33 cm x 37 cm

"TAP" LOANS

			On Offer From	To
2½% National War Bonds	1945/47		25. 6.1940	31.12.1940
do.	1946/48		2. 1.1941	14. 8.1941
3% Savings Bonds	1955/65		2. 1.1941	14. 8.1941
do.	do.	A	15. 8.1941	14. 2.1942
do.	do.	B	15. 2.1942	30. 4.1942
2½% National War Bonds	1949/51		9.10.1941	31. 1.1942
do.	do.	A	1. 2.1942	31. 7.1942
do.	do.	B	1. 8.1942	30.11.1942
do.	1951/53		1.12.1942	28. 2.1943
do.	do.	A	1. 3.1943	31. 8.1943
3% Savings Bonds	1960/70		1. 5.1942	31. 8.1942
do.	do.	A	1. 9.1942	28. 2.1943
do.	do.	B	1. 3.1943	31. 8.1943
do.	do.	C	1. 9.1943	29. 2.1944
do.	do.	D	1. 3.1944	5. 8.1944
2½% National War Bonds	1952/54		1. 9.1943	29. 2.1944
do.	do.	A	1. 3.1944	31. 8.1944
do.	do.	B	1. 9.1944	6.11.1944
3% Savings Bonds	1965/75		8. 8.1944	14. 2.1945
do.	do.	A	15. 2.1945	14. 8.1945
do.	do.	B	15. 8.1945	15.12.1945
1¾% Exchequer Bonds	1950		7.11.1944	14. 2.1945
do.	do.	A	15. 2.1945	12. 6.1945
2½% National War Bonds	1954/56		13. 6.1945	15.12.1945

"TAP" LOANS

"Tap" loans were introduced in the 1914-18 war and were first issued in December 1915. Except for an interval at the beginning of 1917 they then occupied the field exclusively until the end of the war, when large fixed issues were introduced again with the Victory and Funding Loans of 1919.

"Tap" loans have several advantages. The effort to drive savings into the Exchequer should be a continuous one, and if these savings are lent to the State as soon as they are realised a steady flow of funds is directed into the Government's pocket to meet the flow of expenditure. Hence, hurried expedients such as Ways and Means Advances tend to be reduced to a minimum. For the same reasons "tap" issues produce the minimum amount of disturbance in the Stock and Money markets, as the investor can time his subscription to suit his own needs and holders of vested securities have an immediate outlet for the proceeds of investments requisitioned. There is possibly another advantage, that in a highly-controlled New Issue Market once Government borrowing has been established at a rate level which can be maintained, a gradual lengthening of maturity dates in favour of the State is hardly noticed by the investor (until the end of the war is believed to be in sight), any more than is the fact that if a "tap" loan is on issue for a long time later subscribers pay nothing extra for what has become a shorter-term security.

An issue the lists of which are opened for only a short while may not be favoured with success, through the occurrence of unforeseen events or even for lack of adequate preparation. With a "tap" loan there should always be an opportunity to retrieve the situation.

The mechanics of "tap" loans, again, are of the greatest simplicity, especially if the issues are at par (as is usual), if payment in full is required (which is also usual), and if no bearer bonds are provided (as was the case since 1940).

On the

On the other hand "tap" loans not only make minimum prices essential - they may perhaps be necessary in any event - but make it essential to fix the minimum price of a "tap" loan at or very near the issue price, and the result is a nearly frozen market until the "tap" is turned off.

Although the flow of institutional savings may be regular and not require frequent stimulus, the savings of the general public are not so easily collected. It is therefore necessary to supplement the continuous advertisement of "tap" loans by special efforts (largely conducted on this occasion by the National Savings Committee) which took the form of campaigns continued for a week at a time in different towns, etc. (In their whipping up of the general savings spirit the "Weeks" always stimulated small savings also - purchases of National Savings Certificates and new deposits in the Savings Banks, both of which were, of course, always "on tap".)

These campaigns displayed most of the features of the drive for a large fixed loan, in that a good deal of cheap propaganda and noise were generated. This was inevitable, but there were some other undesirable features. A fixed "Target" was named for each town and this, while undoubtedly stimulating subscriptions, meant that the totals realised could hardly be allowed to fall below the "Target" figure. If the public subscriptions did not reach the required amount, pressure was put upon institutions, or (still less desirable) on banks to make up the required amount.* There was also a certain amount of "bad" money collected. Individual campaigners inevitably at times induced persons to take up more than they could afford, with the result that the holding had subsequently to be resold. Again, children who had been subscribing for savings stamps would cash these in order to subscribe to the War Loan Week in their neighbourhood. ~~[illegible]~~ Some institutions ~~[illegible]~~ diverted funds normally invested through their head office to ~~a~~ local branches where a campaign was in progress. This, however, did not really matter, and very likely the money had been earned locally. A good feature was the fact that the drive was spread over several months, each centre being given its own special week, as might be found most convenient for it and for the campaign as a whole.

The

*But not at first successfully on the Bank. On 5th March 1941 the Governor told Committee of Treasury that "it would be inappropriate for the Bank to increase its holding of long-dated British Government Stocks in order to support the forthcoming War Weapons Week in the Metropolitan Area." Later the Bank's support was sometimes given.

~~I should have thought it worth making a more complete appraisal of Savings Weeks, if as much as this is to be said: & I think two further points are worth making –~~

~~(1) With all their improprieties & absurdities, they probably did put more heart into local Savings workers & maintain/increase the number of regular savers. Apart from that, they may well have had a general tonic effect on public sentiment about the war.~~

~~(2) The great mistake (to avoid which might well have been difficult) was to count everything – leading to astronomical targets & pressure on institutions to fake purchases, as to time & place, which they were going to make anyway. If the whole apparatus of targets & have been confined to the private (mainly "small") savers much the same result wd have been achieved with less deceit.~~

The substance of above and marginal note on p. 3 transferred to last paragraph on "War Savings Weeks"

9.2.'50 [illegible]

The first definite proposal for a "tap" loan appears to have been contained in a letter to the Deputy Governor from Sir Frederick Phillips, dated 31st May 1940.†

"We have been giving some preliminary thought to the question of the future of our borrowing operations. It would, of course, add immensely to the prestige of the 3% War Loan if we could make a fresh issue of that stock at par, but it does not seem likely that conditions will permit the success of such an operation for many weeks or months. In these circumstances, it seems to us that we ought to revert to some system of continuous borrowing like that which raised some £1,700 millions in the last war by the issue of National War Bonds. There are, of course, certain difficulties connected with placing issues on tap, but they were all overcome in the last war and we see no reason why they should not be overcome this time.

Something quite simple will obviously be best and it has occurred to us that the security offer might be an issue of 2½% War Bonds at par of two kinds -

(a) redeemable in 5 years without premium,

(b) redeemable in 10 years at a premium of £3.

We should no doubt adopt the practice of the last War of issuing a new series after the first dividend date.

It might be worth considering whether they need be made convertible at the option of the holder with the 3% War Loan 1955/59 and into any specified War issue of a currency <u>longer than</u> that of the loan converted.

We have seen one or two cases in which suggestions have been made to us that firms and businesses would be willing to lend money for short periods at a low rate of interest. This need could be met by putting, say, 12 month Treasury Bills on tap at a rate fixed by the Treasury at about ½% above the average

tendered

---

†But their probability was of course in the Bank's mind. For example, Sir Henry Clay in a memorandum of 18th April 1939 wrote: "Tap issues to be put out (say one of medium-term and one of long-term) with an intimation that H.M.Government does not intend to borrow subsequently at any higher rates..."; and again on 1st June 1939: "Tap issues will be necessary to meet the needs of savings institutions...... and plans for the liquidation of such issues after the crisis should be prepared beforehand."

tendered rate each week. I am not clear, however, that the banks could be prevented from subscribing to these Bills and possibly the issue might therefore interfere with your plans for borrowing from the banks. In any case, I see no need for putting any securities on tap of a currency between one year and five years.........."

