Ref. CCP.361.7
CCP.361.1
CCP.338
C.C.P. 354.1
72

CHAPTER II

Internal Borrowing, to 1940

Conversions (4½% 1940 - 1944
(2% 1943 - 1945
(5% 1944 - 1964

Defence Loans and National Loans Acts.

In July 1938 a plan was drawn up in the Bank for dealing with large Government loans in the event of war. This related to technical arrangements only and included a scheme for devolution of some of the work onto the Branches, the country being divided into nine districts - London and eight country areas, with a Bank of England Branch as the headquarters for each.

Consultations on policy do not appear in correspondence with the Treasury until February 1939. The Treasury then made a forecast of expenditure for 1939-40; the position was expected to be normal until the Autumn of 1939 when it might begin to get out of hand. A public issue of £100 million in June and July, with a further £100 million in December and January, was envisaged. In this event there would be an increase in Treasury Bills of about £100 million only; total fresh borrowing £300-£350 million. The Budget speech, however, raised requirements to £382 million, and by May the Treasury were assuming £407 million.

Two memoranda of importance, both dated 14th April 1939 and written by Sir Henry Clay, are given below in full. Paragraph (2) of the second is of particular interest as being the earliest evidence available of the Bank's desire that borrowing rates throughout any war should be kept both low and stable: hence, no apology is needed for dealing with this in some detail. These memoranda probably also influenced the setting up of the Committee on Control of Savings and Investment, whose report is summarised later, and of which Committee Sir Henry Clay was a member.

"Borrowing in War-Time

1. Legislation required

(i) to close the capital market to all issues, domestic, imperial or foreign, other than H.M.G.'s without Treasury permission: (provided for in Draft Defence

Regulation

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Regulation §98):

(ii) either -

(a) to reach a voluntary agreement with, or

(b) to require Life Insurance Offices, Building Societies, Friendly Societies, Pension Funds, and all other agencies for the collection and investment of savings

to invest their currently accruing cash resources in new Government issues:

(iii) to restrict the distribution of profits of all businesses by way of dividend or otherwise to (say) the average amount of the three preceding years; and to require the investment of the balance in new Government issues, unless permission is given by an authority to be set up for the purpose to apply it to expansion of the business: the same authority to deal with the profits of new businesses and businesses to which the three years' average is for any reason inapplicable:

(iv) to limit rates of interest paid on deposits by any institution accepting deposits.

2. Rates and Terms

Maximum rates of interest for medium and long term issues by H.M.G. to be fixed at the outset and adhered to for all subsequent issues.

No tax or duty free issues. No conversion rights.

Issue of Treasury Bills to continue as at present, but the total amount outstanding to be limited from time to time.

3. Clearing Banks - should not be pressed to subscribe to new Government issues, since such subscriptions may inflate Government resources without simultaneously contracting private resources.

4. Individual Savings

Compulsion on individuals, as distinct from institutions, to subscribe to Government issues would be

administratively

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administratively troublesome. Increased taxation will diminish opportunities for saving; there will be no new issues except Government issues; export of capital will be prohibited.

Post Office and Trustee Savings Bank and National Insurance and Pension Funds go automatically into new Government issues. These with Savings Certificates absorb most small individual savings."

"Notes on War Finance

1. Taxation will be the chief instrument relied on, not only to provide revenue but to prevent an inflationary rise in costs. Nevertheless borrowing will be inevitable, and it will be necessary to take precautions to ensure that the Government's borrowing results in a corresponding reduction in private expenditure.

H.M.G. should therefore announce that it will be necessary to reserve all the resources of the London Capital Market for national purposes. As arranged already no public issues will be made, whether for home or overseas account, except with the permission of the Treasury. The F.T.A.C.* (modified as may be necessary) will advise the Treasury on applications.

2. It will be very desirable to avoid the practice followed in the last war of giving better terms to lenders in successive issues. Something can again be done by warning the country beforehand; in announcing that H.M.G. intend to monopolise the new issue market, it would be well to announce also that H.M.G. intends, without compulsion if possible but by compulsion if necessary, to maintain throughout the war the terms and rate at which the first loan is issued.

The rate could be either the rate ruling before the crisis, or the 3½% at which the largest outstanding issue was made. The recipients of this interest will have to pay income and sur-tax at war rates. No tax-free stock should be issued.

3. A good

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*Financial Transactions Advisory Committee (later Capital Issues Committee).

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3. A good deal can be done <u>without compulsion</u> to regulate conditions in the capital market in the interest of Government issues, e.g.:-
   (a) the issue of securities in a form and by methods which will attract small savings, and the diversion to Government issues of small savings at present going to other purposes (e.g.Building Society new money):
   (b) assessment of insurance companies:
   (c) diversion to Government issues of savings now invested in Unit Trust certificates:
   (d) restriction of the rates which Building Societies and other savings institutions may pay on deposits and shares.
4. If <u>compulsion</u> is found necessary, it could be applied first to profits on the German model, distribution of profits being limited to some fraction of the pre-war amount and the balance invested compulsorily in War Loan. It would be necessary to create machinery for dealing with applications to invest profits in additions to plant or stock.
5. Ways and Means borrowing should be avoided. Treasury Bills should be funded whenever the total outstanding approaches (?) 1,000 million.
6. The subscription by the Clearing Banks to new Government issues should be avoided since it is a means of inflating Government resources without simultaneously contracting private resources.
7. Should not some approach be made, by or on behalf of H.M.G., to Washington to ascertain -
   (a) whether and in what forms and conditions we should be able to borrow in U.S.A.if we were at war:
   (b) how we could market dollar securities taken over under war powers from British subjects:
   (c) to what extent we shall be free to buy munitions and stores in U.S.A."

