have to be excluded and, probably, a higher "real" cost for production as a whole. Every effort should therefore be made to lessen these disadvantages of the policy and thereby to lessen the need for complete insulation of the country by exchange control. The need of a continuous pressure by Government and public opinion for economy and efficiency in production will be much greater if the check on inefficiency given by international competition through free movements over the exchanges is eliminated.

The alternative to Exchange Control sometimes put forward, that sterling should be allowed to depreciate until it "finds "its own level", is merely another way of reducing the volume of imports we get in exchange for our exports; and is open to the objection (in addition to the practical difficulty that we may not want or be able to secure depreciation in sterling on all other currencies) that it is unselective in its operation.

If these difficulties are to be minimised, the conclusion seems inevitable that Government and other demands on the capital market should, as soon as possible, be so limited as not to exceed the amount which can be supplied by real saving and must not involve further ad hoc creation of credit through the banking system. The more saving can be maintained and stimulated, the less pressing the dangers will become. But as the safeguard of physical

scarcities

scarcities diminishes and that element in control becomes less and less effective, it will be increasingly necessary to fix the capital programme within limits consistent with stable money.

10. With this caveat we assume, during the period immediately following an armistice -

(1) exchange control, whether reinforced or not by international currency stability agreements;

(2) capital issue control on the lines of the present intentions of the Treasury (i.e., "that the order of priority of capital "issues is determined according to their relative importance "in the national interest, having regard particularly to "current Government policy in respect of physical investment"). See Annex I./

These two controls would seem fundamental to any ordered vision of the future.

(3) direct physical controls over consumption goods and raw materials - by rationing or priorities;

(4) direct control over the allocation of labour.

11. We must, further, assume that in order to implement the above controls, general directives on priorities will be given at the Cabinet level; and that the various executive controls which will translate these general directives into action will be kept in line by some standing Inter-Departmental body in Whitehall, capable not only of co-ordination but of suggesting orderly modification and revision to the Cabinet. It is to such common directives and central revision agency that we would look for co-ordination, e.g., of the Capital Issues Committee policy with that of the physical control Departments - both being inspired by the same agreed principles of priority.

12. Some

/ We doubt whether it is necessary or desirable, in the case of issues outside the Trustee and quasi-Trustee classes, for the Bank of England to be asked to deal with details of placing issues other than the timing of the issues.

13. Some of these controls may be relatively short-lived: but it is precisely the short-lived ones which will in the first stage (when physical scarcities are likely still to continue) be decisive. Capital Issue control, though it may later become more prominent, will in the beginning follow rather than lead. At this stage the Treasury, in releasing funds under their control and not within the orbit of the Capital Issues Committee (e.g., Excess Profits Tax refunds and Post-War Credits) will presumably be guided by the same principles. But there remains one important source of capital expenditure which must be covered, namely, the great lending institutions - the Banks, the Building Societies and the Insurance Companies.

During the war the policy of the Banks as regards their advances has been guided by informal directions from the Chancellor of the Exchequer and a continuation of this practice with directions in conformity with the general objectives of priority control will be needed. Fuller and more frequent statistical information, particularly with regard to their advances, would give valuable indications of the way in which these directions were working and enable the present exemption of Bank advances from direct control by the Capital Issues Committee to be continued.

The Building Societies should be induced to restrict themselves to lending only for the purchase of properties or for the construction of such houses or other buildings as are in accordance with the Government's policy. They should not make loans for general purposes merely because the security offered happens to be house property. Their other available funds will be needed to support the class of securities in which the Societies are authorised to invest (i.e., Trustee Securities).

Similarly the Insurance Companies, most of whose new investments are at present confined by an informal agreement to the new Government Issues, should be guided in granting loans by the general directives and not merely by the profitability of the

investment

investment irrespective of its purpose. The major part of their loans will, however, probably fall within the control of the Capital Issues Committee.

