Chapter II

Bank of England's Relations with the British Purchasing Commission in U.S.A.

Early in October 1939 the question arose as to what banking arrangements the Purchasing Commission should make. They asked Mr.Morgenthau's advice, who said that if the Commission kept an account at the Federal Reserve Bank of New York he would be in a stronger position to protect them from publicity than if they banked at a private bank; and would feel himself pledged to do so. A similar assurance had been given to the French.

Ten days later, however, Mr.Morgenthau, after consultation with the Federal Reserve authorities, felt that it would be better if the account were opened at the Federal Reserve Bank in the name of the Bank of England, to be operated upon the authority of the Bank of England by members of the Purchasing Commission. Alternatively, there might be an account in the name of the Purchasing Commission, replenished from the Bank of England account under standing orders. H.M.Government would be expected to agree to a right of access by the Secretary of the U.S.Treasury to the account used by the Purchasing Commission.

A ~~Bank of England~~ Special Account in the name of the Bank of England was accordingly opened at the beginning of November, upon which the Chairman and Treasury Representative in Ottawa attached to the Commission were permitted to draw.

The British Ambassador in Washington now reported that his legal adviser did not consider that the Bank of England's account would be protected from due legal processes by the mere fact that it was held at the Federal Reserve Bank. He thought, however, that there was no danger of the account being attached in respect of either Reichsbank or Czech National Bank claims (for gold).

The signatories on the account had to furnish the Federal Reserve Bank with letters to the effect that the transactions in connection with which payments were made did not involve the exportation from the U.S. of any goods or materials in violation of the laws of the United States.

At this stage the Federal Reserve Bank were accepting

/responsibility

responsibility for checking certificates, invoices and documents against which payments were made, with the rasult that they became subject to some criticism on the grounds that they were acting as banking agents of the Allied Governments to finance purchases of war materials. It therefore seemed better that the Commission rather than the Reserve Bank should examine documents and that their officials should be given signing powers on the account of the Bank of England. The Bank and the Treasury were ready to accept the first part of this change, but wished the Purchasing Commission to cable to the Bank particulars of all payments required and the Bank in turn to give instructions to the Reserve Bank, who would make payment. The Treasury Representative in Ottawa, however, stated that this procedure would be definitely unworkable because of the volume of transactions and perhaps also because of the Neutrality Act. After some delay the Bank of England agreed to open a new "A" account (7th December) upon which an adequate number of officials of the Commission were given powers to draw*, formal authority being obtained from time to time by Orders of Council. The British Treasury absolved the Bank of England from liability in respect of [redacted] transactions on this account (L. 13.12.39), which continued to operate until 31st Dec. 1948.

The account was fed from another Bank of England account at the Reserve Bank, originally, from time to time as requested, by the Treasury Representative in Ottawa, but later automatically.

(Nothing had been done to give Mr. Morgenthau confidential access to the account, and the omission was not rectified until after he had lodged a complaint).

Subsequently, in July 1940, all Bank of England accounts at the Reserve Bank** were transferred into the name of H.M.Government, as it was considered that there would be less danger of any attachment of or embargo on such funds if they were so held.

---

* The French had previously made a similar arrangement.

** But not balances held by the Bank of England with American Commercial Banks, which were not large enough to make this precaution necessary, though the question was considered more than once.

Hu M

FINANCIAL ASSISTANCE TO LOCAL AUTHORITIES AND PUBLIC UTILITIES

Apart from the agreement made with the railways, which was in a different class, the question of protection by the Government of invested capital first arose as a result of the partial evacuation of certain coastal areas in July and August 1940, and in particular in connection with nineteen East Coast towns, from Lowestoft to Hythe.

The exodus of population reduced the ability of these towns to raise sufficient rates revenue to meet essential expenditure. Some also had maturing debts and unavoidable capital expenditure to be financed. Those who usually lent money to Local Authorities on mortgages were no longer ready to do so, fearing their insolvency; and institutional investors, such as insurance companies, were expected to reinvest in Government war loans as their funds matured.

The Bank thought that the time had come for the consideration of a scheme for all Local Authorities to enable them to deal with those capital liabilities for which they had received Governmental sanction and were unable to finance. These liabilities would include capital expenditure financed from revenue or from other sources no longer available as well as future capital expenditure and maturing debts. But if the Government should decide to make capital available to Local Authorities the strictest control should be maintained over their programmes of expenditure. The Governor and Lord Catto suggested the formation of a special committee to pass on applications. The Governor thought it important that loans should be for 25 or 30 years, not only because expenditure would in most cases relate to permanent capital works but also because the rate of interest for such a period would discourage unnecessary applications (L. 29.8.40).

For lack of time the proposed Committee was never appointed, but it was decided that Local Authorities requiring assistance should be put in a position to pay charges to meet maturities on their loans. Advances free of interest were made to a number of authorities to enable them to balance revenue and essential expenditure, including loan charges, the Government reserving the right to call for repayment after the war. In addition, advances on capital account bearing interest were made.

In

In September 1940 the Treasury had suggested that the rate for 20-year loans should be 3¾% with an option to repay in whole or in part at 6 months' notice. The Bank thought, and the Treasury agreed, that the terms should include the provision that such advances should only be repaid from monies borrowed for longer than the outstanding period of the original 20-year loan. Whatever the currency fixed may have been, the rate was soon reduced to 3½% (28th October 1940) and a year later to 3¼%. Of the advances without interest, it was subsequently decided that 75% was to be regarded as an outright grant.

These forms of assistance were at first confined to evacuation areas but later had to be given in other cases, and in particular to the Metropolitan boroughs.

Consideration of the position of public utility companies soon followed (April 1941) and the Treasury tried to find a formula which might meet any legitimate claims which they might have on the Government, though they were not satisfied that this could be done. The Bank also thought that no formula would give even approximately reasonable results. The legal differences between debenture holders and shareholders, between trustee and non-trustee securities, etc., were largely a matter of chance; and a flat allowance of some percentage over current expenditure to be applied to "charges" was unlikely either to be fair or calculated to help the most deserving cases; and might offer a premium on extravagance. In the Bank's opinion no assistance beyond that necessary for the current maintenance of services should be given, otherwise claims on the Exchequer might arise from business in general.

Replying (10th April 1941) to Sir Richard Hopkins, the Deputy Governor wrote:

> "Let me attempt to answer first the two specific questions raised or implied in your letter. We should naturally wish, for quite general reasons, to see the gilt-edged market sound and Trustee Securities justifying the position which Parliament, perhaps rather freely and in some cases capriciously, has given them. But I do not think it could be said that the failure of some Gilt-edged or Trustee Stocks to maintain their status during wartime would in itself affect Government credit. You will remember some years ago some Railway Stocks lapsed from Trustee status without any such consequences.

For

For your present purpose I do not see that you could stand on debenture stocks .... often the accidental consequences of past difficulties, or on Trustee status.

.... once you go beyond Local Authorities proper, rough and ready though that distinction may be, there is no logical line at which you can stop .... you will be forced to rule out the obligations of Public Boards whose creditors have suffered the consequences of war just as you rule out public or private companies who may have suffered from similar disabilities, including the consequences of Government price fixing, purchase restrictions and controls generally. The existence of peace time limitations on the charging powers of some statutory companies does not seem to me sufficient ground for any distinction.

You must of course keep essential services going .... and you might have to take steps to protect these undertakings from foreclosure during war conditions, though I should doubt if any debenture holders would in fact enter on that course. But I do not see how you can go further without arousing a number of claims for which a special case of equal or nearly equal cogency could be alleged ...."

and again on 22nd April:-

"It would not appear to us that there is any point at which you could draw the line, if you once begin to subsidise existing debenture or shareholders in these Companies. The fact that the Companies have always been under statutory restrictions on their charges hardly strengthens their case against other Companies who are not normally under such restrictions but are now in fact debarred from effectively raising their charges (and thus earning their interest) by Government price and purchase restrictions and by pressure on consumers not to consume. Nor is the structure of secured stocks in fact such as to produce any equitable distribution of assistance even as between the various Utilities which might on that basis be considered ...."

The Bank, however, had been encouraged by successive Chancellors of the Exchequer "to finance the war needs of their clients .... I feel therefore that such advances should continue to be remunerated and that, if necessary in any particular case, not only the charge but also the loan itself must be regarded as analogous to a trade debt and included in the recognised running expenses of the Company .... These debts are essentially different from the interest due to either debenture holders or stockholders and the public reasons which apply to them are of quite a different nature."

On 1st May the Bank expressed the view that in the few cases where stocks had an absolute and unconditional Trustee status, to allow default might have dangerous reactions, and funds should somehow be provided. They also thought that the idea of making a pooling arrangement for Gas Companies or Dock and Harbour undertakings would be worthy of closer examination.

Ref: W.82
CCP 299

1361

FINANCE OF LAND PURCHASE BY THE GOVERNMENT

In May 1941 the Treasury prepared a note of the evidence which they were proposing to give to the Uthwatt Committee, appointed to consider the purchase of undeveloped land, and sent it to the Bank for comment. Some general criticisms were offered in a note enclosed with a letter to the Treasury of 5th June 1941.

The Bank, in this note, made clear its realisation understanding? that the Treasury's proposal was made mainly in the interests of urban development but underlined the difficulty of determining improvement value, particularly of land at the time in agricultural use, with its economic development as yet undecided. A Board would have to finance acquisition when purchases were made, and might pay what would prove to be excessive compensation; it could collect only when it sold the land, possibly at reduced values, and might eventually find itself insolvent.

In September 1942 the final Report of the Uthwatt Committee, making recommendations on acquisition and betterment, was published.*

The financial aspect was important, especially at a time when the war was making heavy and increasing demands on the national resources. In particular valuation was ~~an extremely~~ indeed a difficult problem; moreover the Government were urged from many sides to adopt measures to foil speculation.

What the Uthwatt financial scheme might be was unexplained in the Report itself; but in June 1943 the Treasury sent the Bank a copy of a proposal that an owner should be compensated by giving him a bond or other document entitling him to a share in a "pool" representing the proportion which his confiscated value bore to the value of the whole pool.

Commenting on this the Chief Cashier emphasised again the virtual impossibility of valuation:

> "..... It would therefore seem impossible to fix any market value for such bonds and I should have thought (without, however, taking any advice) that the issue by H.M.G. and

the

*Cmd.6386.

the existence of, say, £500 million bonds of such uncertain (and therefore speculative) character would be held to be detrimental to the maintenance of Government credit."