Ref.C.C.P.336

2½% National War Bonds 1945-47

(25th June 1940 - 31st December 1940)

The Bank readily accepted the idea of a tap loan, though it seems that there was at first some thought of another fixed long-term loan, for the Governor in writing to the Royal Bank of Scotland on 22nd June indicated that the National War Bonds issue was "settled rather hurriedly because of the disturbance brought about in this market by happenings in France", then being overrun. Work on the prospectus appears to have begun on 6th June, and the loan was on tap from 25th June to the end of the year. The first draft of the prospectus entitled the loan "2½% War Loan 1946-8," and the change to "National War Bonds" came less than a week before the issue date. The first draft also placed the minimum subscription at £500, the issue not being intended to attract the small investor but to provide in the main for institutional investors and to absorb about £100 million to be paid out on 1st July to "dissenting" holders of the 4½% Conversion Loan. The maturity date 1945-47 would also suit the large investor as in a few years' time it might become a market "short". Lord (then Sir Robert) Kindersley,* President of the National Savings Committee, however thought £500 too high and the limit was ~~dropped~~ lowered to £100.

The Bank did not approve of paying premiums at maturity, which they thought unnecessary, and the suggestion was dropped.

All propaganda ~~were~~ was left in the hands of the National Savings Committee, but the Governor had meetings with the bankers and the press on 21st June, a little before the prospectus was issued.

The new loan had a good reception from the press, and the first

*Created a baron in Jan.1941.

first two weeks yielded about £91 million. This, however, included the investment of a part of the $4\frac{1}{2}\%$ Conversion Loan money and accumulated funds of insurance companies. The next four weeks ranged between £10-18 million each, and the average of the first eight weeks was a little over £20 million. The National Savings Committee were a little disappointed, and the "Times" also commented that £10½ million in the last week of July was not satisfactory.

Later, subscriptions were stimulated by the first of the War Loan weeks, the "War Weapons" week, which started on 16th September and continued for some months after the date when this issue of National War Bonds was withdrawn. In October, November and December also there were vestings of U.S. and Canadian securities, the proceeds of which holders were encouraged to subscribe to the War Bonds. The first two months having brought in about £170 million the Bank thought of keeping the loan open until £300 million had been raised, or the first shutting reached. The figure of £300 million was attained early in November, but as the weekly figures continued to improve until the middle of December the loan was not taken off until the end of the year.*

Vesting proceeds were allowed to be ~~invested~~ subscribed until the end of January, and it was not until May that a total for the loan had been established at over £441 million. Of this sum, as will be seen from the following analysis (made on 11th January 1941) only some £2 million could be definitely traced as representing the reinvestment of proceeds of vested securities, but no doubt in fact it included much more than this. Subscriptions were evidently regarded as satisfactory as the Governor informed the overseas banks that the issue had "exceeded expectations", and in any case it was thought that the total was sufficiently large in view of the need for eventual refunding.

Analysis

---

*A large proportion of the £100 million which raised the total from £300 to over £400 million was subscribed by the banks, and represented to a great extent repayment of Treasury Deposit Receipts.

33cm x 37cm.

Analysis of Subscriptions

	£ million
Subscriptions of £50,000 and upwards:	
Banks o/a selves	£147.7
Savings Banks	.8
Insurance Companies	45.3
Overseas	4.2
Building and Friendly Societies etc.	5.9
Firms, etc.	69.0
C.R.N.D.	18.9
Government Departments, etc.	9.3
Individuals	4.9
Money Market	2.9
	308.9
Subscriptions below £50,000	132.5
	441.4

N.B. Ascertainable reinvestment of monies from Vesting Orders 2.015

Subscriptions of £50,000 and over thus accounted for 70% of the total and Banks for one third. The average weekly rate of subscription was just under £16.4 million. (This and similar analyses of large subscriptions, which will be given loan by loan, shew totals which are slightly lower than the final totals raised. These appear in the summary table for all tap loans at the end of this chapter).

2½% National War Bonds 1946-48 and 3% Savings Bonds 1955-65

(2nd January - 14th August 1941)

The Bank began to consider the character of the borrowing to replace the National War Bonds 1945-47, in October 1940, and the Chief Cashier recommended either a continuance of the same security, with a maturity date of 1946-48, or a long-term loan, preferably redeemable, as more acceptable to the general public and the insurance

companies

33cm x 37cm.

companies - say a $3\frac{1}{4}$% War Loan 1970-75 at par: in either case a tap loan. The Governor thought that perhaps both might be issued. and that the longer term loan might mature in 1975-80. Lord Kindersley was consulted and suggested two loans, one bearing interest at $2\frac{1}{4}$%, issued at $99\frac{3}{4}$ and due 1944-46, and the other a 3% loan at 99, due 1970-75 or 1970-80. Of these, the first was considered to be open to "almost every possible objection"; it would in particular be contrary to the whole borrowing policy of the Government to issue a five-year bond paying 2 5/16% after having issued a similar maturity less than a year before to yield 2%.* It was also doubted whether the second loan suggested would be successful as a competitor with the $3\frac{1}{2}$% War Loan or 3% Funding Loan.

Early in November the Governor appears to have suggested as the long-term alternative the 3% Savings Bonds 1955-65. Meanwhile the Bank's brokers, while approving of National War Bonds 1946-48, suggested adding a 3% Defence Loan 1954-58 at par or over. Again the Bank did not like the alternative as being too similar to the 3% War Loan (of which £84 million remained unsold), nor was the issue of a loan at a premium likely to commend itself to the market.

On 13th November the Governor wrote to the Treasury saying that he had been considering the matter with Lord Kindersley for some weeks and that to almost every rate and date there were objections; but that he proposed the issue on tap as from 1st January 1941 of $2\frac{1}{2}$% National War Bonds 1946-48 and a 3% Savings Loan 1955-65, the former to be issued at par, and the latter at par or at a small discount, both to be announced well in advance of the issue.

> "Although it has, I think, been agreed in the past that there are disadvantages in offering alternative issues inasmuch as they tend to confuse the public, yet the National Savings Committee feel strongly that they now have more than one public to serve, demanding, therefore, the issue of both a long and a short. Although I am not entirely convinced as to the

wisdom

---

*2% Conversion Loan 1943-45.

wisdom of such a double-barrelled appeal, I feel that the National Savings Committee who have to effect the sales might be allowed the final say on this question".

This programme was agreed to by 25th November. The new National War Bonds were to run for 7 years and 7 months as compared with the former issue's 7 years; the Savings Bonds for 6 years more than the 3% War Loan. Hence the Government had already begun to borrow on progressively favourable terms.

In the new prospectus covering both issues the minimum subscription was again £100, but subscriptions in excess of the minimum could be made in multiples of £50. The Bank had even considered accepting subscriptions of odd amounts, as had been permitted for moneys arising from vesting operations. The Treasury favoured the idea but dropped it on finding objections from the Post Office.

The title "Savings Bonds" was rather disliked by Lord Kindersley on the grounds that the word "savings" was closely associated with the movement for the small investor and might cause confusion with Savings Certificates and generally. No one, however, seemed able to suggest a better title.

The Chancellor made a broadcast announcement on 27th December. He stated that since November 1939 £515 million had been raised by Savings Certificates, Defence Bonds and increased deposits in the Post Office; with the 3% War Loan, National War Bonds "and about £25 million from loans free of interest" the total was £1,269 million, "a really wonderful result".

Yet savings in the first war year appeared, according to a Bank of England computation (30th September 1940), to be only some £700 million as compared with borrowing at the rate of £1,000 million. There was possibly a three-fold explanation of the difference: subscriptions in anticipation of future savings; some investment of previously idle balances; and investment of depreciation and renewal funds.* The last two sources named were likely to dry up, and the Bank's memorandum therefore anticipated some falling off in the rate of subscriptions to Government issues.

The loans

*There had also been some expansion of the Cash Base, but to what extent the banks were holding 3% War loan and National War Bonds was not known.

33cm x 37cm.

The loans were well received by the Press and the market.