13. While it may be impossible to forecast the volume of savings which in the post-war years will be available for capital needs, we believe that we may assume that within the above framework the needs will have to be met in the main (and with the substantial addition suggested in Paragraph 16) by the market methods hitherto followed in this country. But it will be necessary to secure that these channels can continue to function in an orderly fashion. Capital demands (even given selective priorities) will be heavy. It may well be that the Treasury will be borrowing for ordinary Budget purposes (on a decreasing scale) for several years; and in any case it will have to borrow to replace maturing Issues (particularly of short debt). The Treasury will also bear (on present plans) the burden of Local Authority borrowing (via the Local Loans Fund); and it will have to finance whatever repayments of Excess Profits Tax and Post-War Credits may be permitted. Some indications of the extent of this total burden, apart from further new developments, are given in Annex II. The Banks in order to increase their advances to industry, and other holders of Government Bonds in order to resume deferred maintenance will need a ready market. And over and above this will come the direct needs of Industry. At the moment the Banks, mainly through their holdings of Treasury Deposit Receipts, are very liquid but it is probable that, in order to make advances, they will need after the war gradually to reduce their Government securities. At the same time industry, and indeed the general public, may well be heavy sellers of gilt-edged securities. We shall thus be faced with the question of finding a buyer for this mass of securities in order to ensure the liquidity of holders and to maintain a reasonably stable market. And it seems probable that the main buyer will have to be H.M.Government, directly or indirectly. It is true that the Issue

Department

Department and the National Debt Commissioners are both very liquid and are able - and must be prepared - to provide the necessary machinery. But this fact, while providing holders with liquidity, adversely affects pro tanto the Exchequer position, involving as it must increased short-term borrowing. We therefore envisage an increase rather than the reverse in the Floating Debt during the immediate post-war period. From the domestic angle we recommend the following:-

(a) that H.M.Government should as soon as possible make ample provision out of revenue for debt interest and amortisation;

(b) that the position of the Issue Department and the C.R.N.D. should continue to be kept liquid against the day when their resources may have to be used for market assistance; and that there should post-war be freedom in the use in the market of C.R.N.D. funds, and no promise such as the existing one that "new" money reaching the Commissioners should be applied directly to new Government loans;

(c) that minimum prices on the Stock Exchange should be maintained;

(d) that cash dealings on the Stock Exchange should continue for all securities.

14. There is one special point in connection with the actual placing of capital issues which we believe to be of importance.

Issuing houses and promoters of market issues are of all kinds and sizes and vary enormously in their soundness and respectability. A few of the biggest also act as receiving bankers to their own issues, but these are all members of the Accepting Houses Committee and can more easily be controlled through this Committee in their capacity of bankers than as issuing houses.

Every prospectus offering securities for subscription by the public contains the name of a banker to whom subscriptions are to be sent. Legally this receiving banker has no liability apart from the necessity of applying the money received properly and not converting the subscriptions to his own use. But although he takes no responsibility for the soundness of the

proposition

proposition advertised, the mere fact that the name of one of the big banks appears on the prospectus is taken by the general public as prima facie evidence that the security offered is genuine and vouched for by the bank. Added weight is given to this by the practice of the banks of sending out copies of prospectuses for which they act as bankers to their branches, thus giving to branch managers all over the country (who are often the investment advisers to such of their customers as have little knowledge of and no direct connection with stockbrokers) an additional incentive to recommend the securities in question in order to gain for their branches the profits arising from the commission given on applications stamped by a banker.

We suggest in order to meet this problem that the clearing bankers should form a committee of their own under an independent chairman and including an experienced solicitor and accountant (one of these might be the chairman) to examine and approve all prospectuses on which any of the banks are asked to act as receiving bankers. Those few issuing houses who act as bankers to their own issues could be represented on this committee, but there is less risk in connection with their issues owing to the double role they play and the responsibility they take for securities issued, a responsibility which does not cease once the issue is made.

A committee of this kind could not ensure that there would be no cases of deliberate fraud, but if certain requirements were laid down and answers obtained to a detailed questionnaire, it should be possible to enforce generally the standards already applied by the reputable and responsible issuing houses, solicitors and others concerned. Among other things it would be possible:-

(1) to insist on verification and disclosure of all relative facts and figures and to avoid the deliberate withholding of information, such as contingent liabilities or material contracts;

(2) to

(2) to pin down the responsibility for the accuracy of figures and facts given in the prospectus so that, in the event of a case of fraud, there should be no doubt as to who was responsible.