Later, in April 1944, to meet a different situation, though one still mainly concerned with urban development, the Bank, at the Treasury's request, offered suggestions concerning methods of finance. The Bank prepared a memorandum (8th April 1944) giving their views and once more stressing the difficulties of valuation. Valuation at a fixed date (as for Coal) was impossible; and the issue of stock to individuals would be complicated by the need to relate it to market price on the day of payment.

On the 11th April a meeting with the Treasury was held at the Bank, and the following extracts are taken from the record then made:

"The Treasury were envisaging purchases of land by Local Authorities in connection with the re-planning of the various districts which had been badly blitzed or blighted during the war on the basis of April 1939 values. This proposal was in no way connected with the general recommendations of the Uthwatt Report.

It was probable that the area of the land taken over would be considerably greater than that directly required for building purposes by the Authorities themselves in order to ensure that the Local Authority would benefit by the increased land values which might arise from their re-planning operations.

It transpired that the Treasury had in mind piecemeal payments to the present individual holders in the form of stock (e.g. a special Reconstruction Stock) with the right of resale to the Local Loans Fund or some other body at the issue price where circumstances justified a need for cash.

The figure involved might be from £200/300 million.

It was pointed out that the issue of stock in driblets at varying dates would raise practical difficulties in regard to fixing the price and might also lead to considerable

dissatisfaction

dissatisfaction. It seemed likely that there would be a good many unwilling holders and constant offerings would mean a weak market in the stock and might even affect the general programme of Government borrowing. Nor did the issue of a special stock seem either necessary or desirable.

A preferable method might be that the owners should be paid in cash, the amounts required being found by the Government as part of their normal borrowing operations and arrangements being simultaneously made with the Local Authority concerned to repay the money to the Exchequer over a period of years, or alternatively that the Local Authorities should borrow for this purpose from the Local Loans Fund."

The Bank were consistent throughout in recurring to the difficulties of valuation, whether in regard to property to be acquired or to the correct price of proposed issues of stock.

There is little doubt that the figure of £200-300 million mentioned above was no more than a shot in the dark. Development, for various reasons, proceeded more slowly than expected, but borrowing for the purpose was largely from the Local Loans Fund. No idea of its extent can be obtained from the annual reports of the Public Works Loans Board, since in analyses of expenditure in these reports the purchase of land is an unknown part of "Local Authorities' Schemes" under "Housing", and a very small amount under "Town and Country Planning Schemes".

Loans for England and Scotland approved and advanced since the Local Authorities Act 1945 came into force (in August 1945) are as follows -

	£ mns.	
	Approved	Advanced
1945/6	46	8
1946/7	294	108
1947/8	278	246
1948/9	269	253

Of the £269 million approvals in 1948/9, analysis shows that £190 million were for Housing and £2.8 million for Town and Country Planning Schemes.

H2BM

Charges for Work Done for H.M.Government

1. The enormous increase in work directly undertaken on behalf of H.M.Government entailed an internal review from time to time of the basis of charges made for "agency" work. The absence of any unit of output which might be priced, and the difficulty of fixing a more or less arbitrary scale of charges which would not be unfair to either party, together pointed to some system of reimbursement of costs for new types of work, notwithstanding adverse criticism of the "costs plus" method voiced by the Select Committee on National Expenditure. It was partly with these criticisms in mind that the practice of the Exchange Control was reviewed by the internal committee set up in July 1942, and that, after certain special investigations by its first holder, the office of Inspector of Offices and Branches was established in March 1942.

2. One decision of principle was made at the outbreak of war, namely that whatever payments were made to members of the Staff on War Service, they should be excluded from all charges made to customers (including H.M.Government) on the basis of costs. This made the difficult problem of correct allocation of these costs of less practical importance.

Issue Department and Silver Coin

3. In accordance with the statutory provision for determining the profits of the Issue Department (Currency and Bank Notes Act 1928 Sec.6 and consequent Treasury Minute) full costs, including all overheads, had always been charged against the income of the Department. With the exception given above the war gave no reason to change this arrangement. The charge made for the exchange of Silver Coin had been similarly determined since 1921, without specific statutory authority; and this arrangement also was left undisturbed.

Defence (Finance) Regulations

4. By an exchange of letters in the autumn of 1939 between the Deputy Governor and Sir F.Phillips it was agreed that the Bank should submit quarterly interim statements (now half-yearly) of the costs of administering exchange control, and detailed statements half-yearly, showing

costs

costs in more or less the same type of detail as that already supplied for the Issue Department and distributed as far as possible between different branches of the Control.

5. In order to satisfy, if called upon, enquiries from the Comptroller and Auditor-General on the observance of due economy, the Treasury asked for a statement of numbers employed, distinguishing whole- and part-time, and some indication of appointments above a certain salary level. The Bank accepted these suggestions, offering to give the number of new appointments at a salary in excess of £1,500 a year. These requirements appear to have envisaged recruitment for the work of Control predominantly from outside the Bank and into a relatively independent organisation; and in the event they had little meaning. Salaries chargeable to Control were calculated from time returns and average numbers employed were derived therefrom, with no attempt to enumerate, for example, those in parts of the Bank outside the Control Offices part of whose time was spent on Control problems. In fact no part-time employees were returned except those engaged in 1942 and onwards on that basis, solely for Control work, and in 1944 some employed in the In-Tellers Office on the counting of foreign coin. Although a small number of posts carrying a salary in excess of £1,500 a year (including Advisers) were required, they were filled - with only one exception - from the existing staff of the Bank and so did not fall to be reported under the second provision.

6. Another question to be settled was the distribution of the charge between "Exchange Control" and the Exchange Equalisation Account, which up to the outbreak of war had been carrying the full cost of its administration by the Bank. The concentration of business and the existence of a fairly wide spread between buying and selling rates made for a considerable potential profit on the Account in war conditions: and prima facie it seemed natural for the Account to be charged with the cost of administration of all work on exchange. The Treasury however took the view that a government activity as far-reaching and as likely to give rise to public interest as the control of exchange should not be financed out of an account which, although subject to the scrutiny of the Comptroller and Auditor-General and

the Public

the Public Accounts Committee, was by agreement ahrouded in secrecy. They therefore decided that the cost should be borne on the Vote of Credit, to render the subject susceptible of debate in the House of Commons; and suggested that the Equalisation Account should bear only the cost of purchases and sales of currencies and its own administration. For practical convenience it was agreed that the cost of cables, etc., regarding dealings should fall there; but that all the, inseparable, costs of administration should fall on the Vote of Credit.

7. For the first year of the war, full costs (excluding payments to those on war service) were recovered from the Treasury. The space and staff occupied on Exchange Control grew, however, apace; and although no profit was charged, the inevitable transfer to this work of a proportion of relatively stable overheads was soon seen to be increasing the profitability of all other activities - albeit the Treasury was the gainer to the extent that total costs of the Issue Department were thereby reduced. From the 1st September 1940, therefore, a revised basis of charge was introduced with the immediate effect of reducing the charge by about 13%. Details of this revised basis are given at the end of this section. At the same time arrangements were made for the charge to be audited by Deloittes; and for a certificate by the Bank's Auditor, based on their audit, to be appended which would meet the requirements of the Comptroller and Auditor-General. This new system worked surprisingly well, practically no modifications being found necessary except the inclusion of further small parts of the Bank among the offices included in the charge, as they came for one reason or another to devote an appreciable part of their time to Exchange Control work.

8. The Bank might perhaps have been less complacent in thus curtailing its gross receipts by something between £50,000 and

£100,000

£100,000 a half-year, had it not been for the offset provided by the Special Account Agreements. In a letter dated the 23rd May 1941 the Treasury undertook that any risk or liability incurred by the Bank as an outcome of the agreements concluded up to that point should be for their account, an indemnity later extended to subsequent agreements. The working of these agreements proved profitable owing to the large balances maintained and the commission earned on Customers' Money Employed. As the Treasury were to bear the risk, the question arose whether the cost of managing these accounts should be added to the charge for the administration of the Defence (Finance) Regulations and earnings in respect of the accounts deducted therefrom.

9. After considerable discussion ~~these accounts were omitted~~ within the Bank it was decided to include accounts in any reckoning with the Treasury on the following grounds. It would inevitably be impossible to distinguish how far balances on special accounts arose from Exchange Control and how far they replaced balances that would have been on Central Bank accounts in normal times. Some other accounts, for instance that of the Bank of Canada, had been abnormally profitable as a result of the war, ~~on which~~ and no question of passing profit on these over to the Treasury was likely to arise. In all these cases the banking liability to pay sterling to depositors was and remained a liability of the Bank, the counter-guarantee of the Treasury being required not against normal banking losses but against gold-revaluation guarantees incorporated in the agreements. In the event, the profit or loss on these accounts was costed to central banking and any discussion of the earnings incidental in this way to Exchange Control was avoided. The profits so earned did, however, constitute a good set-off against the reduction in the charge for Exchange Control proper.

10. The limits of "Exchange Control proper" were in fact not always easy to define: and from time to time items were charged to "Administration of the Defence (Finance) Regulations" which could not be said to fall directly within them. For example, at the instigation of the Bank, the Treasury had two representatives in South America whose services in the conclusion and working of Payments Agreements and the solution of other wartime finance problems were invaluable.

The Bank

The Bank paid the salary of one who was a member of the staff: but by agreement with the Treasury, the expenses of both were defrayed by the Bank and recovered in the Exchange Control charge. Other items, however, such as the cost of special currency arrangements made in collaboration with the War Office, were recovered by the submission of a separate claim to the War Office, and it was not often found necessary to bring extraneous items under this convenient umbrella.

Management (including Issues, Redemptions and Conversions)

11. The immediate effect of the migration of the Accountant's Department to Hurstbourne was a considerable rise in costs, while owing to the system in force for calculating revenue, the increase in the National Debt occasioned by the war was not reflected in the revenue figures until the August 1940 half-year. The margin of profit was therefore appreciably reduced and in November 1940 the Bank even acquainted Sir Richard Hopkins that though they hoped to get through the war without asking for an increase in the rates of remuneration for management they could not be certain. For various technical reasons, however, coupled with a relative decrease in market activity, the costs of stocks management fell back from their initial war-time increase and thereafter showed no rising tendency. On the scale laid down at the last revision in 1927, revenue began to rise by large amounts and the percentage of profit again exceeded the pre-war level which, in its time, had been regarded as on the high side.