When the new issue of National War Bonds 1946-48 was introduced it was decided that the market in the earlier issue should not be allowed to become frozen, and as a result the National Debt Commissioners and the Issue Department each bought a few hundred thousands. The market remained a free one and the price was quoted at 100 1/16. In March 1941, however, some large sellers appeared, whose operations were attributed to the War Weapons Weeks. Big firms and institutions wishing to gain publicity by large subscriptions might have been selling the 1945-47 Bonds and subscribing the same amount to the new Bonds. It was also believed that certain banks might have sold in order to take up their quota of Treasury Deposit Receipts. The Bank considered speaking to the Chairman of the Clearing Bankers Committee with a view to discouraging banks and their customers from such practices, but there is no record of this having been done.

The National War Bonds 1946-48 remained on tap concurrently with the 3% Savings Bonds until 14th August 1941, a period of 32 weeks.

By the beginning of March the first £100 million of the short-term issue and £55 million of Savings Bonds had been raised; the next two and a half months brought in another £100 million of shorts and £90 million of Savings Bonds; by the middle of June (a month later) the £300 million mark in War Bonds had been passed and the Savings Bond total had fallen just short of £200 million. (The Greater London "War Weapons" week was held from 17th-24th May.). On 7th August it was announced that the lists would be closed on 14th, and £43 million was raised within the week.

This series of National War Bonds had produced £491 million (at an average weekly rate of about £15.4 million), and the Savings Bonds £278 million (£8.7 million a week). The preference of large holders for the shorter dated security is seen in the proportion of subscriptions of £50,000 and over: 81% of the War Bonds and 62% of the Savings Bonds, a difference which tended to widen considerably in later tap issues. The proportion taken up by Banks, however, was the same (one third) in both issues, and the same also as in the first War Bonds issue.

An

An analysis of subscriptions of £50,000 and upwards to the 2½% National War Bonds 1946-48 follows:-

	£ million
Banks (o/a selves and nominees)	£159.8
Savings Banks	.1
Insurance Companies	19.5
Overseas	3.0
Building and Friendly Societies, etc.	5.0
Firms, etc.	108.3
C.R.N.D.	48.6
Government Departments, etc.	30.5
Individuals	3.4
Money Market	5.5
	£383.7
Subscriptions below £50,000	107.3
	£491.0

The next issue of National War Bonds was not to begin for another two months, but the tap was kept open with the Savings Bonds, a new series ("A") of the same maturity being on offer from 15th August and a further series ("B") from 15th February 1942, details of subscription to which follow later.

From this time onwards considerable overlapping of dates occurred, and as for instance in the case of the continued Savings Bonds and the next issue of War Bonds - planning ahead often required deliberations on more than one issue at a time.

Ref.C.C.P.337

2½% National War Bonds 1949-51
3% Savings Bonds 1955-65 ("A" and "B")

The 1946-48 Bonds and the first issue of Savings Bonds were withdrawn on 14th August 1941; the first dividend was due on the next day, after which a different arrangement for dividends would come into existence. For the sake of convenience, the first dividend on a tap loan was always paid to the original subscriber, or his nominee(s) - and allowed for in the price if he sold his allotment.

Such

33cm x 37cm.

Such allowance could not go on being made indefinitely, but could be made without much trouble over periods of six months (or on the first occasion for periods under twelve months). Thus, if the tap were continued it was better to put out bonds distinguishable from the original issue by being marked "A", and after another six months "B" and so on. After a new series had run six months its distinguishing mark lapsed and it became part of the original issue.

In considering in May 1941 how eventually to replace these tap issues the Chief Cashier pointed out that the market in both National War Bond issues was frozen except for small amounts. Their unmarketability was almost inevitable while a security was on tap which varied only slightly in due date from the previous issue. He thought it well, therefore, to get away, for a time at least, from these particular maturity years. He also thought there was far less objection than before the war to making an issue for a fixed amount, as it could in effect be underwritten by the Issue Department, and to the extent not taken up by the public could be sold from that Department later, probably at a profit.

He suggested continuing the 3% Savings Bonds as a new series "A" and issuing also, perhaps somewhat later on, 2½% National War Bonds to be repaid in 1949-51. This maturity would be sufficiently different from the previous two issues to help the market for them, and some delay before the issue would be beneficial.

He also proposed that the Treasury be asked to reconsider the terms offered to small savers on Defence Bonds (yield £3: 2: 7 if held for the full seven years).

The Governor consulted Lord Kindersley, proposing a continuance of the Savings Bonds, and a temporary withdrawal of the War Bonds.

Lord Kindersley favoured the continuance of two loans, one to run for a longer period than the previous two issues of National War Bonds and another of a shorter maturity than the Savings Bonds: 2¾% if necessary should be paid on the War Bonds.

The Chief Cashier, while maintaining his objection to putting out more shorts for a time - and still less liking a 2¾% Bond - suggested that if there were to be an issue at once to run concurrently

33cm x 37cm.

concurrently with the Savings Bonds a 2½% ten-year Bond 1951 or 1952 would be suitable. Such a bond "would be well ahead of the market" (2½% Conversion Loan 1944-49 yielded £2:11: 2 and 3% Conversion Loan 1948-53 £2:15: 4) "without being completely out of line". Lord Kindersley eventually agreed to the Bank's original proposals, and by the end of July the Treasury had agreed also ~~done so~~, though at first they wished the 2½% ten-year Bond put on tap on 15th August so that "future results might be comparable with past results", as the Governor put it.

The Chancellor's announcement was made on 7th August and included a change in the Post Office 3% Defence Bonds. As from 1st September these were made a ten-year maturity instead of the previous seven years, and the interest date was changed to help the Post Office. (The Governor had suggested lengthening the maturity by one year, and the three-year extension may have been due to the Bank's intervention.) The Chancellor stated that the Savings Bonds, although appealing to a wider public, had not reached a figure of the same magnitude as the War Bonds, but would be continued as an "A" series between 14th August 1941 and 15th February 1942, when they would be amalgamated with the existing issue.

The financial press was favourable and the market in shorts moved upwards, unfreezing the National War Bonds.

But a new period of War Loan Weeks was to start on 18th October 1941, to run to the end of March 1942 (the "War Weapons" Weeks had terminated on 28th June). Lord Kindersley pointed out in September that unless the new (comparatively) short bonds were introduced by the beginning of the campaign, the competitive basis of the drive would vanish. The Floating Debt, too, was by then rising rapidly. Fresh discussions were begun. Lord Kindersley favoured something available for death duty payments - which the Treasury and the Inland Revenue opposed, while Lord Keynes made various proposals which would have had the effect of lowering the maximum rate of interest paid by the Government below 3% - a definite change of principle. He was influenced largely by the necessity, in his opinion, of dealing with the 3½% War Loan at the earliest possible

date

33 cm x 37 cm.

date - 1952. One issue proposed by him was a 2% five-year Exchequer Bond at par.* This proposal he put forward on the assumption that the national income had probably reached its maximum, so that a definite limit could be put to the increase in Bankers Deposits, and therefore to their ability to increase their investments. He wished to forestall the possibility of pressure on the market in the early post-war period through sale by the banks of longer-dated issues, which he thought they ought never to have taken up. Why not give the bankers not only an investment which they would like, and which was cheaper, but one more suitable for their requirements? In reply it was contended that Treasury Deposit Receipts were themselves a guarantee of liquidity and that the banks had a liquid ratio of about 40%.† (The "liquid" ratio of course included T.D.R.'s.)

The 2½% Bonds 1949-51 as planned by the Bank were placed on tap on 9th October. Their maximum currency was about 9 years 10 months, as compared with 7 years and 8 months for the previous issue of National War Bonds, and 7 years for the 1945-47 Bonds. On the day of issue the Governor made a broadcast appeal.

Meanwhile the following proposal was put forward by Lord Keynes in January 1942, after the Treasury was committed for a few more months to the "A" series of Savings Bonds:

> "The impending vestings of Indian and Canadian securities, amounting altogether to a very large sum, might obviously be a good opportunity for the introduction of a new stock sometime in February.
>
> In spite of the bad news, none of the irredeemables (except Locals, which suffer from the double disadvantage of no fixed date and an option of redemption against the holder at a price only a little above the present price) yield more than a few pence above £3 .....
>
> I suggest, therefore, a new 3 per cent stock 1950/70 at

par

---

*To run concurrently with the 3% Savings Bonds 1955/65 (and 2½% Savings Bonds 1953/5 at 97, which were never issued).