Further

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Further versions of the memorandum on "Borrowing In War-Time" were prepared (by Sir Henry Clay), but on 26th April it was sent by the Governor to the Chancellor and the Treasury practically unchanged from the original, except that it now proposed to deal with Life Insurance Offices, Building Societies, etc.by agreement, keeping compulsion in reserve.

On 17th and 18th April articles appeared in the "Times" by Lord (then Mr.J.M.) Keynes;* the second one reinforcing the Bank's insistence on low and stable rates (though there does not seem to have been any communication between him and the Bank on the subject):

> "......There is no object in offering higher rates of interest for loans than will be appropriate when the emergency is over and restrictions can be removed. The best interests both of the Treasury and the public will be served if stability and continuity of interest rates is preserved between the emergency and ordinary times. What object is there in offering an exceptionally high rate of interest? If private investment competes for limited physical resources, Government priorities and a control of new issues are the appropriate remedy. On the other hand, the offer of a higher rate will overburden the Exchequer and disturb the national finances for a generation to come; and in the immediate present it will cause a ruinous depreciation to financial institutions.
>
> It would be well for the Chancellor of the Exchequer to announce that in no circumstances will he offer loans carrying a rate of interest in excess of 2½ per cent. In the first instance a large addition to the volume of Treasury bills will be right and probably inevitable. Thereafter loans of varying maturities might be offered with rates of interest rising according to maturity from ½ to 2½ per cent."

The articles were summarised by the Bank, and one comment made was that 2½% as a long-term rate was too low.

On 26th April a memorandum by the Chief Cashier suggested that there should be two securities, both to be 'on tap', one medium-term and the other irredemable or long-term. An irredeemable loan

might

*Created a baron 11th June 1942.

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might yield 3½% and a medium-term loan 3% (current rates being about ¼% above these rates): such yields should be maxima. He also proposed that the commission to bankers and brokers (which cost £5 million in the last war) should be reduced from 1/8th to 1/16th per cent.

Two days later a letter from Lord Keynes appeared in the "Times", in which he again urged 2½%, but this time "as a maximum for maturities up to 15 years" (3½% War Stock 1952 or after gave a running yield of £3:16: 9 at this date). And again in the "Times" of 5th May he was advocating low rates. "To begin with the Treasury should finance itself by Treasury Bills; as deposits at the banks increased there would sooner or later be an urge to invest, and the price of securities would rise; when this process was well advanced the Treasury could launch new loans.....when we are pressing against the limit of the available supply of specialised resources there can be no efficient method of control except through a system of priorities for Government and other essential services."

Lord Keynes was not at this time at the Treasury, but it is more than likely that he communicated his ideas to them directly, and possibly before they received the Bank memorandum on 26th April. In any case the Treasury was aware of them, as will be seen in their reply to the Bank.

A memorandum of 17th May, also by Sir Henry Clay, lays emphasis on compulsory loans, a new proposal.* Not unnaturally, this document and the two quoted above have much in common with the memoranda in the Appendix to the previous chapter: they were all written within a few days of one another.

"1 The financial aspect of the Defence Programme has been completely changed.

	£ million
Original programme (1937-1942)	1,500 of which 400 to be borrowed.
Revised "	2,500 " " 1,400 to be borrowed. (= after this year 400 per annum long)

N.B. This makes no provision for Conscription, loans to allies, subsidies to Empire, further additions to commodities, or increase in civil expenditure, but assumes taxation at present level.

2. In

*This memorandum (because of its concluding paragraph) is regarded by the Treasury as one of the proximate causes of the appointment of Lord Stamp, with Sir Henry Clay and Mr. Henderson, to conduct an Economic Survey.

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2. In the past year Government net new long-term borrowing was kept down to 30 and Treasury Bills in the market reduced by 156 by the realisation of 277 gold.

Any further loss of gold would deplete an essential war-reserve and should be resisted. Treasury Bills can be increased by 150-200, but any further increase would be inflationary.

Long-term borrowing, therefore, will amount this year to 200-250 and in succeeding years to 400 or more per annum.

3. Borrowing on this scale is impossible without legal compulsion. Even with compulsion on lenders, it will be necessary to prohibit all other capital investment - new building, Local Authorities and Public Utilities, extensions of industrial plant (except for armaments), transport facilities, overseas investment.

4. The danger of a serious rise in costs and prices cannot be removed by financial measures alone.

Government expenditure is concentrated on certain classes of labour (e.g.skilled engineering labour) and certain supplies (e.g. steel sheets, leather). The pressure on these limited supplies will force up prices and wages and provoke demands for similar advances elsewhere. Every bottle-neck is a potential focus of inflation.

Specific legal measures will therefore be necessary to curtail private expenditure on labour, equipment and supplies which are essential to the Government's programme.

5. The increase in private incomes due to Government expenditure will not solve the financial problem. Unless the recipients are prevented by taxation or other means they will spend it on their own purposes and increase the difficulty of the Government's industrial problem. Nor will the 1,600,000 registered unemployed solve the industrial problem without special retraining and mobilisation, since they consist largely of persons who are unsuited for the kinds of production which the Government requires or are tied to industries and localities in which they are not available for Government requirements.

Available

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Available labour supplies will be further depleted by military service.

6. The country's resources, financial and industrial, are not unlimited and will not meet all the demands that are being made upon them. A systematic and expert review of all expenditure, public and private, and of the resources available to meet it, is needed. The examination of competing demands calls for a special organisation equipped with a knowledge of available resources and with legislative powers to enforce priorities. Such an organisation* should be set up before any new demands for expenditure are granted."

The Governor sent this memorandum to the Treasury on 22nd May.

Whoever is entitled to the credit of first calling the attention of the Government to the need for low and stable rates on war-time borrowing, it fell to the Bank to fight for the adoption of this policy, at first resisted by the Treasury. The following note, dated 19th May, was written by Sir F.Phillips in reply to the Bank's memorandum of 26th April.