12. Before the war revision had been postponed on the ground that the effects of mechanisation could not yet be fully estimated. In the Spring of 1942 the rates were reconsidered, and in view of the likelihood of a considerable further increase in net revenue it was agreed to suggest a reduction, to operate during the war and without prejudice to a restoration of the previous charges if and when market activitiy and costs were again restored. The scale accepted in 1927 was £325 per million on the first £750 million of debt and £150 per million on the remainder, with £100 per million for bearer and sundry small charges in addition. The scale suggested in 1942 retained the £325 per million for the first £750 million and

£150

£150 per million for the next £5,250 million of debt: but adopted £50 per million for anything over that figure, bearer being left unchanged at £100 per million. As the debt at the outbreak of war was of the order of £6,000 million, this was virtually equivalent to saying that the Bank would manage the war-time increase for the time being at only £50 per million. The proposal was accepted by the Treasury and had the effect of severely limiting the rate of increase of profit in both absolute and percentage figures: but even so the rate of profit did not fall below the pre-war figure owing to the remarkable stability of costs at the Emergency Premises. This stability was accentuated by the decision to write off expenditure on the Emergency Premises in six half-years so that a heavy item for depreciation was largely worked off by the end of 1942.

13. The increasing profitability of management work was tempered by special arrangements being made for issues, redemptions and conversions. The issue of the 3% War Loan in 1940 was remunerated in accordance with the scale then in force: but with the advent of tap loans this scale was clearly inapplicable. Subsequent issues were therefore charged on a nominal basis, a fee being suggested which was only sufficient to cover out-of-pocket expenses, although not expressly linked to them. The scale was left nominally in being, but this arrangement continued after the reduction in the management charge and still had the effect of modifying the rate of increase in the profitability of the administration of the debt.

14. It may be added at this point that, arising from the reduction in the charge made for British Government management, the Chief Cashier, Chief Accountant and the Secretary were asked to enquire into the rates charged for management other than British Government. They recommended a revised scale showing considerable reductions in the rates charged; which was accepted and brought into force at an appropriate date for each borrower in 1943 and 1944.

<u>General</u>

15. It is evident from the foregoing review that when so largely engaged on work directly for the Government, none of it lending itself readily to a charge per unit of output, the correct determination of charges for each branch of the work becomes extremely

difficult.

difficult. There is therefore advantage in looking at the whole picture with the object of seeing that, if exceptional profit or loss is made on any one activity, this does not distort the reasonableness of the Bank's charges to H.M.Government as a whole. Apart from the costing loss deliberately incurred on the administration of the Defence (Finance) Regulations and the relatively high margin of profit on management, it happened that costs associated with the operation of public accounts increased considerably, more work of many kinds being done for H.M.Government without specific remuneration The revenue derivable from Government balances is necessarily a matter of calculation dependent on the assumed rate of yield and this in turn on the assumed allocation of assets against funds employed. On the basis adopted in the Bank's costing system there was an appreciable fall in the yield per annum to around 1%, while the average balance decreased from over £20 millions in 1939/41 to about £10 million in 1943 and later. The combination of these two factors led to a costing loss on public accounts in the February 1942 half-year and subsequently. On issue and silver coin there was naturally neither profit nor loss (apart from costs of those on war service): and, in the event, the striking and unforeseen result was achieved that ~~[illegible]~~ for several years following February 1946 there was a continuous loss* on the Bank's work for the Government taken as a whole, ~~was carried out at neither profit nor loss~~, costs in respect of staff on war service being excluded from consideration throughout.

DEFENCE (FINANCE) REGULATIONS: BASIS OF CHARGE

From 1st September 1940 the following Offices contributed to the charge -

Cashier's Department (Exchange Control), including specified Advisers (originally G.L.F.Bolton, J.L.Fisher, J.S.Lithiby, L.P.Thompson-McCausland, W.A.M.Doll)

Overseas & Foreign Office, from 1st March 1941

Issue Office, from 1st September 1941

Bullion Office

Typists, Cablists and Filists

Branches (see below)

* Aggregating about £950,000 to February 1949.

To these

To these were added from the 1st March 1942 -

The Audit Department

Statistics Office

Confidential Typists

Probationary Typists

In-Tellers Office

For a period at the beginning of 1942 costs were included incurred in the Accountant's Department on the writing of a card index, a special operation arising from the control of securities.

The following expenses were allocated to these Offices: and the charge consisted of the share of these expenses shown by time-returns to arise from the administration of the Defence (Finance) Regulations.

*1. Salaries, Wages and War-time Allowances.

*2. Pensions, Widows' Annuities and Leaving Gratuities for Temporary Staff.

*3. Overtime, Gratuities and Extra Meals.

*4. Luncheons (mainly women).

5. National Insurance.

6. Women's Overalls.

*7. Stationery, etc.

8. Telephones (G.P.O. charges and costs 1-7 arising from Telephonists).

9. Postages

10. Establishment Department (costs 1-9 arising in the Department)

11. Bank Medical Services (costs 1-9 only, so far as applicable)

/*12. Rent.

/*13. Rates.

14. Fuel, Light and Water.

15. Cleaning and Upkeep.

16. Works Department (Maintenance).

17. Machines.

18. A.R.P.

19. Nightly Watch (Payments for Duties)

*20. Sundry

---

*Of costs arising at Branches, only those marked * were included in the charge.

/No charge made in respect of reserved or unoccupied space.

*20. Sundry Out-of-pocket Expenses

(a) Cables

(b) Glasgow Office

(c) Regional Control Offices

(d) U.K.Security Deposit, Montreal

(e) Special Journeys

(f) Other

War Damage Premiums were later included on a basis agreed with H.M.Treasury.

NOTES ON COSTS NOT CHARGED

All costs arising in the following Offices etc. -

C.C.O.

B.B.O.

Treasury

Securities Office

Secretary's Office

Certain Advisers (originally H.Clay, H.A.Siepmann, R.N.Kershaw, J.B.Rickatson-Hatt)

Inspector of Offices and Branches

Central Mechanisation Office

Record Office, Roehampton.

All expenses arising under the following heads -

Salaries of Staff on War Service (already excluded in previous charges)

Supervision by Chief Cashiers (other than those attached to Exchange Control)

Directors and certain Advisers (including rent of Parlours, etc.)

Bank cars

Housekeeper (including Officials' Luncheons and Dinners)

Bank Club (except subsidies)

Messengers' Overhead (Sports Club, Dining Room, Liveries, Supervision)

Staff Welfare (except Medical Officer)

Reference Library

Typing

*See previous page.

Typing and other Machine Tuition

Transport of Staff during first bombing period

Sundries: Examination Gratuities, Clerks' Guarantees, Towel Supply, Freshfields (except specific charges), Donations (of benefit to Staff), Actuary's Fee (Superannuation Fund)

Emergency Premises Expenses (o/a Establishments, Whitchurch)

Interest on Capital employed

Staff of H.M. Treasury.

The Treasury, often in difficulties over lack of trained staff, in 1935 had approached the Bank with a view to borrowing a member of their staff for a few months to assist in the Treasury's foreign business. The Governor had felt obliged to decline on principle. In May 1939 a similar request was made for help for an indefinite period. The Governor was opposed to any member of the Bank's staff becoming in effect a temporary Treasury official. Such an arrangement would suggest an inter-changeability of staff which would be a dangerous precedent. In the event of a difference of opinion with the Treasury the Bank might find themselves criticising a member of their own staff, the man himself might have a divided allegiance, and if he were away for a long period his seniority in the Bank's service might be adversely affected.

In the following December the Governor also resisted a proposal that a Director of the Bank should accompany a Treasury official to Paris in order to consult with the French Treasury. He considered, and the Treasury Committee concurred, that for a Director to attend negotiations between Treasuries was not in the best interests of co-operation between the Bank and the Treasury here or between the Bank and other Central Banks.

At the end of March 1943, as Playfair (H.M. Treasury) was returning to London, the Bank were asked to find "a young economist or other person suitable to assist Sir Frederick Phillips". There was no permanent man to spare; nor, in principle, would one have been sent.

Without prejudice to the general principle, however, the exigencies of war made some lending of staff to Government Departments inescapable, when a problem essentially to be solved inside a Department required staff available only at the Bank. In the early stages of the war a member of the staff was attached to the Ministry of Economic Warfare: in the later stages another worked for a long period in the War Office on financial arrangements

P.T.O.

for the liberation of Europe. Others were lent to H.M.Treasury for duty abroad, as Financial Adviser in Canada, as shorthand-typist to the man in charge of U.S.security arrangements in New York, as technical adviser at the Bretton Woods conference. One member, representing the Bank, was in South America throughout the war, and at times spoke for the Treasury and at others for other parties, e.g., the Council of Foreign Bondholders. But in no case did anyone from the Bank engage in the day to day work of H.M.Treasury in Whitehall.*

---

* On 14th March 1943 a member of the Temporary male staff was appointed a Temporary Assistant to the Treasury to act as an investigator for the Capital Issues Committee.

(He was still so occupied in January 1950).

Ref: F.E.35
1376

WAR RISKS INSURANCE HuBM (Part IV Folder 20 Item 5)

By the middle of 1938 various bodies were pressing the Government on this subject and it was understood that schemes of insurance or compensation were being prepared.

Marine Insurance - Cargoes

By the second week in September Lloyds underwritars were getting restive, and on the 15th they decided to give 48 hours notice of cancellation of all war risk policies. In future marine war risks were to be insured separately at rates quoted according to current market capacity, shipment to take place within 48 hours.

As the capacity of the market during the international crisis (pre-Munich) was probably less than £500,000 this made the insurance of large shipments of gold* against war risks impossible. Consequently the Bank believed that the Gold Market in London would operate only spasmodically; practically the whole European demand for dollars would fall on the Exchange Equalisation Account, and the settlement of Tripartite Agreement transactions would become virtually impossible, especially with the Federal Reserve Bank. South Africa, India, etc. would cease to send their gold to London, but this was less serious as the Bank were prepared to purchase and hold gold in South Africa up to £60 mn.

The Government should therefore take over war risk insurance on all bullion shipments, and no insurance should be effected on Exchange Equalisation Account shipments.

By the end of September the Board of Trade had produced a schema. The underwriters were to form an internal Syndicate or Pool with which they would re-insure all cargo risks accepted under the scheme. The minimum rate would be 5/-% and other rates would be agreed with the Government. These rates would cover vessels sailing within thirty days. If war broke out the Government would re-insure outstanding commitments of the Syndicate in respect of King's Enemy risks only. If war came within six months of the coming

---

*No difficulty was anticipated in covering other commodities.

coming into force of the scheme the Syndicate was to hand over to the Government its total premium income on insurances effected under the scheme up to date of re-insurance. The underwriters were pressing for a limit of £3 mn.on specie insured in any one vessel.