†Deputy Governor's memorandum 24.9.41.

par. From the Treasury point of view the early option of redemption in 1950 or after might be of great value if interest rates continue to fall; whilst if not, they retain the power to keep the stock outstanding till 1970, which will be not less advantageous. Thus a stock with this wide gap between redemption dates gives the Treasury the best of both worlds.

On the other hand, I do not think the public attach much importance to an early option of redemption; so that the advantages to the Treasury are inadequately represented in the effect on the price.

That there is at least a possibility of British Government credit eventually settling down to a $2\frac{1}{2}\%$ basis would probably be accepted even by those who do not reckon this development probable. Thus there is no harm in being armed against both contingencies. If the above stock were issued, I should be inclined to keep it on tap for the rest of the war, irrespective of the amount subscribed. We could then, on the favourable assumption, have a very satisfactory programme of conversions in the decade following 1950, dealing with the proposed new stock in 1950, with the War Loan in 1952, new Consols in 1957 and Conversion $3\frac{1}{2}$'s in 1961."

The suggestion was not taken up and is mentioned here rather for its interest in connection with post-war rates.

$2\frac{1}{2}\%$ National War Bonds 1949-51

(9th October 1941 - 30th November 1942)

The War Bonds had a good reception, notwithstanding the fact that the minimum price of the previous two issues was reduced at the same time to $98\frac{1}{2}\%$. Thus the new issue, less favourable to the investor, as the Chancellor had pointed out, had while "on tap" a higher minimum price than the earlier more favourable issues. But such anomalies, while interesting the financial journalists, did not apparently affect the success of the loans.

Before

33cm x 37cm.

Before the end of November the new Bonds had realised £125 million; "A" series Savings Bonds £113 million only, though they had run for nearly two months longer. By the end of January 1942 the War Bonds total had passed £200 million (Savings Bonds £185 million) in three weeks less than the War Bonds 1946-48 had taken. This was satisfactory as the Warship Weeks were not at this time running very strongly. The success of the issue, however, was largely due to the banks, who had been waiting for two months for a medium-term investment.*

An "A" series of the National War Bonds was placed "on tap" on 1st February and enjoyed the considerable support of the London Warships Week, 21-28th March. At the beginning of June the Chief Cashier recommended a continuance after July until about £600 million had been reached, and on 1st August† a "B" Series commenced. The three series together realised nearly £712 million.** An analysis follows.

2½% National

---

*Banks could convert Treasury Deposit Receipts into new Government issues at par plus accrued interest.

†As from 1st May 1942 the minimum subscription to the Bank of England issue was reduced to £50, and Bankers Commission from 2s.6d.to 1s.3d.%.

**Arrangements were made in 1942 for subscriptions to be made in Egypt to the tap loans then current, viz., 2½% National War Bonds 1949/51 and 3% Savings Bonds 1955/65 (in each case Bank of England and Post Office Issues) and 3% Defence Bonds and National Savings Certificates (Post Office Issues only). The first subscriptions were received in July of that year. Subsequently the arrangement was extended to Persia and Iraq (for Bank of England Issues only) and subscriptions started in May 1943.

The schemes later included, on the same basis (viz., all issues for Egypt and Bank of England issues only for Iraq and Persia) all tap loans current since the inception of the schemes, except that 1¾% Exchequer Bonds (a Bank of England issue only) were not made available to subscribers in Persia and Iraq.

Receipts up to the end of December 1945 were just over £7 million.

	Bank of England Issues	Post Office Issues
Egypt	£5,018m	£1,895m
Persia and Iraq	197m	-

33cm x 37cm.

2½% National War Bonds 1949-51

£ million

	Original Issue (16½ weeks)	Series "A" (26 weeks)	Series "B" (17 weeks)	Total (59½ weeks)
Subscriptions of £50,000 and upwards:				
Banks o/a selves and Nominees*	102.1	102.4	84.1	288.6
Savings Banks	-	.4	.6	1.0
Insurance Companies	2.0	3.6	28.8	34.4
Overseas	.7	2.6	2.5	5.8
Building and Friendly Societies, etc.	1.0	4.2	6.0	11.2
Firms, etc.	28.3	67.6	34.6	130.5
C.R.N.D.	40.4	46.5	18.8	105.7
Government Depts.etc.	2.8	8.7	4.8	16.3
Individuals	.6	5.2	.9	6.7
Money Market	-	.6	1.5	2.1
	177.9	241.8	182.6	602.3
Subscriptions below £50,000	30.2	58.9	20.1	109.2
	208.1	300.7	202.7	711.5
*Bank of England (Issue Dept.)		1.5	8.4	9.9

The three series brought in an average of just under £12 million a week. Subscriptions of £50,000 and over accounted for nearly 85% of the total, and Banks for nearly 40%, appreciably higher proportions than in the two previous issues.

3% Savings

3% Savings Bonds 1955-65, "A" and "B" Series

(15th August 1941 to 30th April 1942)

Meanwhile the series "A" of Savings Bonds (15th August-14th February 1942) were realising weekly less than the original series. This falling off was no evidence of unpopularity, but was entirely due to a drop in bank subscriptions. Excluding banks and Government Departments, the remaining figures were very satisfactory, and there was no doubt that the Savings Bonds were more popular with the small investor than the National War Bonds.

At the end of November 1941 the original and the "A" series of Savings Bonds together were approaching £400 million, and the Chief Cashier suggested replacement in January by 3% Savings Bonds of, say, 1967-72. Later, after considering various alternatives, he again suggested Savings Bonds, but with a maturity of 1967-70 "thus getting 1970 as a final date for redeemables, after which it should be possible and reasonable to issue an irredeemable 3%".

The Treasury and Lord Kindersley preferred to make no change in the maturity date, and on 16th December it was decided to continue with a "B" series. The new series started on 15th February 1942.

Although the Savings Bonds total was already high it was felt that, as a long-dated loan falling due after the war, it could be added to without embarrassment, while the ten-years' spread in the due date gave plenty of time for dealing with the issue.

In February 1942 the Bank of Canada cabled that they had been investigating the possibilities of a "tap" issue in Canada. They enquired how an investor sold his Bonds, whether official support of the market was necessary, and why all the issues sold at approximately the same price? Did medium-term loans tend to force up interest rates on short-term borrowing, as appeared to be the case?

The Bank replied that while issues were "on tap" the minimum price was fixed at par and sales were bound to be difficult. The amount of Bonds offered in the market had been very small. "The buying, such as it is, comes from Trustees and others needing to invest

broken

33cm x 37cm.

broken amounts, which under the Prospectus cannot be applied in direct subscriptions. Although the market are no doubt aware that official support would be forthcoming in approved cases if the need arose, such buying has not proved necessary, the requisite stabilising influence being provided by the minimum price which, when the issue is withdrawn, is adjusted at a point or so below par in alignment with general market minima........

In theory the issue of medium-term "tap" loans at appropriate levels should not force up short-term rates. The anomaly to which you refer is the direct result of the intensive propaganda always directed in support of the current "tap" issues superimposed upon the natural patriotic urge. Moreover we have made an arrangement with the Insurance Companies whereby their surplus funds as they accrue are by means of these issues made available to the Government. For these reasons Banks, Insurance Companies and the like are apt to take up their quota of each issue in turn, which leaves the previous issues to a large extent unsupported......."