"1. Legislation required

(i) No comments.

(ii) The following figures for average annual increases (1935, 1936 and 1937, except where otherwise stated) give some idea of the amounts involved:-

Life

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*c.f.specific recommendations in Sir Henry Clay's memoranda of 27th April and 15th May (Appendices I(.B) and I(C) to previous chapter).

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	£ million
Life Insurance Companies (U.K.Companies only)*	+ 41
Industrial Assurance	+ 22
Collecting Societies	+ 5
Building Societies (share capital and deposits)	+ 48
Friendly Societies (increase in total funds)	+ 6ø
Industrial & Provident Societies	+ 18†
Trade Unions	+ 2ø
Pension Funds & Railway Savings Bank	+ 7ø

This gives a total of roughly £150 millions, about one-third of the annual savings of the country, but of course some fairly substantial fraction of this amount would in any circumstances get invested in Government securities.

Either alternative, voluntary agreement or compulsion by legislation, presents difficulties. In many cases, e.g. Friendly Societies, Pension Funds and other small similar groups, and of course Building Societies, it will be difficult to find any controlling authority which is 100% representative and without compulsion there is a strong chance, in some cases almost a certainty, of individual bodies refusing to recognise or breaking away from agreements. At the same time the legislation might be pretty complicated because we should have to make provision for various legitimate charges against currently accruing cash resources. We should also have to take power to interfere with rates of benefit, such as sums payable on death, amounts of pension, etc. because the rates of earnings hitherto assumed by the bodies concerned might be reduced.

How to define "all other agencies" would need consideration.

Building Societies present a special problem. The present proposal assumes that they would no longer be lending anything for house purchase or construction. That can only be approximately correct? The expansion or movement of industry during the war may raise housing problems in which the assistance of Building Societies would be valuable.

Further

*i.e. total income (premiums, interest on investments etc.) less outgoings (claims paid, commission, administrstive expenses and profits, but excluding a miscellaneous item of about £1 million which includes transfer to reserves).

ø average of increases in 1934, 1935, and 1936.

† increase in 1936.

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Further criticisms

(a) The group is by no means homogeneous. Thus, life assurance companies will always have some funds to invest because people want to insure their lives and having insured cannot in general withdraw. But people do not put their money into Building Societies because they want to or must do it. They invest in Building Societies because the Societies pay more than the normal gilt edged rate of interest. If the Societies are forbidden to do this (under iv) or if, what comes to the same thing, we compel the Societies to invest in gilt edged so that they can't afford to pay more than gilt edged rate the public will not invest in Building Societies and the £48 millions won't be there. The public might invest the same money direct in War Loan but undoubtedly a certain proportion would not get saved or invested at all. But the trouble goes much deeper for people can withdraw deposits and after a time share capital. The finance of Building Societies might become hopelessly involved. Their shares will in any case be unpopular investments when property is exposed to great risks.

(b) The "new Government issues" must in fact be open for investment when the saving organisation or the business concern has money to invest? It would be necessary to keep some special securities short or medium on tap, and in the case of a short, to provide for its absorption in the next medium or long term issue. The liquidation of the securities after the crisis has passed will need to be considered in advance.

Conclusion

Separate investigations will be needed (i) as regards insurance companies on which the Government Actuary should be able to help and (ii) as regards building societies which we must now take up. The other heads can be covered later. Different arrangements may be needed in different cases. Compulsion will be inevitable in the end.

(iii) Businesses. Undistributed profits are a second main source of supply of savings. Any restriction of distribution of

profits

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profits will be much more difficult in the case of private firms and partnerships than in the case of public companies. Restriction would be required on amounts to be placed to reserve or devoted to capital expenditure out of profits. It will be necessary to ask the Inland Revenue to study these problems in the first place: no doubt they will have to be made to work in with excess profits taxation.

(iv) Rates permissible on Deposits. This is all right so far as it goes, but it would also have to be applied to bodies, other than "institutions", who accept deposits or loans repayable at short notice which are in the nature of deposits: e.g.loan capital of cotton mills; deposits taken by Cooperative Societies and no doubt used to finance their trade. Local authorities' mortgages will have to be brought in, which suggests that the limitation should not be confined to deposits but to all short loans of defined types. The Ministry of Health should be asked to prepare a detailed and up-to-date study of local authority borrowing from the public on mortgages.

If any of the said institutions lend for any purpose the funds raised by deposits, should not the rate they charge on such loans be limited? e.g.Building Societies, in so far as they continue to make loans: see under (ii).

2. Rates and terms

The principle of fixing rates of interest in advance for the whole war commends itself to Mr.Keynes and may find certain support in Parliament and with the public, but it is full of peril. The idea would be no doubt to fix rates at somewhere near the immediate pre-war or pre-panic level in the hope this would remove one possible cause - namely, the anticipation of higher war rates - of depression in the gilt-edged market. Limitation of dividends will also remove an incentive to switch from gilt-edged to industrials, etc., and it would no doubt be hoped that the absence of obvious alternative investments would drive new money into gilt edged. Nevertheless the thing is just bluff. In the last resort we have got to get the money. We cannot be sure of raising all

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we want by taxation and forced loans. Thus if the saver prefers to give up saving rather than accept a low rate of interest we can do nothing but raise the rate of interest. Even if this were not so, it is uhtrue that he has no option but to invest in gilt edged: he has the option of holding his money in bank deposits or in notes. He may be satisfied that he cannot find a better investment than gilt edged at the moment but he will think he can later on get a much better investment and will wait for that. Any misfortune in war or undue prolongation of war would tend to dry up investment.

Again the idea that we can defend ourselves against inflation without retaining power to raise interest rates, long, medium and short, is quite unproved. Keynes of course thinks it can be done by suitable non-monetary controls and is not embarrassed by this consideration but we surely are.