The Bank told the Treasury (L. 29.9.1938) that they disliked the provision for the maintenance of high rates ultimately to be borne by the taxpayer, who would also be shouldering the whole risks outstanding at the outbreak of war. Was so high a minimum rate as 5/- necessary? They would like the period of six months reduced, and a scheme under which rates would be agreed between the market and the Board of Trade and held right up to the beginning of war. The Treasury agreed with the Bank. The Underwriters Committee now introduced (6th October) new rates good for seven days only.

With the Munich Pact the need for any temporary scheme passed and the Bank now got to work on a permanent one. This was sent to the Treasury on the 19th October.

"Marine War Risks

"Proposed Headings for Permanent Plan

"1. A Pool of all British Companies and Underwriters with offices in the United Kingdom to take, either direct or as re-insurance from such Companies and Underwriters, all marine war risks on cargoes consigned to or from the United Kingdom, whether in British or other bottoms.

"2. The Pool to re-insure 100% with H.M.Government King's Enemy risks and risks arising from action of H.M.Government or allies in a war in which the United Kingdom is engaged.

"3. A fixed schedule of rates to cover the risks under 2 above to be drawn up by agreement between H.M.Government and representatives of the Pool. These rates to be maintained in force until the outbreak of a war in which the United Kingdom is engaged, subject to a reduction by agreement of H.M.Government on the recommendation of the Underwriters'

Pool

"Pool, if considered necessary and justifiable in order to meet foreign competition. The premium thus established, after deduction of the customary brokerage and discounts, to be paid to H.M.Government.

"4. H.M.Government to deal only with the Pool and not directly with Underwriters and Companies. All administrative work to be left to the Pool who would render regular settlements to H.M.Government. H.M.Government to have the right to inspect books and documents.

"5. War risks not comprised in 2 above to be borne by the Underwriters' Pool, the rates of premium to be fixed by Underwriters within limits to be agreed as in 3 above. A schedule of total war risk premiums to be published from time to time.

"6. Normal cover facilities to be provided throughout the duration of the scheme; no cancellation clause to be included in policies. Conditions, limits, etc., in so far as they concern risks under 2 above, to be approved by H.M.Government. Special conditions to be agreed for cargoes to and from countries in which a state of war exists.

"7. The scheme to remain in force indefinitely. On outbreak of a war in which the United Kingdom is engaged, rates to be reviewed by agreement between H.M.Government and the Underwriters' Pool, and the detailed application of the scheme to be re-examined in the light of conditions then ruling."

The Bank's covering letter* pointed out that -

"..... this draft accepts the principal envisaged in the temporary plan that King's Enemy risks on cargoes consigned to and from the United Kingdom should be taken by the Government and that the portion of the total war risk premium applicable to these risks should remain steady right up to the outbreak of war. The remainder of the risk would be borne by underwriters who would,

within

* Dep. Governor

"within certain limits, themselves fix the total war risk premium. There would thus be no question of the Government putting up rates in bad times, which was, I think, felt to be one of the objections to a Government scheme ......".

Movements in such rates, the Treasury and the Bank felt, would be held to indicate the Government's assessment of the probabilities of war. A further letter from the Bank on 18th November* says -

"...... The real purpose of a permanent scheme, as I have always understood it, and indeed the only justification for putting the risk on the United Kingdom Taxpayer, is to maintain United Kingdom imports and exports in time of crisis. The extension of the cover to British ships trading elsewhere already departs from this principle and is based on other considerations which seem to me more difficult to justify: a further extension to neutral ships trading elsewhere would raise still more difficulties and would, as you say, vastly increase the risk taken by H.M. Government, and more particularly the foreign exchange risk. I realise that the limitation to cargoes consigned to or from the United Kingdom may raise administrative difficulties but I think an effort should be made to surmount them. If after an outbreak of war it should appear advisable to extend the cover more widely the question could then be considered on its merits, but for a permanent peace-time scheme I should at first sight much prefer the cover to be limited to cargoes consigned to or from the United Kingdom."

The objection was now encountered that a fixed rate might meet competition from other markets, e.g., U.S.A.; to meet which the Government suggested, and the Bank agreed, that if it were necessary to reduce the total premiums to less than twice the fixed rate for "King's Enemy Risks" the amount to be paid to the Government should be 50% of the premium actually received by the market.

The next

*C.F.C.

The next question raised was that of insurance between ship and warehouse, which was not being covered as contrary to the International Waterborne Agreement.

Exchange risks and the extension of the scheme to foreign ships were further discussed and the Bank wrote on 3rd January 1939 -

"...... It is difficult to be precise at this moment but from the exchange point of view I think that we ought to avoid committing ourselves further than is absolutely necessary. I agree that in time of war it might prove essential to extend cover to all ships, whatever their nationality, trading with the Empire, yet I should hesitate to go beyond this unless and until a sufficient British interest is proved to justify the exchange risk."

There was also a new proposal for the re-insurance rates, giving a maximum and minimum rate for the King's Enemy Risk premium. This and two other aspects were referred to by the Bank (L. 16.1.39) -

"...... I still feel that it is a mistake for the King's Enemy premium to rise proportionately with the total War Risk premium because this must overload the cost of insurance in cases where the King's Enemy risk is small and the other War Risk large. Moreover, the minimum limit of 1/- will presumably mean that some existing rates (e.g. 6d.% for gold to the Continent) will have to be substantially increased, which seems undesirable ......

I do not see it anywhere stated in the scheme that the Committee of Lloyd's and the Committee of Insurance Companies will ensure that the King's Enemy scheme is compulsory for all underwriters in the market who give War Risks cover. It seems to me essential that this point should be clearly covered either by legislation or by informal agreement and action by the Committees ...."

At the end of March the maximum that could be covered for War Risks in any one ship was £2,175,000, and many rates had been increased by from 25 to 300%. Large shipments of gold were being made to U.S.A.

(Czechoslovakia

(Czechoslovakia had been occupied on 15th March). The Bank thought that the underwriters should not have raised rates (or talked of cancellations) without previous consultation with the Government, and that the Treasury should tell them so.

The scheme had now been amended to include foreign companies in the proposed Pool: to exclude them might have led to the U.S.A. placing difficulties in the way of British companies' agents operating there. The Bank had agreed that this was a necessary concession. Moreover, certain classes of business were to be excluded from Pool transactions. The premium was to apply to vessels sailing within thirty days, instead of seven days with the possibility of cancellation of war risk insurance on forty eight hours' notice. The maximum premium was to be £1% (as much as £5% had been charged). The ship-warehouse risk difficulty was avoided by the Government accepting the risk free of charge. Certain grain cargoes shipped before sale, with an option of delivery in different countries, were also to be admitted to the scheme; otherwise delivery to or from a United Kingdom port was required, though, if war broke out, extension to Empire ports was contemplated. All war risks and business of the kind included in the scheme should be done with the Pool, but there was not to be compulsion.

The Bank (L.28th March) thought the maximum charge of £1% too high and that the Pool should not in any case raise rates above 5/- or 10/-% without the Government's approval. The fact that the Government was imposing a maximum of 3/-% on the premium to be paid to them gave the right to ask for this. The Government should not lay themselves open to the charge of subsidising underwriters without providing adequate advantages to the trading community. The Bank were also dissatisfied with anything less than a definite written assurance from all underwriters and companies that they would place all business with the Pool.

The Treasury could not see their way to tighten up the arrangement any further, and the scheme was introduced on 13th April. The war risk rate for bullion and specie shipments between

the United

the United Kingdom and the U.S.A.(Atlantic ports) was then 1/3d.%, and the limit was raised to £3,000,000, in any one ship. The Bank at first had an option to insure or not against war risks.

Further negotiations took place, and on 21st April the Bank wrote to record a new understanding with the Treasury -

> "..... 1. All outward cargoes will be insured in terms of sterling. This affects, principally, if not exclusively, bullion shipments by arbitrageurs. It will prevent the pool from being used as a means of insuring against exchange risks, and it will relieve us of the liability to produce, in the period immediately after zero, a large but unknown amount of dollars for the payment of bullion insurance claims. On the other hand, it will, as I pointed out to you, increase the amount of shipments we may have to handle ourselves, and the amount of dollars we may be called upon to provide before zero.
>
> 2. The valuation clause in the Pool Agreement will be redrafted so as to cover the arbitrageur to the extent of the full replacement value of his gold in sterling at the London price.
>
> 3. The existing clause in our policy which gives us an option to insure, or not to insure, our shipments against war risk will be maintained. That is to say, we shall be exempted from the rule made by Lloyds, in agreement with the Board of Trade, that all shipments must be declared for war risk as well as for marine risk. ...."

The Bank had not in practice insured their own gold against war risk; some of their clients had done so.

Upon the decision of the Pool to insure all outward cargoes in sterling and to issue no more dollar policies, underwriters feared that American banks and shippers would cease to insure in London and attempt to cover in New York, where underwriters were likely to accept such transactions, reinsuring in sterling with the Pool, and probably prepared to accept the exchange risk in the hope of permanently attracting the business to the U.S.A. The Bank, however, agreed with the Treasury on 27th

April

April that the arrangement should stand, and the same decision was taken on 18th May after consideration of protests received by the Pool from the leading marine underwriter in the U.S.A.

The Bank thought that war insurance in dollars could not be organised without Government help; that Government help would not be forthcoming in the U.S.A.; and that the American banks would continue to sue the Pool for reduced shipments. "If there were insurance in dollars, the arbitrageur would be covered against every sort of risk (which is not arbitrage) and it is not apparent that the Insurance Companies would be rendering any sort of service."

The Treasury and the Bank, however, gave way on 14th June on the following compromise. A new clause was proposed -

> "In respect of Bullion and Specie the value for the purpose of re-insurance with the Pool shall be the value stated in the Policy and in the event of the insurance being in currency other than sterling and a loss occurring, the measure of recovery from the Pool shall be the equivalent in sterling of the loss computed at a rate of exchange certified by the Bank of England current at the time of settlement by the Pool.
>
> "Provided that in the event of loss, whether total or partial, deduction shall be made from the amount otherwise recoverable of any freight and charges included in such value which by reason of such loss are neither paid nor payable."