3% Savings Bonds 1955-65

£ million

	Original Series 32 weeks	Series "A" 26 weeks	Series "B" 11 weeks	Total 2 Jan.1941-30 Apr. 1942 69 weeks
Subscriptions of £50,000 and upwards:				
Banks o/a selves and Nominees	92.6	35.4	21.4	149.4
Savings Banks	2.5	2.8	1.9	7.2
Insurance Companies	31.1	29.2	32.8	93.1
Overseas	1.4	.9	1.0	3.3
Building and Friendly Societies, etc.	2.3	5.2	3.9	11.4
Firms, etc.	13.1	14.0	10.4	37.5
C.R.N.D.	15.0	3.1	3.4	21.5
Government Depts.etc.	13.1	23.5	14.2	50.8
Individuals	2.2	4.5	3.2	9.9
Money Market	-	-	-	-
	173.3	118.6	92.2	384.1
Subscriptions below £50,000	104.9	97.8	112.4	315.1
	278.2	216.4	204.6	699.2

In

33 cm x 37 cm.

In the 69 weeks during which they were on offer these first Savings Bonds thus brought in a weekly average of just over £10 million. Subscriptions of £50,000 and over accounted for 55% of the total and Banks (selves and Nominees) for 20%.

Comparison of the results with those for the largely parallel series of War Bonds indicates a ~~growing~~ distinct preference by institutional lenders for the latter:-

	Open for	Total Raised	Average for week	Subscriptions of £50,000 and over	Banks	Insurance Companies
	Weeks	£mn.	£mn.	%	%	%
2½% National War Bonds 1949-51	59½	711.5	11.97	85	40	5
3% Savings Bonds 1955-65	69	699.2	10.14	55	21	13

Ref.C.C.P.351

2½% National War Bonds 1951-53

(1st December 1942 to 31st August 1943)

In September 1942 the Governor decided to favour the replacement of the War Bonds 1949-51 by Bonds maturing 1951-53, giving sufficient notice of the change to stimulate sales of the former. He wrote to Lord Kindersley:

"...We have considered various 'exotics' as we call them, including a short issue to 1946, but are unable to find one which fulfils our various requirements. With large sums still to be found I feel that we should be ill-advised to stray from the paths of orthodoxy which have paid us so well in the past: stunts, however attractive, might be difficult to repeat and, in my view, ought to be avoided. Personally, I think the relative rate of interest and yield are quite low enough."

~~He~~ The Governor outlined the proposed new issue, which he suggested should have a life of about 11 years, his motive at this time being to avoid a maturity which would be too near the final due date of the 3% Conversion Loan, 1st March 1953.

About

33 cm x 37 cm.

About a week later he wrote to the Treasury:

"...We have considered the issue of a 2% Loan to 1946: but such an issue would be altogether too favourable to the market and would, moreover, serve to attract in the main just the type of funds which we could the more readily secure through alternative and cheaper channels. The next vacant date is 1950, to choose which would seem to be a retrograde step as the rate could scarcely be appreciably below 2½%. And it seems prudent to reserve 1952 as the year during which we might wish to convert 3½% War Loan. Our choice, if we are not to stray from the paths of orthodoxy which have paid us so well in the past, is therefore limited.

After full consideration and in agreement with Lord Kindersley, we recommend that the present issue of 2½% National War Bonds 1949-51 be withdrawn from sale on say 31st October and replaced by a similar issue maturing in the Autumn of 1953....."

The Treasury, however, appeared to favour a 2% Loan, 1946 or 1947, and such a Loan was further discussed. The Bank's arguments against it were: that 2% was too high a rate, while 1½% was not yet practicable; that it was bad business to borrow for 3 years at a time when the Government could borrow for 10 or 11 years; and a retrograde step to borrow at 2% for 3 years when in 1940 a 2% Conversion Loan had been issued for 5 years. It would also be imprudent to fill up the only near vacant date which might give valuable post-war breathing space or be used to deal with the 5% Conversion Loan of 1944-64, or for funding Treasury Deposit Receipts. The proposed issue would attract almost entirely Bank money when what was needed was money from the public; besides which all the short bank money wanted could be raised at 1 1/8% on Treasury Deposit Receipts.

Might there not be a political risk, as the Chancellor might be accused of unduly favouring the professional investor and the banks, and of breaking faith with earlier investors given only 2% for 5 years. Finally the Chancellor was convinced, and before the end of October agreement had been reached. Meanwhile the 1949-51 Bonds

Bonds had brought in sufficient money to make it unnecessary to give any lengthy notice of the change, and in fact only a week's notice was provided. The final maturity date of the new Bonds was fixed to coincide with the final due date of the 3% Conversion Loan (just over £300 million), which was now thought not to be so large as to cause inconvenience.

Thus, the currency of these Bonds was 10 years and 3 months to final maturity date, or more than 5 months longer than the previous issue. They were put "on tap" on 1st December 1942. An "A" series followed on 1st March 1943, and was withdrawn on 31st August. The two series had run for 39 weeks, realising £520 million at an average of £13.3 million per week.

The effect of the War Loan weeks* on this issue was particularly marked; the original issue realised only £85 million in three months, while the "A" series, running for 6 months, brought in as much as £435 million. ~~The average weekly rate over the whole 9 months was £13.33 million.~~

It was thought well to withdraw the Bonds soon after the £500 million mark had been reached: the amount was sufficient in itself, and the final maturity date of the Bonds was the same as that of the £300 million of 3% Conversion Stock 1948-53.

The proportion of subscriptions of £50,000 upwards was rather lower (81½%) than in the previous series of War Bonds, but Banks accounted for 46% as compared with 40%, since the Bank of England took up over 6%.

2½% National

*"Wings for Victory": 6 March - 3 July 1943.

33cm x 37cm.

£ million

2½% National War Bonds 1951-53

Analysis

	Original Issue 13 weeks	Series "A" 26 weeks	Total
Subscriptions of £50,000 and upwards:			
Banks o/a selves and Nominees*	36.1	204.1	240.2
Savings Banks	.2	.5	.7
Insurance Companies	1.9	13.5	15.4
Overseas	3.7	3.0	6.7
Building and Friendly Societies, etc.	.8	13.8	14.6
Firms, etc.	6.3	61.6	67.9
C.R.N.D.	21.0	33.1	54.1
Government Depts.etc.	2.2	19.4	21.6
Individuals	.8	3.2	4.0
Money Market	-	-	-
	73.0	352.2	425.2
Subscriptions below £50,000	12.0	83.0	95.0
	85.0	435.2	520.2
*Bank of England (Issue and Banking)	3.0	31.6	34.6

Ref.C.C.P.350

3% Savings Bonds 1960-70

(1st May 1942 to 5th August 1944)

By the end of March 1942 the Savings Bonds of 1955-65 had yielded well over £650 million. The series was regarded as a complete success, particularly with the general public. There was no

technical

33cm x 37cm.

technical reason for making a change until August, but the total was large, somewhat unmarketable, and the issue was beginning to look cheap. 3% Funding Loan 1959-69, for example, was yielding a penny or two less than £3%. It was proposed, therefore, to issue a new 3% Savings Bond from 1st May, with a maturity at first suggested as 1965-70 (or 1950-70, Lord Keynes' proposal at the end of January.) The Governor discussed the matter with Sir Richard Hopkins, and the maturity was fixed at 1960-70. As regards the National War Bonds 1949-51 it was thought that a new issue of these might come during August. (The "B" series began on 1st August.).

A fresh arrangement on subscription commissions was also made; 1/8% was still to be paid on Savings Bonds, but as from 1st May 1/16% only on National War Bonds.

The programme was agreed with Lord Kindersley and the Savings Bonds 1960-70 were placed "on tap" on 1st May, after a statement by the Chancellor on 22nd April.

These Bonds were on sale, in 5 series, for no less than 118 weeks. They raised £978½ million at an average weekly rate of nearly £8.3 million. The "target" of £1,000 million was a high figure in view of the distant and wide-spread maturity dates. The commencement of the "A" series (1st September 1942) coincided with the third issue of Defence Bonds.

The continuance of the series does not appear to have called forth much discussion. A little before the "C" series the Treasury had thought of extending the maturity to 1965-75. The Bank pointed out that there was no market justification for lengthening the term. The 3% Funding Loan 1959-69 was then yielding slightly more than £3% and was, therefore, already more attractive.