The Committee might require that every prospectus should contain the name of -

(a) a responsible stockbroker or dealer in securities who must be recognised under the Prevention of Fraud (Investments) Act 1939;

(b) a duly qualified solicitor;

(c) a duly qualified auditor.

It would remain necessary for the sponsor of a new issue to make application as at present to a recognised Stock Exchange for leave to deal.

While the present capital issues control exists, another essential condition would, of course, be the approval of the Treasury through the Capital Issues Committee. Finally a definite agreement should be reached with the Press that they would not publish any advertisement, prospectus or offer of securities to the public unless it had received the approval of this Receiving Bankers' Committee.

If a solution cannot be provided by a satisfactory body set up by the clearing bankers to perform the functions indicated, it would appear necessary to consider other alternatives. One suggestion made was that it should be a legal requirement that all issuing houses should be registered with the Board of Trade and that on registration they should make a substantial deposit (amounts of £20,000 or larger amounts up to £50,000 have been mentioned) with the registering authority as an earnest of their bona fides.

Another suggestion was that the problem might be approached by way of the underwriting aspect of issuing, namely that there should be formed an Association of underwriters which would

allow

allow its name to be included in a prospectus only if satisfied that the issue was one that the Association could recommend to its underwriting members. It would not be a necessary condition that every prospectus should bear the name of this Association of underwriters, though clearly, in course of time any prospectus that did not bear such a name might be at some disadvantage vis-à-vis the subscribing public.

There may be other possible suggestions and if it should appear that the clearing bankers are unwilling to take measures of the kind suggested by the Committee, then it seems desirable that further examination should be given to these other alternatives.

15. Reverting now to the fundamental question we think it desirable in the first place to point out that resort to the London capital market by way of public issues has not in the past been the only, or even the most important, source of new capital for industrial and commercial expansion in this country. Not only are the majority of firms so small that their needs would not justify the minimum expense of a public issue; even the larger firms in the main expanded out of trading profits retained in the business. Such profits are shown by pre-war statistical estimates of savings to have been the largest single source of new capital; they have an even greater importance from the point of view of our present enquiry inasmuch as they are automatically applied to industrial and commercial needs. The consideration of this source of finance falls outside the scope of our direct enquiry; it is mentioned only because certain changes affecting it in recent years have lessened its importance and by reaction increased the importance of the other methods of finance which are the immediate subject of our report. One most important change is the increased rate of direct taxation. Not only has the standard rate of income tax since the last war been continuously on a much higher level than before 1914; in addition the trading profits of all personal businesses

have

have become liable to Sur-Tax, whether distributed or not, and when the control was effectively in the hands of a small number of persons, the same rule has been applied to the profits of joint stock companies. The main source, therefore, on which industry and commerce drew for long-term finance in the past is now drastically reduced by taxation. An incidental (and doubtless unintentional) result is that an important discriminatory advantage is conferred on the large joint stock company of diffused ownership which escapes Sur-Tax on profits not distributed, as compared with the commoner type of business, in which management is associated with the ownership of the capital employed. Excess Profits Tax at 100 per cent.during the war has tended in the same direction of limiting the opportunities of self-financing out of profits; though in this case there has been a recognition of post-war needs in the form of the promised 20 per cent.refund. This refund will, of course, assist only those firms that have earned and paid Excess Profits Tax; in industries adversely affected by the war (e.g., by compulsory concentration or closing down), the need of capital will be greatest and the aid of Excess Profits Tax refunds least.

Thus industry and commerce are forced to look to the bankers and the new issue market (or to other channels serving the same purpose) to an ever-increasing extent. The problem is not entirely one of availability and supply of capital in general; the great increase in bank deposits indicates that there will be a large volume of money seeking employment; the problem is one of machinery which will serve to direct money seeking employment to the points in industry at which it can be used effectively. While it is with this machinery that we are primarily concerned, we wish to record our opinion that it is doubtful whether any practicable machinery for collecting from the public and applying capital can be as effective as the traditional method of allowing those firms which have shown they can use capital to advantage by earning profits to apply a large part of those profits to financing their

own

own growth, and it follows that any relief from taxation which can be given to profits retained in the business will lessen and ease for the London capital market the residual problem of finding new capital for industry.