Further, it should be made clear what happens to existing Government securities. Are we to have minimum prices for all gilt-edged securities all through the war? Otherwise how do you direct the flow of money to new securities? And what happens to the holdings of gilt-edged by overseas persons, e.g. the Irish?

It is agreed that we should avoid taxation privileges and conversion rights (except for Savings Certificates and foreign subscribers to British loans).

The alternative to the present issue of Treasury Bills by tender would be to have them "on tap" at a rate fixed from time to time. A tender system might well be difficult for the market to work to, at any rate in the early period of the war, when our need of funds was greatly increasing to a scale of which we had never had experience. We ought to be able to control short money rates just as much as medium and long term rates: under a tender system the Bank might do something indirectly towards such control, but the "tap" system would be much simpler.

I do not see any point in the suggestion that the total amount of Treasury Bills outstanding should be limited from time to time if this means publicity.

....

3. Clearing Banks

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3. Clearing Banks

I would agree that the Banks should not be pressed to subscribe at the outset, but would not exclude the possibility later on when war-time controls have got fully into working order and the disposal of private resources will be very much circumscribed. It may be necessary to take loose cash away from the Banks as in the last war.

4. Individual savings

Compulsion on individual savings as such would certainly be impracticable, because we could not assess every individual's excess of income over expenditure. The only way of getting at the individual would be to say that in addition to paying his income tax he should, according to some such test as his total income, subscribe at the same time a certain amount to Government issues. This might not be impracticable if confined to incomes over a reasonable amount; but it is a possibility that might be left for a later, rather than an earlier, stage in the war. The only successful operations of this type have been very sharp arbitrary affairs e.g. people may be compelled to deposit all their bank notes under pain of cancellation and the notes may be returned duly stamped, a portion being retained as a forced loan to the Government.

The note may not be correct in stating that "there will be no new issues except Government issues". Some essential private enterprises will need new money (as well as some Local Authorities), although the amounts of the issues, as well as their objects, will have to be controlled in the light of the capital likely to be available and the Government's needs."

No written rejoinder seems to have been made to this. Some memoranda by Bank officials indicate that voluntary methods should be tried before compulsion, so far as borrowing was concerned (though there should perhaps be a compulsory limitation on the distribution of profits and compulsory investment of the balance in Government loans). Sir Henry Clay thought advancing rates might have to come in a prolonged war but that the Government should not

act

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act on this assumption.*

Most of the points made concerned immediate procedure, and Mr.Cobbold (6th June) wanted a small committee set up with one representative each from the Treasury, Board of Trade, Inland Revenue and Bank of England "with possibly one or two outsiders". This may have been the occasion for the appointment of the Committee on Control of Savings and Investment by the Chancellor (30th June), and perhaps of its companion, the Small Savings Committee. (See below)

The discussion of loan policy was continued by conversations at the Treasury by the Deputy Governor and others, who strongly urged the maintenance of low rates.

Two more articles by Lord Keynes now appeared in the "Times" on 24th and 25th July, expanding and reinforcing the arguments he had already put forward, and incidentally pointing out that during Mr.Roosevelt's Presidency the National Debt of the U.S.A.had been nearly doubled in six years, while the rates of interest on U.S. gilt-edged loans of all maturities had steadily fallen until they had reached the lowest figure ever recorded.

Here, the first loans might be three to five-year bonds, as involving a smaller sacrifice of liquidity, and the terms current on the average of the years 1935-7 "might offer a rough and ready rule for determining the suitable starting point". Perhaps the most important factor in the whole situation would be the impression the Treasury itself created concerning its objective and future policy. The Treasury must not give the impression of being in a hurry, or defeatist.

At the end of July Sir F.Phillips was thinking of a loan in November; the Bank in March appear to have favoured an issue in June

*A consideration which must have been in the minds of the Bank and the Treasury at this time, and later when the 3% Defence Bonds and 3% War Loan were being discussed, was the poor response to the 7 to 9-year issue of 2½% National Defence Bonds in April 1937 and of the 16 to 20-year 3% National Defence Bonds in June 1938. Of the former loan of £100 million the Issue Dept.had to take up no less than £84½ million, the Banking Dept. £5 million and the C.R.N.D. £5 million. The 1938 loan was much more successful but the Issue Dept.absorbed £16 million and the C.R.N.D. £10 million out of a total of £80 million.

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June or July, say, £200 million of 3% National Defence Bonds (of which there were about £80 million outstanding). If, Sir Frederick wrote, an appeal to Insurance companies, Building Societies and business generally were to be made on a voluntary basis it should not be left to a later date. Notice of the issue, though not of the terms, usually came five or six days before, but this he suggested would not be practicable. "The loan should be got out the morning after the Chancellor's announcement, and the lists for market loans should be closed in not more than six days", the campaign for small savings continuing for three or six months.

The Bank (18th August) saw no particular reason why five or six days' notice should not be given; and the lists might remain open for as long as fourteen days. The amount offered should be unlimited. The date of the issue must depend on market conditions - which would be largely determined by political events. At the moment the capital market was hardly functioning.

Both Committees on Savings reported early in August. The Small Savings Committee had the definite task of contriving a specific issue of Savings Certificates and a short-term bond, and were successful in both objectives. The other Committee were concerned more with general policy before or at the beginning of a war; and their recommendations, though by no means ignored, were only in one minor particular carried out in the ways proposed. A summary of this Committee's report is in place here, but as the Small Savings activities continued through several of the war years a description of them is reserved for a later section.