The Treasury and the Board of Trade had now agreed -

> "......not to discourage underwriters from issuing dollar policies for war risk insurance while the underwriters re-insured with the Pool in sterling. Lloyds' Syndicates insist that this must be allowed owing to the complaints of the New York Agencies and the loss of agency business. They will in practice only write liabilities to the extent of their own dollar resources but in the event of a loss they need an agreed method of settlement with the Pool. If the above clause is adopted the Government Re-insurance Pool is responsible for the exchange risk in the

event

event of a loss up to the time of the admission of liability, but the underwriters will have to find dollars themselves ....."

The Government War Risks Insurance Office was opened on 4th September 1939. (The Bank arranged an Open Cover with them, with an option not to insure). Premiums were to be those in force on the date of sailing. Ship-warehouse insurance was now effected at an additional premium of 10/-%.

Early in October the Bank was again consulted on the position of the insurance market, which was threatened, now that the Government had become bulk purchasers, by a proposal of the Ministry of Supply and Ministry of Food not to insure their cargoes. The market, it was said, would tend to collapse if deprived of so much business. The Government, of course, desired this country to remain the centre of insurance after the war. It was also alleged, that if the Ministries acted as proposed the Government would have to set up its own organisation to deal with the intricate claims problems which were bound to arise. Nor were market rates too high; indeed, the Treasury thought that the premiums charged were probably too low. The Bank's opinion was that it might be unwise for the two Ministries to take their business out of the market without very full consideration, and it appears that the Ministries thereupon took out open covers with the market.

Soon after the outbreak of war the Government had begun to cover cargoes carried in Allied ships to and from this country, and as from 17th October British ships on voyages other than to or from the United Kingdom were covered.

[No further questions seem to have arisen needing reference to the Bank, whose own arrangements for gold shipments are dealt with in the chapter on Gold in Part II.]

The Bank's advice does not appear to have been asked for again until August 1940, when the Government were being pressed to issue policies in dollars in respect of cross trade that did not touch the Sterling Area. It was feared that if war cover were taken out in New York the marine insurance would also go there and

much

much valuable business would be lost. The Bank regarded the proposal unfavourably -

"...... The ~~[illegible]~~ Office* was set up in the national interest to provide war risk insurance which the ordinary insurance market in London could not provide at a stable economic rate on cargoes destined for discharge in or despatch from the United Kingdom. Its sole purpose was to supply an essential war-time need of United Kingdom traders which the ordinary insurance market was unable to provide.

I think it would be a very great departure from these principles if they were to write dollar policies covering shipments between countries outside the Sterling Area. I see no reason for what is in effect a Government subsidy to be used for this purpose. I should have thought that war risk insurance of this class must be left to free competition between the insurance markets in London and New York and that there is nothing to be said from any point of view in favour of tha Government going into the business."

Commodity Insurance

On 13th January 1939 the Treasury informed the Bank that the Government had decided upon the general lines of their policy.

1. H.M.Government to provide insurance, working through the Companies, against war risks on land of commodities declared to be of importance for public requirements in war-time, or for export.
2. The insurance to be compulsory, compulsion being both upon the person handling the goods and upon the insurer of the fire risk of any such goods.
3. A small registration charge to be made at the outset and a small charge on each declaration, but no premium to be charged until the outbreak of war.

This time the Bank questioned the advisability of making the scheme compulsory. A voluntary scheme would do all that was necessary since the objective was to provide facilities

* War Risks Insurance Office.

for those

for those who complained that they were deterred from doing business by the absence of facilities. There was a prima facie case against compulsion unless necessary and a compulsory scheme would present administrative difficulties. In particular, it seemed hard to make it an offence for an insurer to grant fire cover without satisfying himself as to whether or not the goods were insurable under the war risks scheme.

The Treasury gave reasons why a compulsory scheme ~~was preferred because it was~~ thought essential; it was feared that if voluntary a lot of people would not come in, or would hold off until a crisis arose and would then want to come in with a rush, causing administrative difficulties at the moment of crisis.

On 31st January the Chancellor made a statement in the House on this and the other forms of insurance or compensation then in preparation, and it then appeared that retailers would not be excluded, and that the scheme would be optional except in war. The War Risks Insurance Act, passed on 4th August 1939, covered (in Part 2) all commodities (not only "essential" commodities) and all sellers of goods owned by them who registered. The scheme was only to operate in the event of war, when it could be made compulsory.

Gold (and certain other metals) were excluded from the commodity scheme by a Board of Trade order issued shortly after the outbreak of war, when the Government War Risks Insurance Office had been opened.

Restriction of insurance facilities to owners produced complaints from one or two banks in November 1939. Some banks had an insurable interest in goods of which they were not sellers, or might have to foreclose on goods which were the property of a client. In neither case could the banker insure. The Bank of England were asked by the Treasury how the problem could be solved; the Treasury suggested that in the former case, at least, the name of the bank might be joined to that of the insured on the

Policy

Policy, to the extent of the bank's interest in the goods. The Bank thought this solution would cover nearly all cases.

Compulsory War Risk Insurance in the Straits Settlements and Malay States

Risk of Seizure

Seizure had at first been covered in the United Kingdom by the Commodity War Risk Insurance Scheme, but was excluded from it on 8th April 1941.

Seven days earlier, on 1st April, the Straits Settlements Compulsory Scheme was introduced. Its terms did not specifically cover seizure, but the rubber growers, tin producers and other traders believed themselves to be covered against all risks and had acted on this belief. Had they not held this view they would not have accumulated such large stocks or allowed the Government to buy rubber from them on forward contracts.

In November 1941, however, they were informed of a ruling by the Straits Settlements and Malay Governments that seizure was not covered.

The Rubber Growers' Association, the Eastern Exchange Banks' Association, the London Metal Exchange, the British Association of Straits Merchants, and the Rubber Trade Association of London thereupon protested to the Colonial Office. Some of these interests had been in touch with the Governor earlier in 1941, and in January 1942 they asked the Bank to help them.

The Colonial Office informed the Governor of their provisional attitude: that the amount of the liability, if assumed by the Governments, might go far beyond the capacity of their total resources; that it was by no means easy to say when a loss had been incurred; that there were many other administrative difficulties; and that possibly the public interest was not sufficiently involved to justify financial assistance - which, in any case, might not do much to help traders carry on their business when their stock had been lost.

Some days

Some days later the Governor wrote to the Treasury (27.1.42) -

"....... Having now had a further opportunity of studying the question I believe that the signatories to the letter from the Rubber Trade Association to the Colonial Office have a good case. Particularly significant, I think, is the fact that at the time the War Risk Scheme was made compulsory in the East, i.e., on the 1st April 1941, seizure in this country appears to have been covered under the Commodity War Risk Insurance Scheme. Admittedly, seizure was specifically removed from the United Kingdom scheme shortly after but no corresponding removal was apparently made in Singapore.

At the same time there seems to be some uncertainty, if not conflict, as to what has happened on the spot: destruction or seizure. But though this may be a valid technical point, is it a question of principle? A loss occurred, which at one moment was due perhaps to destruction, at another perhaps to seizure: but it occurred: hence a claim arises ...."

Several Government Departments were involved in the question and no decision was reached until 22nd June, when the Colonial Office informed the Trades that they were satisfied that there was no intention of providing in the local legislation for the risk of seizure: the risk was in fact not regarded as an insurable one. Nor did His Majesty's Government feel that it would be equitable or expedient to make special arrangements for immediate payment ex gratia of compensation. They could not do so without compensating everyone for all losses direct and indirect through enemy action in the United Kingdom and Colonial Empire. They would see what could be done after the war as regards a general fund for reconstruction.

Following this the Rubber Trade took Counsel's Opinion: this was to the effect that seizure was not covered by the insurance, but that if stocks of commodities had been destroyed in pursuance of a "scorched earth" policy against the enemy they would be covered.

War Damage

War Damage Insurance - Property

This question had been actively considered for some years before the war, and a Committee set up by the Cabinet in April 1937, which reported in June 1938, suggested some general lines of a scheme of compensation.

In August 1938 a memorandum by Mr.Cobbold approved the general recommendations of the Committee, but pointed out that the necessarily high premiums on a voluntary basis would attract only those in obviously dangerous areas, while compulsory contributions "would cause more trouble, both in administration difficulties and in psychological effect than paying compensation out of general revenue". He thought there was something to be said for supplementing a Government Scheme by pooling arrangements on a local or trade basis.

Until near the end of 1940 the Government, supported by the recommendations of a Conference presided over by Lord Weir, refused to bring in any scheme of compensation, although the Association of British Chambers of Commerce and others continued to agitate for a change of policy. The Bank were kept informed on the course of the negotiations, and the Governor consented to introduce a deputation to the Chancellor on 15th June 1939. This consisted of nine persons representing the Association, the London Chamber of Commerce, the Federation of British Industries, the National Federation of Property Owners, the Clearing Banks, the Insurance Brokers, and the Association of Municipal Corporations. The Governor does not appear to have taken an active part in the proceedings; indeed, the deputation was only to request that a Committee be appointed to formulate a scheme.

The eventual outcome of the various approaches to the Government and of their own deliberations was the introduction of a War Damage Bill, which became operative in May 1941. The assessment of Damage and Claims was in the hands of a "War Damage Commission". Owners of private goods ("Chattels") received free insurance up to £200 (single man) or £300 (married man), with £25 for each child under 16 years of age.

The fact that replacement costs would certainly be much higher by the time replacement was possible was (somewhat reluctantly) admitted when the Act was passed, but there was much controversy later, particularly over the value of pre-war property.

The Act was a complicated measure, and settlement was inevitably fraught with much difficulty. The Bank were in no way involved in its terms, although interested to the extent that Bank premises and properties sustained damage from air attack.

Much the greater part (about 3½ million claims) of the repayments was on a cost-of-workbasis and could only be made when work on the properties was completed. Where property was totally destroyed, and it was not worth while to make the damage good, value payments were made, the cost of which, including 50% increase over 1938 allowed for the subsequent rise in values and 2½% interest since the time of the damage, was about £170 million*, the first instalment of which was paid in November 1947, to be followed by monthly payments until all outstanding claims had been met.

The Commission estimated damage to all properties at £860 million at 1938 replacement cost or £1,450 million at 1947 values.

On the 14th July 1947 the Board of Trade made a single payment of £45 million in respect of 250 claims of between £25 and £1,200 for private chattels** destroyed before the end of 1941. This was followed by a further £10 million to compensate for their increased value post-war.

Altogether

---

* 155,000 claims on 216,000 properties. These, however, were really old properties, and excluded all properties built since 1914 and pre-1914 properties certified as "well-built". At the time of an announcement by the Chancellor in March 1947, 3,000,000 such properties either had been or were to be rebuilt.