16. It would seem to us that there will be many cases - far more than in pre-war years - to which the existing machinery for financial issues, even when buttressed by the considerable number of other financial agencies already existing will not be well adapted. We think it will be necessary to provide further machinery to facilitate the provision of capital to any borrowers not otherwise covered for a sound project which accords with the national interest, as defined from time to time by H.M.Government and for which all necessary permits have been obtained from any physical controls concerned. In particular, provision should be available for -

(i) the sound borrower who is too small for a market issue;

(ii) any sound borrower, large or small, when market conditions are unfavourable to new issues;

(iii) borrowers whose finances are too weak to justify an immediate market issue but whose businesses are worth nursing with a view to a subsequent issue.

The rates and costs of borrowing should be as low as they reasonably can be.

For this purpose we suggest an Industrial Development Corporation on the lines tentatively sketched in Annex III. It seems to us reasonable to expect some support for such a scheme from institutions which during the war have been investing in Government securities; and that the Banks, without in general departing from accepted principles, might properly be asked to earmark to this particular institution the amounts suggested. We are assuming that the long-term needs of Agriculture will be met from other sources (e.g., the Agricultural Mortgage Corporation).

17. We add certain comments on this proposal. The Corporation should provide -

(a) temporary

(a) temporary finance for approved borrowers who are unable either because of some present weakness in their own structure or because of market conditions, to raise permanent finance at the time they need it. It would be the intention that when conditions enable such borrowers to make an issue of their own, they should do so through normal market channels;

(b) permanent or quasi-permanent finance for borrowers who, through their smallness or for some other reason, cannot be catered for through the normal market channels.

There should be no upper or lower limits to the amount of individual loans or other financing which might be undertaken by the Industrial Development Corporation.

The services of the Industrial Development Corporation would be available to any borrower passed or exempt by the Capital Issues Committee who could not obtain finance on reasonable terms from the market. It would thus provide a check on the reasonableness of all market functioning. If a borrower chose to pay exorbitant charges and not to have recourse to the Corporation, that would be his affair.

The Industrial Development Corporation would naturally have to assure itself of the financial soundness of any concern for which it provided money.

We do not believe that a flat rate for all comers in category (b) would be practicable, nor do we consider that the Industrial Development Corporation should fix its interest charges at what would amount to a subsidised rate. There would be trouble if concerns too weak to make an issue through the market obtained funds from the Corporation at rates lower than those available to their stronger competitors. It might however, be desirable to lay down a maximum rate for advances, say, 5% chargeable by the Corporation. The question would then arise whether projects of which the risks would not normally justify

financing

financing at the maximum rate should be rejected, or accepted despite the disproportionate risk. We suggest that where a project is in the national interest, the Industrial Development Corporation should be prepared to take an optimistic view of the risks involved, but should not be expected to finance projects which, although nationally desirable, have little hope of paying their way. It should be for the Government to find other means of financing projects of that kind.

As to profits, the Corporation should aim at covering its own expenses (including payment of its own staff, who would not be provided by H.M.Treasury) and earning sufficient surplus to build up reserves adequate to its needs. It should not, however, be part of its policy to earn more than a limited dividend for its shareholders.

Since the Industrial Development Corporation would be primarily a financial institution, its board would be representative of those institutions which had subscribed its share capital, but should also include men of general industrial experience.

The general policy of the Corporation towards concerns in which it had a financial interest would be to follow their affairs by periodical friendly contacts but not to interfere in management except in the event of serious deterioration.

18. We have given much thought to the question how, if such a Corporation existed, it should - in the words of our terms of reference "judge the validity of demands" made upon it. It would be attractive from some points of view if judgment on this point could be handed over in a large measure to the applicants' peers in the form of the Trade Association of the industry concerned. But we have come to the conclusion that this evasion of the problem is impracticable, among other reasons because in many cases it may be a question as between the competing claims of more than one industry.