Committee on Control of Savings and Investment

Sir F.Phillips	-	Treasury (Chairman)
Sir Henry Clay*	-	Bank of England
Sir Cornelius Gregg**		Inland Revenue
Sir George Ismay***	-	Post Office
Professor D.H.Robertson		
Mr.E.A.Shillito	-	Treasury (Secretary)

At its first meeting (7th July 1939) the Committee had before it for information the Bank's memorandum on "Borrowing

in

*Appointment agreed by the Governor on 30th June.
**Created a K.C.B. in 1944.
***Created a K.B.E. in 1947.

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in War-Time" (14th April) and Sir F.Phillips' rejoinder of 19th May.

The Committee estimated the output of the capital goods industries in 1938 at roughly £940 million, of which (say) £220 millions was for Defence purposes; and put total savings in 1937-38 available for the capital goods industries at £1,055 millions, made up as follows:-

		£ million
Depreciation allowances		£300
Out of Taxation and rates -		
On armaments and roads	£155	
Central and local Government Sinking funds	105	260
Voluntary savings		450
Deficit on balance of payments		45
		£1,055

a total "appreciably in excess of the probable output of capital goods for the same year, which may point to a certain absorption of savings in consumption and business losses". But "great uncertainty attaches to the estimates of some of the bigger items".

As regards Organised Savings the Committee left aside institutions which already invested their resources in Government securities and dealt with -

	£ million Total Assets	Government Securities
Building Societies	£760	£7½
Co-operative Movement	£270	£90
Ordinary Life Offices) Industrial Life Offices)	£1,655	£360

Building Societies

These societies were virtually engaged in deposit banking without either maintaining a cash reserve or providing themselves with an adequate basis of non-withdrawable capital. The bulk of their funds was invested in mortgages, "a most illiquid type of investment". Their deposits in 1938 were £155 millions, and shares (withdrawable) £548 millions. Their funds increased annually by about £50 millions.

In the

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In the Committee's view, not less than, say, 30% of all new deposits and share capital withdrawable at a year's notice or less should be placed in Government securities until these formed, say, one-tenth of such liabilities. This would mean the purchase of some £75 millions Government securities in two years. Their capital structure should be altered, as a long-term solution of their problems. A new form of Government security might be offered to the Societies, namely an acceptance of deposits through the National Debt Commissioners, on which interest of £2:17: 6, the rate paid to Trustee Savings Banks, might be paid, withdrawals to be on demand. The threat of compulsion would be held in reserve. The same offer should be made to Industrial and Provident Societies and similar institutions.

Life Insurance Societies

The total assets of companies established in Great Britain were, in 1937, £1,655 millions of which £358 millions, or about 22%, were British Government securities. In 1913 only 1% had been so held, but in 1922, 35%.

Companies established overseas were believed to hold sufficient reserves of British Government securities.

The companies should invest the net amount of the annual growth of their funds in Government securities, at least until these formed one-third of their total assets. Arguments for compulsion were examined and rejected in favour of a "gentleman's agreement" (with the possibility of legislation in reserve). Compulsion held a stronger case with overseas companies operating in the United Kingdom, but might provoke retaliation. In connection with any measures for protecting exchange reserves, however, it should be arranged that these companies issued sterling policies only.

Companies might have to curtail bonuses and raise premiums, but the Government should resist any claims for compensation should Government securities depreciate in value.

Another possibility (in war time) would be for claims and surrender payments to be met partly in Government securities instead of entirely in cash.

Securities

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Securities maturing between 10 and 15 years and between 40 and 45 years would be the types likely to appeal to the companies.

The approach to the companies should be by the Bank of England ~~to~~ through their Associations.

The Association of Industrial Assurance Companies and Collecting Friendly Societies and the National Conference of Friendly Societies should be asked by the Chancellor to increase their holdings of Government securities. Other institutions of a similar nature might be asked to co-operate by means of a question and answer in the House of Commons.

Undistributed Profits

These accounted for £200 millions out of the £450 millions of Voluntary Savings shown above. In so far as they arose out of Government contracts "their investment in the business applies them at the point of maximum advantage". Hence the Government should only ask for a restriction of dividends (to some such basis as that used for the Armaments Profits Duty), announcing that compulsion would follow if the response to the appeal were not satisfactory. Capital expenditure, however, should be restricted to Government work, and any balance available should be placed in Government securities - again compulsion could be resorted to if this were not done.

Private Savings of Individuals

In the Classification of All Property for assessment to Estate Duty for 1937-8, cash and bank balances accounted for nearly £60 millions out of a total of £595 million, or 10%. The Committee did not consider a forced loan, which they thought would be appropriate only in war time and even then, though preferable to a capital levy, would have few advantages over an increase in taxation. Short or medium-term securities might be offered, and security against depreciation of capital and ability to realise on demand or at short notice would be the chief requisites. Funding could come later. If holders of idle balances could not be persuaded to buy Government securities and did not spend these funds, then borrowing from the Banks to the same extent would not be inflationary.

On the

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On the spending side there should be a full control over Capital Issues; and as it would be awkward if the banks made advances in expectation of a capital issue which was refused, the Bank of England should take the Joint Stock Banks into consultation to ensure that their policy would harmonise with that of the Capital Issues Committee. Expenditure by public authorities should be restricted to Defence, etc., projects and "political export credits".* The expenditure of Local Authorities also could perhaps be restricted.

Control of the operations of Unit Trusts would be necessary: like Insurance Offices and Building Societies they might be asked to put all new money into Government securities until these reached one-third of their portfolio. In some cases legislation might be necessary to empower trustees prevented from doing so by the terms of their trusts (e.g., Unit Trusts) to take up Government securities.

On physical controls (e.g., licences for new Cinemas, Hotels, etc.) no opinion was expressed, except that a combination of financial and physical controls would obviously be more effective than either separately. Nothing was said about the funds of the Co-operatives.

Various developments followed the issue of this Report.