** Claims of £25 or less, or cases in which hardship had been pleaded, had been settled as soon as possible after submission and had cost up to July 1947 about £65 million.

Altogether there were five schemes, two financed on the insurance principle and two partly contributory. Ships and cargoes, as well as commodities (including stocks, materials and work in progress) were placed on a self-supporting basis outside the national budget. These schemes were established in 1939 and yielded a surplus to the Exchequer.

Chattels, both business and private, and damage to property came under the partly contributory schemes within the framework of the Act of May 1941; and as then foreseen could not hope to pay for themselves. They paid compensation amounting to more than £900 million against receipts by the Exchequer of less than £300 million. The payments formed a substantial part of the "below the line" expenditure for the three complete financial years following the end of the war - roughly £500 million against an aggregate surplus on Ordinary Revenue Account of about £900 million in the three years.*

By the summer of 1949 the net charge of both schemes on the Exchequer had amounted to about £450 million and there were still large commitments outstanding.

Aviation

*For 1949 it was estimated that more than £160 million had still to be provided under the schemes, i.e. about one third of the £470 million estimated surplus on Revenue Account for that year, which was again expected to be almost wholly offset by "below the line" expenditure.

Aviation Insurance

The outbreak of war destroyed the bulk of civil aviation business in insurance as it left only the British Overseas Airways Corporation, the Empire Air Lines and U.S.re-insurance for the market. This loss, however, would have been made good by the insurance of aircraft for war purposes, which apparently was undertaken by the market up to the end of July 1941. But on 1st August, 20th October and 17th November in that year the Ministry of Aircraft Production issued circulars the effect of which was that all risks, including apparently fire risks, were assumed by that Ministry.

The insurance companies immediately protested. They claimed that a strong market would be a post-war national asset, and that if the market were put out of business and staffs dispersed it would be in no condition to meet post-war civil aviation demands. The country's balance of payments would suffer, as 70% of all British insurance business was in respect of risks outside the United Kingdom. The contractors would lose the technical fire prevention service supplied, and the claims service. They pointed out that the Government's practice was not consistent; ~~since~~ contractors of the Ministry of Supply were left free to insure, while the Government carried only 50% of the Ministry of War Transport's risks.

The motive of the M.A.P.was to save insurance premiums and thus secure lower contract prices. The total premiums were about £300,000 but the companies were doubtful whether so much would be saved. The Ministry said that it was the usual policy of the Government not to insure fire risks, but the companies asserted that this was not altogether correct. As regards aviation the Ministry stated that the risk was carelessness or lack of judgment by pilots on test flights; and this was so difficult to prove that they had not much chance of recovering losses from the companies.

At the beginning of February 1942 the Governor wrote to the Treasury reminding them that at the end of December 1941 they had agreed that the London market "should take a leading position

with

with regard to aviation insurance": obviously, therefore, "obstacles should not be placed in the way by the M.A.P. or anyone else". The Governor endorsed the desirability of maintaining a healthy London market "in this and every branch of insurance". On 19th February the Governor also wrote to the Board of Trade urging that "the London insurance market should not be stifled by short-sighted and parochial action on the part of Government Departments".

By April the Bank were informed by the Treasury that the M.A.P. had agreed to recommence insurance against aviation risks, though on fire insurance the position was "complicated and confused".

Nevertheless, no solution seems to have been reached until the end of August 1943, when the Bank gathered that the M.A.P. were at last ready to place aviation insurance with the market.

[B/E records carry the story no further.]

Accident Companies

In September 1940 the Governor was concerned about the doubtful credit of some of the accident companies; one of these, the Universal Insurance Company, had been in trouble and was about to be taken care of by their competitors. The fact that this company had escaped insolvency was likely, the Governor thought, to encourage other companies to do speculative business. In any case, it was the Governor's "disagreeable entrance into the Universal's situation" that had avoided a crisis (L. 2.10.40 to President of the Board of Trade).

On several occasions in 1941 the Governor again approached the Board of Trade. At first they agreed that legislation was needed, but pleaded that Parliament was too busy to pass it. Later the War Damage Insurance Bill was occupying the Board's attention. In November they claimed that the position of the companies had improved. There was still no opportunity to introduce a Bill, but the President thought that a recommendation of the Cassel Committee

of 1937

of 1937 might be implemented. This was the establishment of Advisory Committees composed of different insurance interests, who would to a large extent police themselves. The Governor remained unsatisfied, though he agreed that as a first step some licensing system might be useful.

Nothing further, however, seems to have been done.

At the outbreak of war the total resources of the Commissioners amounted to £1,087 million, of which no less than £713 million was in the two Savings Banks funds. As a result of war conditions, including the War Savings Campaign, the Savings Bank total increased greatly. It was no higher than £789 million in September 1940 after the first year of war; but the Savings Campaign only started in November 1939. Thereafter Savings Banks Funds increased rapidly; and by nearly £1,700 million between August 1939 and March 1946, an average of more than £260 million a year. The selection of investments for this large holding and the investment of the accruing increases obviously presented a serious problem. To facilitate co-operation, a weekly meeting between the Comptroller General and an Executive Director of the Bank was initiated in September 1939 (see also below under "Statistics").

General Policy

Though in the narrow sense the duty of protecting, as opposed to administering, sinking funds has practically passed from the Commissioners, their policy, where policy rather than the declared needs of a fund can be the basis of decision, is at least coloured by the broad implication of their title. Other things being equal, the effect of a transaction upon the position of the debt is a determining factor. But Savings Banks and similar funds are subject to another consideration, that of making the greatest practicable contribution by way of surplus revenue towards the limitation of calls upon the tax-payer (or in wartime the avoidance of further debt). In this respect the Commission acts as the Trustee of the tax-payer. Accordingly, after a review of the position, the Comptroller was applying himself in the earlier years following his appointment in 1938 to an improvement of the income of these funds by an exchange of medium for long-term securities. On this point the Bank at first hesitated to concur, but in fact the large holding of long-term securities acquired in the process was of material assistance to the Bank's own policy.

Ever since the amalgamation of the note issues in 1928, the Issue Department, with its large and ~~easily~~ readily variable holdings of

Government

Government stocks, had become a regular instrument for supporting new issues of Government stocks if necessary and for the purchase, in advance of the due date, of loans approaching maturity, for the refinancing or converting of which some preparation was needed. The C.R.N.D. had also assisted in such operations. During the war operations of this nature were frequent and on a large scale, and facilitated by the enormous growth in the securities of the Issue Department, due mainly to a growth in the total note issue from about £530 million in 1938 to more than two and a half times that figure in 1946. In addition the maintenance of the level of gilt-edged prices in a highly controlled and very technical market was helped by sales of long-dated and purchases of short-dated stocks for the Issue Department, whose holdings were adjusted as necessary, and convenient, by exchanges with the C.R.N.D.[x]

In the year before the war the position of Savings Banks' funds was one of comparative stability. Normally there was a steady, if slow, receipt from the Savings Banks, offset to some extent by withdrawals .....

---

[x] For details see below under "Statistics".

withdrawals at Christmas and at holiday times. There was already a wide range of investment of the funds and accruing moneys were invested chiefly in War 3½% or Conversion 3½%.

During the next three or four years two separate processes were at work. The first concerned the provision for possible war needs of cash and the disposal of the large amounts of new deposits received after the initiation of the War Savings Campaign. The second consisted of an extensive rearrangement of investments carried out as the result of a review of the position undertaken before the war with the object, as already mentioned under "General Policy", of increasing, or at least maintaining, the amount of surplus income.

The second consisted only of a shifting of investments as opportunity offered, but is worth mention here, mainly because of a difference of opinion. The Comptroller General held that for the purpose of investing these large funds medium term securities were of little use. Long-term securities for income, and short-term securities for provision against demands for cash were all that the funds required. The value of holding short-term securities other than Ways and Means Advances or Treasury Bills was open to argument since they could not in any event be sold in sufficient quantities to meet a heavy demand if it arose. The Bank urged the advantages of a well spread portfolio with emphasis on investments having a fixed maturity date. In fact the Commissioners' exchanges were never carried, for want of opportunity, to the limit contemplated by the Comptroller General; and other arrangements made, particularly with regard to new savings, were such as to maintain a considerably higher proportion of medium term securities than the Comptroller General had contemplated.

The process of providing for war needs and disposing of war savings went through a number of phases. In the first place it was simply a matter of acquiring with accruing moneys Ways and Means Advances against the withdrawals to be anticipated on the outbreak of war. On that outbreak the demand was less than had been feared. The Post Office was able to meet withdrawals out of its balance in

hand

hand and new deposits, and the Trustee Savings Banks found it only necessary to withdraw £1 million. In the next phase Ways and Means Advances were accumulated against the anticipated War Loan.

In January 1940 the Comptroller General reported that the Commissioners' Ways and Means Advances amounted to £23,450,000 of which £5,000,000 were to be reserved against a coming issue of Airways Stock; and that new moneys would be applied to the purchase of such Government Stocks as might seem most likely to maintain the stability of the market. Market conditions remained satisfactory after the conversion of 4½% Conversion Loan, and less than £1 million was expended in market support. The policy of accumulation was then resumed.

Of the 3% War Loan, issued in March 1940, the Commissioners applied for £36 million and were allotted just under £30 million. When the first series of 2½% National War Bonds (1945/47) followed in June the Commissioners at first made such weekly subscriptions as might be desirable to maintain a reasonably level total.

In October 1940 the position was further reviewed. The Comptroller General felt it necessary to be protected against possible criticism by the Public Accounts Committee of the substantial amounts of Ways and Means Advances held by the Savings Banks Funds. These were estimated to amount, by the dates of publication of the accounts, to some £64 million, including what might be regarded as a standing reserve of £6 million. The Chancellor next gave the desired Ministerial direction (with the Commissioners' approval) for a purchase of securities, including some £23 million 1% Treasury Bonds 1939/41, from the Bank and for an accumulation of Treasury Bills.

By the end of February 1941 the securities purchased from the Bank had reached £87 million, and certain small purchases and subscriptions had also been made. In addition a weekly subscription for £1 million 3% Savings Bonds 1955/65 (first issued in the previous January) was made for eleven weeks. The Commissioners still held some £70 million Ways and Means Advances and Treasury

Bills

Bills, £10 million of which was now regarded as a standing reserve. The Savings Bonds would have been an appropriate investment, but the Bank foresaw certain difficulties, and the Comptroller General was concerned because so considerable a part of the Fund earned far less than he was required to pay as interest and management charges to the Savings Banks. A solution was found early in March 1941 by the special issue in two instalments to the Commissioners of £120 million 3% National Defence Loan 1954/58. The Commissioners directed the Comptroller General, whenever a standing reserve of £50 million in Ways and Means Advances was exceeded, to ask the Treasury for a special issue of stock.