In the situation which we have been contemplating

schemes

schemes which reach the Corporation will already have run the gauntlet of more than one Control or at least have had to be reconciled with general priority directives. For further technical advice (on other than purely financial aspects) we see no alternative for the Corporation to reliance on its own independent technical advisers. We think it would need one or two technical advisers of general industrial knowledge who might be able to consult, as occasion arose, members of a panel of industrial experts. This would not exclude consulting a Trade Association in suitable cases. But the responsibility for the final judgment would have to rest with the Corporation.

19. We are much indebted to our Secretaries, Mr.L.P.Thompson-McCausland and Mr.C.C.Excell, for the zeal and knowledge with which they have assisted us.

(Sd.) O.E.NIEMEYER

(Sd.) E.H.MARTIN

(Sd.) K.O.PEPPIATT

(Sd.) HENRY CLAY

(Sd.) R.N.KERSHAW

19th October 1943.

ANNEX I

(Treasury) Draft of 4th February 1943

Capital Issues Control

Post-War Plan

A. 1. Statutory basis to be on same lines as present Defence (Finance) Regulation 6, subject to any points on which war experience has shown that the Defence (Finance) Regulation wording may need tightening up.

2. ? Unit Trusts not to be included under control.

3. ? A statutory basis should be secured for controlling the grant by Stock Exchanges of permission to deal. For the purpose of dealing with any attempts to get round this control by marketing outside the recognised Stock Exchanges, it is proposed to rely on the operation of the Prevention of Fraud (Investments) Act 1939.

4. Statute to provide for (a) exemptions of classes by Treasury Orders (including amendment or revocation of such Orders), and (b) facility for Treasury to give general consents in classes of cases. Both (a) and (b) to be subject to such conditions as Treasury thinks fit.

5. Under 4(a) above would fall (provisionally) all cases in 1(1) of the existing Exemptions Order, and those in 2(1) other than items (e) (because already covered by Paragraph 1(1)) and (j) (out of date).

6. Under 4(b) above we should deal, e.g. with maturing mortgages of local authorities, subject to whatever is decided as to the extent to which they shall have power to borrow elsewhere from Local Loans Fund to meet such mortgages; bankers' deposit receipts; Agricultural Mortgage Corporation loans; etc.

B. 1. The Statute should not itself oblige the Treasury to act only on the recommendation of the Capital Issues Committee, but the Chancellor would announce that we should in fact

follow

follow that course except where we notified otherwise, though the Treasury would (as in 1936 and 1939) instruct the Committee as to the general lines of policy by reference to which they should consider applications.

2. We should arrange (? and announce) that applications for "overseas issues" would not go to the Committee, but would be dealt with by the Treasury. ("Overseas issues" would be defined on 1936 lines, except that they would include Empire as well as non-Empire cases: that is, "overseas issues" would mean issues on behalf of borrowers domiciled outside the U.K., or issues, the proceeds of which would be remitted directly or indirectly outside the U.K. It would be for consideration whether we should use the exchange control or the capital issues control to control the acquisition from overseas holders of large blocks of securities with a view to their sale in this country either by an issue to the public or otherwise).

C. Outline of initial instructions to Committee on U.K. issues*, subject to such modification from time to time as may prove necessary or possible.

1. The objects of the control are to ensure (a) that the order of priority of capital issues is determined according to their relative importance in the general national interest, having regard, particularly, to current Government policy in respect of physical investment; and (b) that, in all cases where consent is to be given, the time and manner of raising capital are settled with a view to preserving orderliness and avoiding congestion in the capital market.

2. Issues for the renewal of short-term instruments (i.e. of not exceeding 2 years in original term) or for the replacement of longer-term obligations maturing on a definite date. In all these cases, provided due

application

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*Other than those covered by an Exemptions Order or general consent of the Treasury.

application is made, consent will normally be given to the extent that an applicant is not in a position to meet his liabilities out of funds which are already available and which are not required to finance business of an approved kind. ("Business of an approved kind" means business for which, at the time of application, consent in principle would be given to an issue of capital under paragraphs 4 - 7 below if such consent were sought).

3. Conversions. Provided due application is made, consent will normally be given to the conversion of any securities to a lower rate of interest. Such consent may be conditional on the debtor redeeming the old securities to the extent that he has funds available which are not required to finance business of an approved kind (as defined in paragraph 2 above), and regard may also be had to the period of the proposed new issue as compared with the original period of the issue to be converted.