As regards the Life Assurance Offices a first approach in general terms was made by the Governor in letters dated 5th March 1940 to the Life Offices' Association and Associated Scottish Life Offices. These were followed up as soon as it was seen how poor a response the Companies had made to the 3% War Loan, to which they subscribed only £14½ million. Enquiries then made led to the information that the total funds of the Companies were about £1,500 million, that the pre-war annual increase was about £65 million, but that this would probably fall to £55 million in the war years. Other funds available (for reinvestment) might perhaps be £30 million. Another and closer estimate gave £30 million as "surplus" cash in hand in June 1940, with another £30/35 million accruing up to March 1941

*Probably credits guaranteed by H.M.G. for exports to Russia and Turkey. Realisation of the necessity for a general encouragement of exports had yet to come.

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1941. At the request of the Chairman of the British Insurance Association the Governor wrote to him on 27th June, and a copy of the letter was sent by the Chairman to all members of his Association. Not all Companies, however, were members of the Association, and there were other small difficulties to overcome, such as existing commitments procedure where Treasury sanction had been given to borrowings, definition of surplus funds, etc. In October the British Insurance Association suggested that, when granting permission for loans to be raised, the Treasury should stipulate that they should not be obtained from Insurance Companies; but the Governor thought this would be wrong in principle and possibly ineffective in practice.

The difficulties facing the Companies when asked to accept a relatively low rate of interest were appreciated by the Bank, and the Governor indeed told the Association early in January 1941 that the 3% Savings Bonds had been designed particularly to meet their needs, since it was realised that the continuance of loans on a 2 or 2½% basis only would have jeopardised the fulfilment of their long-term commitments.

Shortly afterwards (17th January, 1941) a sub-committee of the Association drew up and agreed with the Bank more specific recommendations for the guidance of members. These were circulated and the Treasury were given a copy:

"All "new money", which may be defined as the increase in Home Funds measured by the difference between normal income and normal outgo as shewn in Revenue Accounts, should be used to subscribe to New War Loans, and such investments should not be sold or "switched" whilst the issues are still on tap.

Offices should invest a substantial proportion of the proceeds from redemption of Stock Exchange Securities, loans and mortgages, and requisitioned securities, in New War Loans. The sale of a security shortly before the date of maturity should be regarded as a redemption.

Offices should maintain the aggregate of their holdings of British Government Securities at not less than the amount held prior to June 1940, plus such amounts of New War Loan as

they

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they subscribe for.

Subject to the foregoing:-

Offices may change from one investment to another but it is not desirable that British Government Securities should be sold in order to make investments in some other form of Security except as temporary transactions and on the understanding that the Stocks sold will be replaced in due course.

Existing Corporation Mortgages and Building Society Deposits may be renewed from time to time and need not be treated as maturing.........

The transaction of House Purchase Loan business may be continued.

Other Mortgages may be granted.

The spirit of the undertaking given in June last was that the whole-hearted financial support of the Offices should be given to the Government, and it is in this spirit that the foregoing recommendations should be interpreted."

In May 1941 it appears that the Companies had been subjected to a certain amount of criticism for not having supported the provincial War Weapons Week in centres where they had branches. They felt, therefore, that some publicity should be given to their efforts; and it was arranged through the Bank that the Chancellor should refer to them when inaugurating the London War Weapons Week at the Mansion House on 16th May. He said:

"The institutions which control large funds have played their part finely in the regular investment of their surpluses in new Government issues. For instance, I recall that insurance companies, who in pre-war days held over £350,000,000 of British Government securities and into whose hands come annually the savings of many citizens in the form of insurance premiums, have regularly invested their surplus in our new issues, and this has already increased our loan receipts by a figure, I am told, in the neighbourhood of £100,000,000."

During the war the holdings of British Government

Securities

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Securities by Life Companies established in Great Britain increased by £600 million - from £320 million in 1939 to £920 million in 1945.*

Building Societies greatly increased both their holdings of Government securities and the proportion of these to their total assets. Total Assets (end of year figures) fell from £759 million in 1938 to £749 million in 1941, and then recovered to £824 million in 1945. British Government Securities at the same dates were (under) £11 million, £24 million and £116 million, their proportion thus rising from 1.4% to 14%.**

Treasury Deposit Scheme

The Committee's suggestion that various institutions should be invited to make special deposits with the C.R.N.D.was taken up in the form of a circular letter (19th December 1939). The offer was at first confined to the Special Investment Department of the Trustee Savings Banks and the Birmingham Municipal Bank, but was later extended to certain foreign governments† who became quite the most active participants during the war. By 31st March 1945 £30 million had been collected through the scheme; a year later this figure had been reduced to £21 million. Another £9 million had been deposited, but withdrawals (of which £8 million for subscription to Government loans) amounted to £18 million. The following are balances outstanding⊙ on 31st March each year:

Trustee Savings Banks

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*Statistics Office (based on confidential returns from Board of Trade).

**Statistics Office (confidential returns from Registrar of Friendly Societies).

†Norwegian and Netherlands (mainly naval savings).

⊙ Figures supplied confidentially by National Debt Office.

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(£000's)	Trustee Savings Banks (S.I.D.)	Birmingham Municipal Bank	Foreign Governments	Total
1940	400	225	-	625
1941	485	1,500	951	2,936
1942	675	-	4,112	4,787
1943	1,737	-	7,427	9,164
1944	2,037	500	14,887	17,424
1945	3,757	3,500	22,851	30,108
1946	3,586	1,016*	16,372	20,974
1947	5,141	1,566*	3,000	9,717
1948	5,753	2,893*	-	8,646

*Includes also small amounts deposited by other municipal banks.
(All smallish affairs e.g. Walthamstow; but run by municipalities). The total involved during the 3 years was never more than £200,000.)