The "B" series benefited from the "Wings for Victory" weeks and the "D" series from the "Salute the Soldier"* weeks. As will be seen from the analysis, these two series were much more successful than the remaining three, and yielded nearly 56% of the total raised.

*25th March - 29th July 1944.

33cm x 37cm.

£ million

3% Savings Bonds 1960-70

Analysis

	Original Issue	Series "A"	Series "B"	Series "C"	Series "D"	Total
	4 months	8 months	6 months	6 months	5 months	29 months
Subscriptions of £50,000 and upwards:						
Banks o/a selves and Nominees*	22.9	23.1	54.2	17.5	18.1	135.8
Savings Banks	1.2	2.5	2.3	.8	.9	7.7
Insurance Companies	22.0	28.6	41.9	20.4	39.1	152.0
Overseas	.3	2.1	1.2	1.6	1.5	6.7
Building and Friendly Societies, etc.	2.7	6.4	7.9	6.7	5.5	29.2
Firms, etc.	12.1	12.4	22.1	8.7	16.8	72.1
C.R.N.D.	3.2	4.8	4.2	2.4	2.2	16.8
Government Depts. etc.	9.8	13.4	29.8	7.3	13.1	73.4
Individuals	1.2	3.1	2.8	2.8	2.8	12.7
Money Market	-	-	-	-	-	-
	75.4	96.4	166.4	68.2	100.0	506.4
Subscriptions below £50,000	47.6	85.9	139.9	59.5	138.6	471.5
	123.0	182.3	306.3	127.7	238.6	977.9
*Bank of England (Issue and Banking)		3.0	23.6	5.5	Nil	32.1

In August

33cm x 37cm.

In August 1943 Lord Kindersley proposed the issue of a Press notice suggesting to holders of National War Bonds 1945-47 and 1946-48 that they should realise a two-point profit then obtainable, if they were concerned with income rather than with repayment of capital at an early date, and reinvest in Savings Bonds 1960-70, securing 3% for many years instead of 2½% for a short period. The same consideration would apply to the 5% Conversion Loan 1944-64 standing at about 104. But it was doubted whether the exchange would appeal to many, and if it did the effect of an attempt to realise it might well be to drive down the price of the bonds being sold, thus defeating the object of the exchange and disorganising the market. The 2% premium on the National War Bonds existed only because they were not expected to be repaid until the latest maturity date, and if an impression were created that the 5% Conversion Loan would be redeemed in 1944 a similar expectation might arise in the case of the War Bonds.

From 3rd January 1944 subscriptions to both Savings and War Bonds were accepted for any amount over £50, a concession which tended to reduce market support for previous "tap" issues.

Ref: C.C.P.361
C.C.P.355

2½% National War Bonds 1952-54

(1st September 1943 to 6th November 1944)

Early in August 1943 the Bank suggested that the currency of the next War Bonds should be 10½ or 11 years. Consideration was given, however, to the idea of using the potential strength of the short market to....."squeeze in a 2% Bond maturing either side of the 2½% Conversion Loan, due 1st October 1949 yielding £2: 5: 1". At this time Lord Kindersley was urging a 2% 4 or 5 Year Bond. He was alarmed by the rise in Treasury Deposit Receipts, then around £1,000 million, and believed that there was an obstinate refusal of depositors in the Joint Stock Banks, both institutional and private, to subscribe to the two existing "tap" loans. Those unwilling to

subscribe

33 cm x 31 cm.

subscribe either to a 10 or 30 year security could, he felt sure, be pushed into a short bond of the kind suggested. If this were not done and Treasury Deposit Receipts had to be still further increased the expectation of inflation might produce alarming results.

The Governor (L.31.8.43) thought a short loan such as was proposed would attract money from bankers rather than from obdurate depositors. "......If such an issue were to mature at the end of the war (which is what people really want) we should surely only be adding to our post-war difficulties. These, as you say, are already sufficiently alarming.

I don't pretend to be fond of Treasury Deposit Receipts or complacent about their size, but they do have the merit of being in the hands of a small body - who, if needs be, can be petted or cajoled!"

In any case the further forcing down of interest rates would have been contrary to established policy. The Bank's eventual proposal was an issue of 2½% War Bonds 1952-54 with a final maturity date of 1st March 1954, giving a currency of exactly 10½ years; and this was accepted. They were issued on 1st September 1943.

An "A" series followed on 1st March 1944, announced only the day before, and a "B" series on 1st September 1944, announced on 25th August. It had been agreed in connection with the latter that War Bonds 1952-54 should continue until about £800 million was reached.

The six months of the original issue produced £232 million, and the second six months ("A" series) £403 million; a big difference - again attributable to the effect of a War Loan week - the "Salute the Soldier" campaign (25th March to 29th July), which covered two-thirds of the period. £100 million was raised every four or five weeks until mid-June, after which money came in more slowly.

The "B" series ran for only a little over two months, but produced nearly three quarters as much as the original issue, which ran for 6 months (and which, incidentally, may have benefited by the first royalty payment made by the Coal Commission).

From

From the end of the Summer Savings Campaign onwards there had been a falling off in subscriptions; few weeks brought in as much as £10 million and often the total was below £5 million. During the last six days before the closing date (6th November) however there was a rush and £119.3 million was subscribed.

The three series had raised £807 million at an average weekly rate of £13.1 million; 85% in subscriptions of £50,000 and over and 39% from Banks.

£ million

2½% National War Bonds 1952-54

Analysis

	Original Issue 6 months	Series "A" 6 months	Series "B" 2 months and 1 week	Total
Subscriptions of £50,000 and upwards:				
Banks o/a selves and Nominees*	89.4	165.5	57.7	312.6
Savings Banks	.2	.3	.1	.6
Insurance Companies	2.6	15.0	24.5	42.1
Overseas	6.7	1.3	.4	8.4
Building and Friendly Societies, etc.	7.1	10.1	2.5	19.7
Firms, etc.	37.0	53.2	41.4	131.6
C.R.N.D.	52.5	53.9	12.7	119.1
Government Depts.etc.	12.7	19.1	12.2	44.0
Individuals	1.9	2.9	1.8	6.6
Money Market	-	-	-	-
	210.1	321.3	153.3	684.7
Subscriptions below £50,000	22.1	81.8	18.4	122.3
	232.2	403.1	171.7	807.0

*Bank of England (Issue and Banking) 17.0 3.0

3% Savings

33 cm x 37 cm.

3% Savings Bonds 1965/75

8th August 1944 - 15th December, 1945.

Of principles already laid down the most important were that not more than 3% should be paid during the war on comparatively long-term borrowings, and that later war issues should not offer terms more attractive than those placed earlier in the war, but rather the reverse. Unless the Treasury were to depart from these ideas there was not much opportunity for varying the attractions of an issue to replace the Savings Bonds of 1960/70. In June 1944, when the latter had been running for over 2 years, as compared with the 16 months of the 1955/65 issue, the Chief Cashier proposed their replacement by 3% Savings Bonds 1965/75; but not until after the close of the "Salute the Soldier" Weeks, expected during July. The terms of the new issue were improved, from the Treasury's point of view, by lengthening its maximum life. This was extended by 3 years - to 31 years, as against the 28 of the 1960/70 Bonds. This feature was welcomed by the Press. After the customary consultation with Lord Kindersley the Bank put their proposal to the Treasury on 21st June, and a week later the Chancellor's approval was received.

The 1960/70 issue was withdrawn on 5th August, and the 1965/75 Bonds (with a ~~P.O.~~ Post Office issue) offered as from 8th August 1944. The original issue ran to 14th February 1945 and produced £131.6 million in about 6 months (say, £5 million a week), a fairly satisfactory total in the absence of war week campaigns, and an experience about midway between that of the "C" series of 1960/70 and the original series of that loan.

On 9th February the Treasury announced an "A" series, to run for six months from 15th February; and on 10th August a "B" series, to run until 15th February 1946. The "B" series was easily the most productive, being particularly in favour with Insurance Companies and "Firms etc.", which together account for a third of the total subscribed (Banks 25%).