4. Subject to circumstances requiring at any time a stricter control, consent in principle will normally be given to issues involving the raising of cash for the following purposes, provided an application has the support of the appropriate Government Department, including any necessary licences for the supply of controlled labour and materials covered by the issue:

(a) issues to be used directly to finance the production or sale of exports from the U.K.;

(b) issues by public utility undertakings and housing associations;

(c) development of agricultural land, including the erection and repair of agricultural buildings;

(d) the production and exploitation of raw materials in the U.K.;

(e) transport (including shipping and aviation);

(f) the

(f) the development (including conversion from war to peace production) or expansion of such productive and constructional industries (including companies financing production and new construction) as may be notified to the Committee from time to time by the Treasury after consultation with the appropriate other Government Departments. (Such notification may take the form of specifying industries in which issues should not be allowed.); and

(g) services directly ancillary to any of the above.

In the case of issues falling under (c) to (g) above, the Committee may, if it thinks fit, arrange with the appropriate Department not to refer individual applications to the Department but to obtain its advice in regard to the general need for capital of any industry or any group of undertakings.

5. Issues for the purpose of financing distributive trades should for the present be permitted only in cases where an application is supported by a certificate from the appropriate Government Department that, if the issue is not allowed, the maintenance of essential food supplies or other essential distributive services will be imperilled.

6. Issues for the purpose of financing the catering industry (including hotels) [may require special consideration].

7. Issues in connection with the financing of hire-purchase should only be allowed if (a) the goods to be purchased are required for any of the purposes for which an issue would be allowed under paragraph 4 above, and (b) the application is not inconsistent with the policy of the Board of Trade from time to time in regard to the conduct of hire-purchase business.

8. Issues arising out of the proposed acquisition of existing undertakings will not, for the present, be permitted except in special circumstances; "special circumstances" will include cases where the death or retirement of a present

owner

owner involves the withdrawal of all, or a substantial part, of his capital from the undertaking; or where the object of the issue is one for which an issue would be allowed under paragraphs 2-7 above, and the present owner is not in a position to provide or secure additional capital necessary for the maintenance of the undertaking or to enable it to take advantage of a reasonably assured opportunity of expansion; or where the operation does not involve the subscription of any new money.

9. Applications for issues arising out of proposals for the amalgamation or absorption of existing undertakings, whatever their businesses, should only be allowed if the Committee, apart from any other question arising out of these instructions, and after consultation with the appropriate Government Department, are satisfied that the proposals are not inconsistent with any policy of H.M.G.in regard to such questions as monopolies and associations in restraint of trade.

10. Bonus issues or issues involving the capitalisation of reserves, whether derived from past profits or otherwise. /This question, which is largely political, should be reserved for consideration in the light of Government policy on other matters such as E.P.T./

11. Consent may be given in any case in which the object of the issue is to avoid the loss of existing capital employed in an undertaking or to avoid bankruptcy, provided the Committee is satisfied (a) that the reason for the application is well-founded; (b) that the risk of loss or bankruptcy is attributable to the war or to the cessation of hostilities; and (c) that the capital likely to be lost is an appreciable proportion of the existing capital employed in the undertaking and large in relation to the amount of new capital to be raised.

12. In

12. In all cases where consent in principle is given to an issue, such consent may, if the Committee think fit, be given for a less sum than that applied for; it may be given subject to whatever conditions the Committee may think appropriate; and it must be subject, in such classes of cases as may be notified by the Treasury from time to time, to agreement with the Bank of England (acting on behalf of and in consultation with the Treasury) in regard to the time and manner of making the issue. (Such agreement will be required in any case in which securities are to be issued either privately or publicly for an amount of (?) £100,000 or more.)

13. Applicants receiving consent in principle under any of the preceding paragraphs may expect their issues to be made with very little delay.

14. For the present consent will not normally be given in any cases not provided for above. Among other cases thus excluded will fall, e.g. finance companies, whose proposed issues would not be applied to financing industrial activity under paragraphs 4-6; investment trusts.