3% War Loan 1955/59

The Government's expenditure did not increase very rapidly on the outbreak of war, which indeed at first produced an increase in unemployment. Requirements were met by raising the weekly offering of Treasury Bills, offering through the Post Office 3% Defence Bonds (on tap from the 22nd November 1939) and by sales of National Savings Certificates; and the need for a market issue did not arise as early as had at first been expected. Consideration of some such issue had started in July and began to crystallize in mid-September with the idea of floating a loan early in December. Two months later the beginning of January was the date envisaged for the issue, but by the third week in January the Exchequer estimates showed a surplus up to the middle of March and perhaps longer, as expenditure was thought to be over-estimated. The Bank, therefore, shifted their date to March or April. The prospectus of the 3% War Loan was dated 5th March, and lists were opened on the 12th.

The Bank had first thought in terms of an unlimited issue, with subscription kept open for three weeks or more. They appear to

have

have changed their mind about 23rd January to an issue of limited amount, and the lists were in fact open for only two days. This arrangement, and the fact that the issue came early in March instead of in April (which would have been rather more appropriate in view of the needs of the Exchequer), seem to have been due to forebodings as early as February as to the effect on the French of a German attack in the West (which actually came on 10th May).

In supporting a limited issue the Chief Cashier pointed out that there would be no need to turn away "good" money as all small amounts could be allotted in full. Several moderate-sized issues would be easier to deal with at their due dates than a few big ones. A medium-term loan of, say, £200 to 250 millions was proposed.

An interest rate of 3% had always been contemplated, but the maturity date in the case of an unlimited issue was originally suggested as 1948/50. By the middle of February this had been altered to 1959/62. The Bank's brokers, however, proposed 1956/59, and with the alteration of the first date to 1955 this was accepted. The price of issue had been thought of as 99½%, perhaps more often as 100%, and the latter figure was chosen.

As with ~~several~~ other British Government Loans there was a provision that interest should be exempt from United Kingdom taxation if the security were in the beneficial ownership of persons not ordinarily resident in the United Kingdom.

With regard to provisions of minor importance, the Bank were anxious that registered stock only should be offered, though possibly with the right later to exchange into bearer bonds. It appeared, however, that the National Debt Act of 1870 required the issue of inscribed stock, and eventually the usual options of inscribed and bearer* were offered as well as registered stock. The Bank also pressed for full payment on application† but this was modified

*The passing of the National Loans (No.2) Act 1940, however, forestalled the issue of the Bearer Bonds and holders of Bond Certificates to Bearer were given notice on 3rd June to lodge their Bond Certificates with the Bank for registration.

†An analysis of the 5% War Loan, 4% Funding Loan and 4% Victory Bonds in the last war showed that instalment applications were 27%, 15% and 28%, respectively, of cash applications, so that full payment was unlikely to discourage the small investor.

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modified to 10% on application and 90% about a month after the subscription list closed. A discount of 1% per annum was allowed on prepayment of the 90%.[φ] The Bank wished no conversion rights to be attached to the issue, and none were offered.

In the matter of the commission to be paid to bankers and stockbrokers the Bank considered 1/16th% adequate, but changed their mind in February and suggested 1/8th% in view of the fact that the issue was to be of a longer term than originally contemplated. The amount of the loan was eventually fixed at £300 million, as the Government brokers thought this figure possible for a longish term issue. It was, however, a larger sum than the Treasury required at the time. As the loan was for a limited amount applications were received at the Bank only. Had no limit been fixed, and the lists been kept open for some time, other banks would have been allowed to receive subscriptions and probably to keep the money for seven days (as compared with fifteen days in the last war).

A good deal of attention was given to publicity, and representatives of the Ministry of Information were advised by the Bank to co-ordinate their activities with those of the National Savings Committee and the Post Office. There was talk of the Governor attending a press conference at the Ministry, but this was dropped, apparently because the Chancellor wished no publicity to be given to the meeting.

On the day before the issue of the prospectus the Chancellor made a statement in the House, giving the main particulars of the Loan. He pointed out that borrowing so far had been for short periods[†] and that the Savings Campaign had been very successful. In fact, about £100 million had been produced in 100 days from 22nd November.

Although

[φ] About £171½ million was paid in full under discount.

[†] The volume of Treasury Bills was increased, as before the war it had been below normal.

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Although the Loan was not as unsuccessful as the first loan offered in the last war (the $3\frac{1}{2}\%$ War Loan 1925/28) it was necessary for the Issue Department to take up no less than £115,685,100. Including the Bank's application, total applications through the Bank came to £347,845,400. Applications under £50,000 were allotted in full, and the remainder received about $81\frac{1}{2}\%$. An analysis of the allotments (excluding Issue Department) follows:-

3% War Loan 1955/59

Allotments of £41,000 and upwards

(Approximate totals in millions)

Banks, in own names	£17.2
Savings Banks	.7
Insurance Companies	14.5
Overseas	.2
Building and Friendly Societies and the like	3.5
C.R.N.D.	29.7
Firms, etc.	39.2
Individuals	4.2
	£109.2
Allotments up to £41,000	
Individuals and Firms	75.0
	£184.2

To the extent that applications were made in the names of nominees or brokers "Firms, etc." and "Individuals" may have been inflated at the expense of the first five items. There were 75,696 applications, of which 66,100 were for amounts not over £1,000, about five-sixths of these being between £100 and £500; the response of the comparatively small investor, therefore, was good. The Treasury appear to have expected to receive a good deal on foreign account: actually the amount subscribed from overseas was trifling.*

About $1\frac{3}{4}$ million prospectuses and application forms were printed.

As in previous loans, a Belfast Register (Bank of Ireland)

was

* C.f. Overseas subscriptions to "tap" loans - not much less than 1% of the total.

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was opened, a provision to which the Government of Northern Ireland attached importance, as they were anxious to benefit through Death Duties. There was a Post Office issue as well (minimum application £10) which yielded about £2½ million.