About this time a general embargo was placed upon the use of the Commissioners' funds; they were not to be used to make purchases on the market, and Savings Banks funds were not to be subscribed to "tap" loans. The latter objection was partly statistical, to avoid the double counting of "savings" so involved, the moneys used having already been counted in the Savings Bank returns.* In the former case it was considered that all available new money should be allotted to the direct assistance of war finance.

Further special issues of £120 million 3% Funding Loan 1959/69 were made in November 1941 and in June 1942, and of £120 million 3% National Defence Stock 1954/58 in December 1942. When the question arose again in April 1943 £120 million Ways and Means were converted into an annuity, repayable over twenty seven years. The adoption of this course avoided certain questions as to the position of existing stockholders in relation to contractual sinking funds in the event of a further issue of an existing stock, ~~stock~~, and placed a part of the National Debt on a self-liquidating basis, as well as providing the Commissioners with an annual cash income. It was heartily welcomed by the Commissioners, particularly upon the second and third of these grounds. Further similar annuities were issued from time to time.

The sinking fund difficulty referred to was connected with the 3% Funding Loan of 1959/69, originally issued in April 1934. As already stated two additional issues of £120 m llion each were made to the C.R.N.D., in November 1941 and June 1942.

* See also "War Savings Weeks".

The terms

The terms of the original issue provided for a semi-annual service of 2% of the amount of stock originally created, the balance after payment of interest being applied to a sinking fund. The service (and sinking fund) of the additional issues commenced from the date of issue, and after the first additional issue a firm of stock and share brokers claimed that existing holdings had been detrimentally affected by what amounted to a proportionate decrease in the amount of sinking fund available for the original issue. The Treasury pointed out to them that the C.R.N.D. did not ordinarily apply sinking funds of this kind to the purchase of stocks which they themselves held on behalf of Government funds; hence, the amount of sinking fund available for purchases in the market should become proportionately larger with each increase in stock created for the C.R.N.D. This position would continue unless and until the C.R.N.D. sold a considerable part of their holding to private investors. That was undoubtedly true, but it was thought the Government might possibly still be criticised. The difficulty could be removed in practice by applying in retrospect a sinking fund equivalent to an annual service of about 4¼% to these particular special creations.

On the point being put to the Treasury solicitor, he gave a ruling that each issue of stock was separate and had its own separate sinking fund; but with this view, which in any case was not capable of application, neither the Treasury nor the Bank could agree. By April 1943 the Treasury had come to the conclusion that the Government should refrain in future from adding to existing stocks related to specific sinking funds, or having other special features which might create difficulties of consolidation, and the arguments for the alternative of terminable annuities, already created, were strengthened.

Conversions and Redemptions

No large scale action was taken by the Commissioners to facilitate the conversion of 4½% Conversion Stock or the redemption of 1% Treasury Bonds; the large purchase of these Bonds from the Bank had been made for other reasons, and afforded in fact no

assistance

assistance to Conversion Finance. For the redemption of 5% Conversion Loan it was held that the Commissioners after having made certain purchases, could best assist by supplying the Bank with long-term securities which could be exchanged upon the market for the 5% Loan. A total of £159 million was so transferred to the Bank, most of the purchase money swelling the Ways and Means Advances of the Savings Bank Funds and ultimately being converted into an annuity. As the 2% Conversion Loan repayment approached, the Commissioners purchased in the market some £44 million, but in the early autumn of 1944 it was decided that the better course would be for the Bank to continue the Government purchasing and for the Commissioners to divert their attention to purchasing 2½% Bonds 1945/47.

At the time of the several conversions and redemptions the Commissioners' holdings were -

	£ million
4½% Conversion Loan	25.9
1% Treasury Bonds	49.9
5% Conversion Loan	59.1
2% Conversion Loan	69.5

<u>Power to facilitate conversion of local government securities</u>

Issues of securities made by Local and Harbour Authorities in connection with conversion offers were authorised to be under-written by the Treasury by Section 5 of the Public Works Loans Act 1941. Any moneys required for the redemption of securities in respect of which the offer was not accepted were to be provided by the Commissioners ~~for the Reduction of the National Debt~~ ("Local Loans Fund") on which Fund the securities taken up were to be held pending disposal in the market.

Up to the 31st December 1944 securities issued by fourteen Authorities had been taken up by the Commissioners to a total amount of £3,007,602, and all had been disposed of by sale in the market.

<u>Issues of 3% Coal Stock 1980/2016</u>

The Coal Commission, appointed under the Coal Act of 1938, were granted advances by the Bank in anticipation of the issue of Stock. In 1943 the Commission issued to the C.R.N.D. on 4th August £35 million 3% Coal Stock 1980/2016, proceeds of which were used in

part

part to rapay the Bank. A further £36½ million was issued on 16th December, ~~1944~~ again to the C.R.N.D. ~~Commissioners for the Reduction of the National Debt~~.

II. Treasury Deposit Scheme

In August 1939 a Committee under the Chairmanship of Sir F.Phillips reported (secretly) on "Control of Savings and Investment". This Committee proposed that H.M.Government should appeal to Building Societies to invest a substantial proportion (not less than 30%) of all new deposits and short-term share capital in Government Securities until such holdings should reach a reasonable proportion of liabilities. The Committee suggested the introduction of a new type of Government Security in the form of deposits from Societies through the National Debt Commissioners at interest of the same order as the £2:17: 6 per Cent paid to the Special Investment Departments of Trustee Savings Banks - depositing Societies having the right to withdraw on demand. Similar proposals were made as regards Industrial and Provident Societies, proposals which would require Parliamentary authorisation.

Later in the Autumn the Treasury and the Bank were considering the inclusion as well of Life Assurance Companies and holders of requisitioned securities; but after a good deal of discussion, the scheme was offered only to the Special Investment Departments of the Trustee Savings Banks.

Under an Act of 18th April 1918 the Commissioners had full powers of control over these banks, but instead of exercising such powers ovar the Special Investment Departments avidently praferred to ask for voluntary co-operation. The Chancellor of the Exchequer at the same time recognised the Trustee Savings Banks as an integral part of the savings movement - a status not previously accorded to them.

In a circular to the Trustee Savings Banks, dated 19th December 1939, the Commissioners suggested that all new money (i.e. the excess of new deposits over withdrawals) should be invested with H.M.Government and so made available for financing the war, and that the Trustees should similarly apply as large a part as possible of

their

their other funds. In the first category the amount to be deposited with the C.R.N.D. was to be determined quarterly and agreed with the Commissioners; withdrawals would require their approval also. Other funds could be drawn upon at short notice to meet any financial difficulty arising from the diversion of their own depositors' moneys for the purchase of new War Loans. In both cases it was to be understood that Trustees would exercise their discretion on the occasion of a new War Loan by subscribing to that loan at least to the full extent of the money standing to their credit on deposit with the Commissioners and not at the time under notice of withdrawal, less 20%.

Sums deposited were to carry interest at the rate of 2½% payable (after deduction of Income Tax) on 15th May and November and could be withdrawn upon six months' notice. Any balance not withdrawn was to be repaid twelve months after the conclusion of a Treaty of Peace.

At the time of the issue of the 3% War Loan 1955/59 (March 1940) Trustee Savings Banks already had £384,000 Treasury Deposits with the Commissioners, 80% of which would be £307,800, but the actual subscription was £353,000.

The Commissioners' scheme was subsequently extended to cover the Birmingham Municipal Savings Bank and certain foreign government funds.*

Many Trustee Savings Banks preferred to make their subscriptions to Government securities direct, £20 million being subscribed in this way. By the end of September 1944 about £40 million had pessed through the Treasury Deposit Account and £22½ million (of which the Norwegian and Dutch deposits amounted to £19 million) remained.

III. <u>Trustee Savings Banks</u>

Besides holding the deposits of the Trustee Savings Banks the Commissioners have a special responsibility in relation to them.

In the

---

*Seven Norwegian Seamen's Savings Office funds and three Dutch Government deposits. See also chapter on "Internal Borrowing" (pre-war to June 1940) in Part I.

In the ordinary course transactions are of no particular interest to the Bank of England, but in the special conditions arising out of the war there were one or two points of contact.

Emergency Withdrawals

It was clear that evacuation and other movements of population might involve difficulties for depositors in Trustee Savings Banks unless some special arrangement could be made to enable them to draw out their deposits without attending at the bank of deposit. In the absence of such arrangements large withdrawals of moneys to be held against unknown emergencies were to be anticipated. After a good deal of discussion arrangements were eventually made between the Joint Stock Banks, the Post Office Savings Bank and the Trustee Savings Banks for a mutual supply of cash to a depositor or other owner of a credit at one of the banks concerned. The Bank of England were consulted on several aspects of these negotiations, and gave their assistance in inducing the Joint Stock Banks to participate in a scheme which offered no particular advantage to them and was indeed onerous.

Two schemes were issued on 23rd August 1939.

Scheme A

During a period of one month from the date on which the Government "announced the evacuation of the civil population", a depositor might, on presenting his pass book, draw upon his account in multiples of 10s., not exceeding £3 at any one time, and £12 in all, at the office of any Trustee Savings Bank, or, in places where there was no such bank, at certain Post Offices or at any branch of a Joint Stock Bank, except in the London Postal Area, or at an office of the Bank of Scotland.

Upon encashment a receipt was to be obtained in the form of a bank draft which was payable at the Bank of England through the Clearing (and was to be charged by them to the Fund for Banks for Savings, the drafts then being handed to the C.R.N.D.).

Scheme B (not operative at Joint Stock Banks).

After the first month of "National Emergency" and at any time after the announcement of the evacuation, the depositors could obtain a supply of

drafts

drafts, each for £3, which he could cash up to £30 in all at any Trustee Savings Bank or at any Money Order Post Office.

Scheme A came into operation on the declaration of a National Emergency on 25th August 1939, and Scheme B one month afterwards. Scheme A should then have ceased but was, in fact, continued. The position was regularised by a National Debt Office circular of 27th June 1940, and both Schemes remained in force.

The facilities offered under Scheme A do not appear to have been made use of except to a trifling extent. The total amount withdrawn at Joint Stock Banks up to 20th May 1944 (end of the Trustee Savings Bank half year) was only £5,357: 6: 3.