15. Where consent in principle is given to an issue, the applicants should be required, in appropriate cases, to include in any published document connected with the issue a statement to the effect that consent does not imply any responsibility on the part of the Treasury for the financial soundness of the proposals involved, or for the correctness of any statements made or opinions expressed with regard to them.

16. Local Authorities' issues. [Instructions to the Committee for dealing with these will be drafted when further progress has been made with the plans for centralising local authorities' borrowings.]

17. The question whether Treasury consent should be given to permission to deal will normally be decided on the same grounds as would decide whether consent should be given to a public

issue

issue for the same amount by the same undertaking.

[Set out the procedure for handling applications for permission to deal, which would be more or less as during the war.]

D Overseas Issues. [The basis for dealing with these will depend on the general policy in regard to the control of international movements of capital and to exchange control generally.]

ANNEX II

£ millions

(Estimated) U.K.Government Demands on Capital Market

Maturities

		1945	1946	1947	1948
U.K.Govt.maturities	(1)	245	-	444	491
Local authorities stock maturities	(2)	69	26	18	18
		314	26	462	509

Other Post-War Requirements of H.M.Government

		1st Year	2nd Year	3rd Year	4th Year
Budget deficits	(3)	2,000	1,000	500	-
Local authorities new money	(4)	100	125	150	150
E.P.T.refunds	(5)	50	75	-	-
Post-war credits	(6)	50	50	75	100
Withdrawals of small savings	(7)	100	100	150	150
Empire and other countries' needs (development/reconstruction)		100	100	-	-
		2,400	1,450	875	400

(1) Excluding periodical redemptions by drawings (2½% National Defence Bonds, Victory Bonds, say, 30 per annum).

(2) Assuming that the Local Loans Fund will take care of stock maturities and that Local Authorities will be allowed to issue mortgages to replace maturities of the latter.

(3) Deficit for 1942/3 was 2,800.

(4) Assuming that all new capital expenditure is financed through the Local Loans Fund (such expenditure varied from 100 to 150 in the four years preceding the war); Local Authorities will probably have accumulated some funds which will avoid part of demand on the Exchequer.

(5) 660 has been collected in E.P.T. - with another 350 to come in 1943/44. (Up to 20% may be refunded - refunds being subject to income tax).

(6) Aggregate is now increasing at 125/150 per annum.

(7) Total small savings have increased by 2,000 during war: in view of progressively severe rationing, assume 25% of increase will be withdrawn over four years. (6) and (7) are interdependent; a deferment of (6) will probably increase (7).

ANNEX III

"INDUSTRIAL DEVELOPMENT CORPORATION"

CAPITAL:

Authorised	Class	Issued	Initially Paid Up
£20mn	3½% £1 Pref.Shares	£10mn	£1,000m (i.e., 2/-s per Share)
30mn	£1 Ordinary Shares	15mn	750m (i.e., 1/-s per Share)
*£50mn		£25mn	£1,750m

Preference Shares to be subscribed by Insurance Companies, Financial Trusts and, maybe, by Industrial Companies. Capital calls to be made as and when necessary in order to cover the long-term commitments of the Corporation. The dividend to be cumulative. Preference Shares to have priority as to capital in liquidation.

Ordinary Shares to be taken up by the Bank of England and the Clearing Banks; not more than 1/-s per Share to be called up unless in unexpected circumstances; the Ordinary Shareholders to undertake to make revolving advances to the Corporation, pro rata to their shareholdings, as and when necessary in order to finance the fluctuating temporary accommodation provided by the Corporation. The total advances outstanding at any one time not to exceed the total of the uncalled Ordinary Capital. The maximum dividend to be 4%.

Debentures. Included in the Corporation's borrowing powers to be power to issue its own Debentures.

Reserve. H.M.Government to provide a reserve of, say, 5% of the issued capital. The initial amount thus provided would therefore be £1¼ million. This reserve not to be drawn upon for maintaining dividends but only to be used for the purpose of meeting realised losses and in the event of a deficit arising on liquidation. Surplus assets of the Company, on liquidation, remaining after repayment of Ordinary Share Capital to be first applied in repayment pro tanto of the amount provided by the Treasury.

*Relief from Stamp Duty to be arranged with H.M.Treasury.