In the Autumn of 1945 the Bank gave a great deal of thought to current interest rates, which were out of line with short money

rates

rates, and prepared a memorandum [C.F.C.] embodying certain suggestions, discussed at the Treasury on 13th November.

To meet the fairly near future specific recommendations were -

(1) to withdraw the present tap issues of both Savings Bonds and War Bonds at the end of the year, offering the War Bond holders no substitute for the time being, but offering a 3% Savings Bond, 1985 or after, in place of the 1965/75 series;

(2) to call for redemption on 1st April 1946 the 2½% Conversion Loan 1944/49 (£207 million), offering conversion into 1¾% Exchequer Bonds 1950 (see below) with a full half year's dividend on 15th August; and extending a similar conversion offer to holders of 2½% National War Bonds 1945/47 (£444 million).*

Counter-suggestions by the Treasury included a 1½% Bond of 3 years' maturity and, in connection with the proposed new 3% Bond a spread maturity of 1955-85 to emphasise the likelihood that a rate as high as 3% was likely to be temporary only. Mr.Cobbold disliked both ideas, the one because it would create another "unpopular and sticky" stock, the other because "a long option against the investor is bound to be unattractive", and moreover, borrowing for 10 years at 3% was expensive if the Treasury were really thinking of a lower long-term rate after 10 years. There was a fundamental difference here, because the Treasury seemed to think they could keep down to 3% over a long period, while the Bank were doubtful: long borrowing now at 3% was therefore good borrowing in their opinion.

The upshot of all this was revealed by means of a question and answer in House of Commons (27.11.1945), when the Chancellor gave notice of the cessation of sales of the current War Bond and Savings Bonds issues after 15th December; the repayment of 2½% Conversion Loan on 1st April 1946 and of 2½% National War Bonds on 1st July following

*The conversion operations are really post-war finance. In the event £175.8 million Conversion Loan and £284.0 million War Bonds were converted.

33cm x 37cm.

following; and the offer of conversion of these two loans into $1\frac{3}{4}\%$ Exchequer Bonds, 1950.*

The usual analysis of large subscriptions to the last Savings Bond issue follows:-

Analysis of 3% Savings Bonds 1965-75

	Original Series	Series "A"	Series "B"	All Series
Subscriptions of £50,000 and upwards:				
Banks (o/a selves and nominees)	30.9	35.3	165.3	231.5
Savings Banks	.2	.5	3.1	3.8
Insurance Companies	18.4	36.2	135.0	189.6
Overseas	.7	.2	8.0	8.9
Building and Friendly Societies	4.0	5.0	5.5	14.5
C.R.N.D.	2.1	56.1	24.7	82.9
Firms, etc.	5.2	9.8	88.9	103.9
Government Depts. etc.	14.2	12.8	31.1	58.1
Individuals	1.1	2.0	17.0	20.1
Money Market	-	-	.1	.1
	76.8	157.9	478.7	713.4
Subscriptions below £50,000	54.8	71.5	198.0	324.3
	131.6	229.4	676.7	1,037.7

Ref.C.C.P.358

$1\frac{3}{4}\%$ Exchequer Bonds 15th February 1950

7th November 1944 - 12th June 1945

The "B" Series of National War Bonds 1952/54 was withdrawn on 6th November 1944. One month before that date the Chief Cashier made a suggestion as to the form which its successor should take. He proposed an issue at par of 2% National War Bonds 1950.

The

*Incidentally, that 3% Defence Bonds would continue, with a raising of any one person's permitted holding from £1,500 to £2,000.

The year 1950 had hitherto been kept in reserve, but the time was approaching when use must be made of that date or it would have to be discarded entirely. Such an issue would fit in with the general market rate structure, and probably make a strong appeal to the institutional investor. It would stimulate interest as being a change from the 2½% Bonds, which in one form or another had been running almost continuously since 1940, and would give an opportunity for the market to digest them. The course of the war seemed to make a short-dated security appropriate.

The Chief Cashier also urged the dropping from future prospectuses of the exemption of foreigners from Income Tax deduction - a provision which, contrary to the Bank's inclination, had been inserted by the Treasury in the first War Loan prospectus and perpetuated in the succeeding tap issues. It was not believed that the concession had succeeded in attracting much foreign-owned money.* In any case the removal of the concession would be in line with the views of the Exchange Control, who wished to discourage foreign investments, especially in short-term securities. The Governor (Lord Catto) was strongly in agreement on this point: he had spent much time, while Financial Adviser to the Treasury, in impressing it upon them. He wondered, however, whether a lower rate than 2% might not be possible and whether it might be advisable to offer a new series of 2½% Bonds 1953/55 at the same time. The Chief Cashier pointed out that the redemption yields on comparable securities was something over 2%, and therefore doubted the success of a lower rate.

The Bank (and Lord Kindersley) were soon in agreement and proposed to the Treasury the issue at par of 2% Bonds 1950, and the withdrawal of the tax concession to foreigners. The Treasury thought that the price should be 101 or 100½, a change which the Bank successfully resisted. The Treasury agreed to withdraw tax exemption from foreigners, but in view of the discussions on double taxation which were taking place with the U.S.A., thought it best not to extend this decision to future issues.* *

When

---

* *The Economist (4.11.44) thought there was no great harm in this for a "short" bond. But if it marked "a new policy of discouraging the investment of foreign money in this country" it would be another matter and set a very bad example to countries disposed to regard Britain as a financial leader.

* According to the analysis at the end of this chapter "Overseas" had subscribed £32.1 million to National War Bonds and £18.9 million to Savings Bonds.

When the question of rate and price was referred to the Chancellor he decided that the Bonds should carry a rate of $1\frac{3}{4}\%$ instead of 2%. The Treasury letter (24.10.44) conveying this information added...."While we all realise that the lower rate involves a certain risk, I understand that you are ready to agree that it is a reasonable risk to take."

The Exchequer Bonds were placed on tap on 7th November: there was no Post Office issue. The financial journalists on the whole gave it support.

Owing to the fixed date and short maturity it was not intended to offer the Bonds for long - say 3 or 4 months - and it had been hoped that the response to a 2% Bond would have been £20/25 million a week. But in the first fortnight this $1\frac{3}{4}\%$ Bond realised only £$6\frac{1}{2}$ million, of which the Issue Department had taken up £1 million. Better results were looked for later, but meanwhile it seemed necessary to intervene so that the weekly published figures should not have a discouraging effect on potential subscribers. The Issue Department therefore stepped in and took up £73 million in all out of a total of only £104 million. Eliminating the Bank's own subscriptions, an average of only just over £2 million a week was received from the public.

But on 24th January the Governor wrote to the Treasury suggesting the further continuance of the issue for a "strictly limited period"......"in view of the extent of the response and the fact that at $1\frac{3}{4}\%$ the Bonds remain, both relatively and absolutely, cheap borrowing". The emphasis was on the words "strictly limited"; the "extent of the response" referred to the fact that the issue had been very disappointing. The Treasury and the Bank no doubt felt that to withdraw the Bonds altogether on 15th February would be a public admission of failure, which would be very undesirable. Besides which, the issue had had its compensations as the low rate had caused a general rise in the prices of long-dated Government securities. The Chancellor accordingly announced an "A" Series, to begin on 15th February. Belief in the Government's intention and ability to maintain very low rates had now probably been strengthened by their recent proposal to lend to Local Authorities at rates which

ranged

33 cm x 37 cm.

ranged from 2% (for periods up to 5 years) to 3 1/8% (for loans over 30 years), which the Government pointed out would be almost the same rates as those at which they themselves borrowed.

It was at first thought that the "A" series would be due to end about the middle of April, and it was clear that the issue could not be continued for long; with bonds of such a short life late subscribers would be unduly favoured. Moreover, after 15th February their term was less than five years and they would qualify as a "market short" suitable for the Discount Market and financial houses. Delay at the Treasury in deciding upon a successor, however, kept the tap running until the close of business on 12th June, when the series had run for 17 days longer than the original series.

£21 million was received in the last week, and £223 million in all. But the "A" series cannot be regarded as having been any more successful than the original, since again the Issue Department had to take up about 70%.