The London Savings Bank

The Trustee Banks are much stronger in Scotland than in England, and in the north of England than in the south. In particular the Trustee Savings Bank of London had never been an institution of the importance that might be expected. There had in fact been no single London Savings Bank until the "London Savings Bank" and the "Finsbury and City of London Savings Bank" were amalgamated in May 1942.

It seemed to be accepted by those responsible for post-war saving that the importance of the Savings Banks was likely to be greater rather than less. Consequently it was most desirable that Trustee Banks should operate more extensively than had ~~ever~~ so far been the case in the south of England. It was true that to an extent this might mean some diversion of deposits from the Post Office Savings Bank, but this diversion would be of no injury to the Government and on the other hand a net increase of savings could be safely anticipated.

In these circumstances an improvement of the status of the London Savings Bank and its conversion as rapidly as ~~may~~ might be into a Bank with a number of branches really serving the needs of the inhabitants of London had a greatly increased importance. The Comptroller General approached the Governor with a request that the Bank would lend their influence in the matter. In particular he asked the Bank to establish a direct relation with the London Savings Bank by the acceptance by the Governor of a Vice-Presidency or some similar office and by the nomination of a Director of the Bank or other high officer

to be

to be an active Trustee and Manager of the Bank. The Governor felt obliged to postpone any question of his accepting an honorary office but agreed to the appointment of Mr.Nevill, Deputy Secretary of the Bank of England, as a Trustee and Manager of the London Savings Bank, in which he had already given much help to his fellow Trustees.

Between November 1941 and August 1944 the deposits increased by £6½ million, new branches were opened, and new patrons and more publicity for the Bank were secured.

In April 1944 the Agent at the Bank's Southampton Branch became an Honorary Manager of the local branch of this Savings Bank.

Growth of large deposits in the Savings Banks

One other question which came up was the growth of large deposits in the Savings Banks (both Post Office and Trustee) after the raising of the individual limit to £500 per annum. As, however, the percentage of these to total deposits appeared to be fairly stable, no change of policy seemed to be called for.

IV. Government Life Annuities

One of the means by which the Commissioners discharge their original function of reducing the National Debt is by the sale of Government Life Annuities, the purchase moneys being invested, and the securities thereby acquired (together with securities tendered, as such, in exchange for Annuities) cancelled. It had for a number of years been their view that the sale of annuities directly by themselves or through the Post Office could easily be expanded by a relatively small amount of advertisement. Mr.Norman, while Governor, was a supporter, on social as well as financial grounds, of a wide distribution of annuities, and the question whether steps should not be taken in this direction had been frequently pressed upon the Treasury.

In October 1939 the question was raised whether the Treasury should not intercept the purchase money for current use, in lieu of cancelling stock. The Comptroller General approached the Governor on the subject. The Governor raised no objection, though he hoped that the proposed raid would be kept within narrow limits. The suggestion was not pressed.

Notwithstanding

Notwithstanding ~~the difficulty caused by~~ their unpopularity because high income tax was payable on interest and capital repayments alike, the Comptroller General continued to press upon the Treasury the desirability of extending the sale of Life Annuities by, among other ways, the issue of Life Annuities in lieu of the payment of redemption moneys of maturing Government stocks and bonds. The Treasury were not attracted by this idea, their view being that an increase of annuities increased the supply of spendable money.

V. Premises

On 19th July 1944 at 9.20 a.m. a flying bomb practically destroyed the offices of the National Debt Commissioners in Old Jewry. There were two deaths and six persons were somewhat severely injured. For some months afterwards the Commission were given accommodation in the Bank of England and then moved to new premises near the Royal Exchange.

Statistics

Statistics

At the first of the weekly meetings mentioned in the opening paragraph a statistical service was inaugurated, in which the National Debt Office co-operated whole-heartedly, and which enabled the Bank to record a valuable series of figures, for the greater part on a comparable basis and extending over the whole war and for some years afterwards. The series was revised from time to time as seemed necessary or desirable, but on the whole retained its characteristics throughout*. The figures (some weekly, others monthly) enabled watch to be kept on the accumulation and investment of the Commissioners' funds and facilitated that co-operation between the Bank and the Comptroller General which was essential at a time when the Commissioners were responsible for investing so large a volume of "small" savings, and when larger savings were being absorbed in medium (and some long) term loans, which conditions often increased the difficulties of Market control for the Bank. They also afforded an independent check on Savings figures produced elsewhere and sometimes published with misleading values.

A selection of these statistics follows, illustrating the development of the Commissioners' activities in wartime.

From the outbreak of war to the end of the Financial Year 1945/6 the Commissioners' resources increased by just under £2,200 million, more than half of which were invested eventually in Terminable Annuities yielding an income of 3% for about 30 years, and over a third in short or medium term securities with maturities of 20 years or less, such as National War Bonds, Savings Bonds and Exchequer Bonds. The net investment of $6\frac{1}{2}$ years' accumulated funds was broadly as follows:-

SEPTEMBER 1939 TO MARCH 1946

£ million.

Increase in Funds		Investments (Nominal)	
Savings Banks	£1,690	Treasury Bills	£20
National Health	45	Ways & Means Advances	170
Unemployment	405	National War Bonds	544
Other	210	Exchequer Bonds	111
		Savings Bonds	126
	£2,350	3% Funding Stock	160
		Terminable Annuities (Less repayments)	1,120
Cancellations of Stock, purchases at a premium, etc.			£2,251
	160	Local Loans - £56	
		Other investments - 5	- 61
	£2,190		£2,190

*The full detail is on record in the Statistics Office.

ANNUAL INCREASE IN EACH FINANCIAL YEAR FROM 1939/40 TO 1945/46 IN PRINCIPAL FUNDS HELD BY THE NATIONAL DEBT COMMISSIONERS

£ millions

Period ended 31st March (or approximate weekly date)	P.O.S.B.	T.S.B.	National Health Insurance	Unemploy-ment	All Other*	Total Funds
Average 1937/38-1939/40	49		3	16	8	76
1940	40	10	3	24	8	85
1941	135	33	8	45	34	255
1942	177	41	9	70	32	329
1943	197	57	10	74	36	374
1944	244	71	7	73	38	433
1945	256	79	5	71	36	447
1946	293	73	7	74	24	471

*Treasury Pensions Accounts, Local Loans Fund, Irish Land Purchase Fund, Specific Sinking Funds, Life Annuities and sundry small funds.

The average increase of £76 million in 1938/40 follows one of about £50 million in 1932/35.

The average rate of increase in the last war years and the year following the end of the German war was six or seven times as great as in the immediate pre-war period.

H.M.W.

INVESTMENT OF NATIONAL DEBT COMMISSIONERS' FUNDS:
NOMINAL AMOUNTS HELD AT END OF EACH FINANCIAL YEAR FROM 1939/40 - 1945/46 AND TOTAL INCREASE OVER SIX YEARS

£ millions

Financial Year	1939/ 1940	1940/ 1941	1941/ 1942	1942/ 1943	1943/ 1944	1944/ 1945	1945/ 1946	Increase in six years
Treasury Bills	15	6	3	16	23	22	33	18
Ways & Means Advances	24	72	133	160	201	256	176	152
Total Floating	39	78	136	176	224	278	209	170
20 years or less								
British Government	165	343	449	605	599	613	876	711
Other	5	5	6	5	5	4	5	-
Long dated								
British Government	192	178	296	434	427	407	442	250
Other	106	110	109	113	182	182	180	74
Irredeemable								
British Government	229	262	293	316	292	251	208	- 21
Other	153	153	153	153	149	114	96	- 57
Total British Government	586	783	1,038	1,355	1,318	1,271	1,526	940
Other	264	268	268	271	336	300	281	17
Total Marketable (including Tr. Bills)	865	1,057	1,309	1,642	1,677	1,593	1,840	975
	~~850~~	~~1,051~~	~~1,306~~	~~1,626~~	~~1,658~~	~~1,572~~	~~1,807~~	~~957~~
Unmarketable 3% Securities) Other)	194	157	155	153	507	970	1,260	1,066
Total of All Investments	1,083	1,286	1,597	1,955	2,385	2,819	3,276	2,193

There was a Cash Balance of £6½ million on 31st March 1940: thereafter of a few hundred thousands only, only exceeding £1 million in April-June 1940.

In the autumn of 1946 the classification of securities by maturity groups was ~~raised~~ revised. It was assumed that a security bearing a rate of interest higher than 2½% would be redeemed at the earliest possible date. The new classification involved the following changes in distribution of the £3,442 million investments then held. Figures at that date should enable comparison with earlier dates to be made if desired.

End of November 1946

£ millions	Old	New
Short	461	1,277
Medium	135	1,152
Long	1,004	814
Irredeemable	312	158
Terminable Annuities	1,489	(Absorbed in one or other of earlier groups)
	3,401	3,401
Floating Debt	41	41
	3,442	3,442

P.T.O.

BLOCKS OF BRITISH GOVERNMENT SECURITIES SPECIALLY CREATED FOR THE COMMISSIONERS TO TAKE UP SAVINGS BANKS' FUNDS TEMPORARILY INVESTED IN WAYS & MEANS ADVANCES

Date of Creation	Amount of Ways & Means Advances Cancelled	Stock or Annuity		Currency of Annuity
		Name	Amount	
				Years
1941 19 Mar.	£75,000,000	3% National Defence Stock 1954/58	£75,000,000: -: -	
1 Apr.	£45,000,000	do.	£45,000,000: -: -	
19 Nov.	£120,000,000	3% Funding Stock 1959/69	£120,000,000: -: -	
1942 1 June	£120,000,000	do.	£120,000,000: -: -	
8 Dec.	£120,000,000	3% National Defence	£120,000,000: -: -	
1943 12 Apr.	£120,000,000	3% Terminable Annuities	£3,516,531:10: -	27
9 Sept.	£120,000,000	do.	£3,516,531:10: -	27
1944 24 Jan.	£120,000,000	do.	£3,516,531:10: -	27
22 May	£120,000,000	do.	£3,516,531:10: -	27
17 Aug.	£120,000,000	do.	£5,973,001: 9: -	31
1945 15 Jan.	£120,000,000	do.	£5,957,765:12: 4	31
19 Mar.	£120,000,000	do.	£5,936,483:17: -	31
10 July	£120,000,000	do.	£5,940,353: 5: 4	31
31 Dec.	£200,000,000	do.	£10,106,786: 6: 4	30