One of the main objectives, when the issue of War Bonds had been substituted by this short bond, had been to establish a healthy market in the previous issue of National War Bonds; and this had been fully attained.

$1\frac{3}{4}$% Exchequer Bonds 1950

Analysis of Subscriptions of £50,000 and upwards

	Original Issue	Series "A"
Banks o/a selves and Nominees*	82.4	177.7
Savings Banks	-	-
Insurance Companies	1.3	1.4
Overseas	-	.2
Building and Friendly Societies, etc.	-	1.0
C.R.N.D.	3.0	8.3
Firms, etc.	10.7	12.1
Government Depts., etc.	-	17.3
Individuals	.9	.7
Money Market	2.5	1.0
	£100.8	£219.7
Subscriptions below £50,000	3.2	3.1
	£104.0	£222.8
*Bank of England Issue Dept.	£73.0	£152.0

2½% National War Bonds 1954-56

(13th June - 15th December 1945)

As early as 31st January 1945 the Chief Cashier suggested that in the event of an early surrender by Germany there should be an issue of 2½% National Victory Bonds 1953-55 - though not before the middle of April. In May he examined the borrowing position in general, including the possibility of a long-term loan for a fixed amount, but pointed out that after four years of continuous tap issues there could not be any large pent-up demand to be satisfied. It would also be inappropriate, in view of the heavy commitments of the Government, to anticipate repayment of the medium-term loans before their final maturity. Again, it was doubtful whether after the German war the demand for existing gilt-edged securities would be sufficient to maintain a free market at the current level of prices, and some support by the Government would be necessary.

The pronounced falling off in subscriptions to tap loans, exaggerated by the comparative failure of the 1¾% Exchequer Bonds, had meant a sharp rise in the Floating Debt, especially in the form of Treasury Deposit Receipts (£1,859 million at the end of March). So large a volume was unpopular with the banks, who were looking forward to a reduction in order that they might be in a better position to finance post-war industrial needs. (Deposit Receipts were over 40% of the Clearing Banks' deposits; Advances only 16%.) It seemed only prudent to place on tap the most attractive types of bonds consistent with the policy hitherto adopted.

By the end of March the Bank had shifted the proposed maturity for the new bonds to 1954-56, with 15th January 1956 as the final date. This would have given them a maximum life of 10 years 9 months, as against 10 years and 6 months for the 1952-54 issue. The Bank also proposed that, as in the case of Exchequer Bonds, foreigners should receive no tax concession. After two months' delay the Treasury suggested that the maturity should be lengthened to 1955-57, a maximum currency of 11 years and 8 months. This seemed to the Bank too much out of line with current market prices, and they offered a compromise - a bond with a maximum life of 11 years and

2 months

2 months, the final maturity date to be 15th August 1956. This was accepted, as was also the proposal that non-residents should not be exempted from tax.

In announcing the new issue on 5th June, in answer to a question in the House, the Chancellor said that a relatively short security of the type of the $1\frac{3}{4}\%$ Exchequer Bonds could not suitably remain on sale much longer and would be withdrawn after 12th June. Subscription to the War Bonds would be open on the 13th.

The further extension in the life of tap bonds had hardly been expected, and gave a mild stimulus to the market, though it had nothing like the effect produced by the Exchequer Bonds in November 1944.

The first £100 million had been subscribed by 4th September - almost 90% in subscriptions of £50,000 and over and 48% by banks. A further £100 million had come in before the end of the month, much the same proportions of large subscriptions being maintained. The third £100 million was likewise subscribed within the next month, but with an increase to nearly 20% in the proportion of subscriptions of <u>under</u> £50,000.

On 27th November the Chancellor (Mr Dalton) announced that the final date for subscriptions to both this series of War Bonds and 3% Savings Bonds 1965/75 would be 15th December 1945, and that it was not proposed for the present to replace these issues by other loans.

In just over 26 weeks this final series of National War Bonds had produced £425.3 millions at an average weekly rate of about £16.3 million. Subscriptions of £50,000 and upwards accounted for 87% and banks for 49%, both of which proportions were the highest for any tap loan except the $1\frac{3}{4}\%$ Exchequer Bonds.

The ~~usual~~ analysis of large subscriptions follows:-

Banks

33cm x 37cm.

	£ million
Banks (o/a selves and nominees)	£207.9
Savings Banks	.9
Insurance Companies	13.3
Overseas	4.0
Building and Friendly Societies, etc.	9.6
C.R.N.D.	29.3
Firms, etc.	79.2
Government Departments, etc.	20.6
Individuals	5.0
Money Market	.1
	£369.9
Subscriptions below £50,000	55.4
	£425.3

The announcement of this (as it proved) final closing of the "tap" brought a rush of subscriptions at the end: £27½ million to the War Bonds and no less than £130 million to the Savings Bonds in the last four days on which the lists were open. In view of Mr. Dalton's declared intention to force down the rate of interest on Government borrowing (the Treasury Bill rate had been halved since mid-October) it is hardly surprising that a last opportunity should have been seized to take up bonds yielding 3% for at least 20 years.

The following analysis of the ten tap loans shews the comparative popularity of the Savings Bonds with the general public, and with Insurance Companies, Savings Banks and Government Departments.

ANALYSIS

ANALYSIS OF SUBSCRIPTIONS TO "TAP" LOANS

£ million

	N.W.B. 1945-47	N.W.B. 1946-48	N.W.B. 1949-51	N.W.B. 1951-53	N.W.B. 1952-54	N.W.B. 1954-56	S.B. 1955-65	S.B. 1960-70	S.B. 1965-75	1¾% Exchqr. Bonds 1950
£50,000 and over:										
*Banks (selves and their nominees)	147.7	159.8	288.6	240.2	312.6	207.9	149.4	135.8	231.5	260.1
Savings Banks	.8	.1	1.0	.7	.6	.9	7.2	7.7	3.8	-
Insurance Cos.	45.3	19.5	34.4	15.4	42.1	13.3	93.1	152.0	189.6	2.7
Overseas	4.2	3.0	5.8	6.7	8.4	4.0	3.3	6.7	8.9	.2
Building and Friendly Socs.	5.9	5.0	11.2	14.6	19.7	9.6	11.4	29.2	14.5	1.0
Firms, etc.	69.0	108.3	130.5	67.9	131.6	79.2	37.5	72.1	103.9	11.3
C.R.N.D.	18.9	48.6	105.7	54.1	119.1	29.3	21.5	16.8	82.9	22.8
Government Depts.	9.3	30.5	16.3	21.6	44.0	20.6	50.8	73.4	58.1	17.3
Individuals	4.9	3.4	6.7	4.0	6.6	5.0	9.9	12.7	20.1	1.6
Money Market	2.9	5.5	2.1	-	-	.1	-	-	.1	3.5
	308.9	383.7	602.3	425.2	684.7	369.9	384.1	506.4	713.4	320.5
Under £50,000	132.5	107.3	109.2	95.0	122.3	55.4	315.1	471.5	324.3	6.3
	441.4	491.0	711.5	520.2	807.0	425.3	699.2	977.9	1,037.7	326.8
Proportions of Total	%	%	%	%	%	%	%	%	%	%
Under £50,000	30.0	21.8	15.3	18.3	15.2	13.0	45.1	48.2	31.3	1.9
£50,000 and over	70.0	78.2	84.7	81.7	84.8	87.0	54.1	51.8	68.7	98.1
Banks	33.5	34.6	40.7	46.2	38.7	48.9	21.4	13.9	22.3	79.6
Insurance Cos.	10.3	4.0	4.8	3.0	5.0	3.1	13.3	15.5	18.3	.9
C.R.N.D.	4.3	9.9	14.9	10.4	14.8	6.9	3.1	1.7	8.0	7.0
Final Totals**	444.4	493.3	714.2	522.3	809.7	426.1	712.7	1,009.0	1,057.4	326.8
*Of which Bank of England (Banking & Issue)		20.0	9.9	34.6	20.0			32.1		225.0

**No later analysis: including Post Office and Trustee Savings Bank registers.

33cm x 37cm.