Just after the Loan was issued the position of the Exchequer indicated that, assuming Treasury Bill tenders were raised from £45 millions to £65 millions a week by the beginning of May, no large deficit would develop until the end of June. To deal with such a situation in advance of a further public issue the Bank had some £50 millions of 2% Conversion Stock in the Issue Department, and suggested that £120 millions or more of 3% National Defence Bonds might be created and sold from the Issue Department. The issue of "Tap" loans, the first of which came on 24th June, rendered the latter step unnecessary.

The Issue Department's large holding of the 3% War Loan was reduced gradually and was down to £8 millions by July 1941. The largest sales, about £30 millions, came in December 1940, but of this £25 millions was sold to the National Debt Commissioners; and a further £15 millions was disposed of to the Commissioners in the next month. All other sales were to the Market.

2% Conversion Loan 1943/45

Before dealing with the first "Tap" Loan (2½% National War Bonds 1945/47) reference must be made to the conversion on 1st July 1940 of the 4½% Conversion Loan.

The prospectus of this "Tap" loan was issued on 17th January 1940, the issue providing for the conversion on 1st July 1940 of the 4½% Conversion Loan, which had been floated in 1924 and was due on 1st July 1944, but which could be repaid on 1st July 1940 or on any subsequent interest date, subject to three months' notice. About £350 million was outstanding and the Government decided to avail themselves of their option at the earliest possible date.

On 21st December 1939 the Governor wrote to the Treasury to urge that the assent of holders to any conversion should be assumed in those cases where they did not definitely dissent.

There

There was precedent for this in a somewhat similar procedure followed in the case of the 5% War Loan Conversion in 1932. The Government accepted the suggestion, but it was found advisable to pass an Act to give the Treasury the necessary powers, and this took the form of the National Loans Act of 23rd January 1940.

By 29th December 1939 the Bank had made up its mind on most of the terms of the new Conversion Loan. A successful conversion would be likely to involve both the short-term and medium-term investor as it was thought that there must be a considerable amount of the 4½% Loan held by Trustees, etc. The Issue Department and the National Debt Commissioners held at this time about £42 million* and £28 million, respectively, and it was not of course essential that they should hold a short-dated issue. Excluding these and £35 million held on the Post Office register, there were 70 accounts totalling £129 million, averaging about £1.8 million each, and 85,000 totalling £114 million, averaging over £1.3 million. The Bank's suggestion was that there should be no cash issue, but that conversion should be offered into one Loan due 1943-45, to date from 1st July 1940, at issue price par, and interest payable, as on the 4½% Loan, on 1st January and 1st July. Assent to conversion was to be assumed in the absence of notice to the contrary.† All these provisions were accepted. At the suggestion of the Governor the interest rate was fixed at 2%.

The Bank were anxious that no offer of inscribed stock should be made, but here the existence of three Acts, the National Debt Act of 1870 and two Acts of 1939 proved an obstacle, and the usual options of inscribed or registered stock or bearer bonds appeared in the prospectus. Later, however, bearer bonds were eliminated for this loan, as for the 3% War Loan 1955-59, by the National Loans

*At the date of conversion the Issue Department held £51,850,000 4½% Conversion Stock, which was exchanged for 2% Conversion Stock.

†Coupons of Bonds of the 4½% Loan presented on and after 1st January 1941 were to be paid as if the interest on the Loan were 2% p.a.

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Loans (No.2) Act of 30th May 1940", which released the Treasury from all contractual obligations to issue bearer bonds or bond certificates.

On the day before the prospectus was published the Chancellor made an announcement in the House. He stated that a large proportion of the $4\frac{1}{2}\%$ Loan was held by banks and other financial institutions, and it was hoped that the currency of the new Loan would appeal to this class of holder. (The maturity date was 1st July 1945 or on or after 1st July 1943).

The issue was well received in the press, the "Times" pointing out that it represented an annual saving to the Exchequer of £8-9 million, and that the operation was likely to react favourably on the gilt-edged market as a whole. By the end of January, however, the Discount Market showed signs of dissatisfaction. They held large amounts of the $4\frac{1}{2}\%$ Loan which they now found they were expected to convert,* although they had been calculating on repayment and in some instances had even insured themselves against the risk that the Bonds would not be paid off at the earliest possible date. They had, moreover, to pay $1\frac{1}{4}\%$ on the short loans from the banks with which they financed the bonds, and thought that a margin of $\frac{3}{4}\%$ was inadequate in view of the risk that the new bonds might depreciate. They urged that the banks should reduce their rates for short money to $\frac{1}{2}\%$ for bills and $\frac{3}{4}\%$ for bonds. On this the "Times" commented that the bankers' short money rate had indeed been $\frac{3}{4}\%$, as a special concession, against 1% Treasury Bonds issued at the end of 1935 and yielding to redemption in 1941 £1: 8: 4%. It was open to the banks to make a similar gesture on this occasion. On 30th January the Chancellor was asked in the House what steps he proposed to take to secure a reduction in the price of day-to-day money, and replied that this was a matter for the bankers. Nothing was done by them, but as assenting to the Conversion invalidated the policies referred to

above

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*On 1st Feb.1940 the Governor informed the Committee of Clearing Bankers that he had told the Discount Market that he hoped they would convert their holdings.

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above the Bank bought the £4,550,000 Stock involved at the market price for Dissented Stock.

It should be explained that the conversion lists closed on February 8, after which date owners who had not dissented had their holdings automatically converted. Dealings from the 8th February to 27th May were in 4½% Conversion "assented" cum dividend due 1st July. After 27th May the new Loan was dealt in as 2% Conversion "flat". Thus prior to 8th February there were three categories, "Converted", "Repayable 1st July 1940" and "Free", and it was necessary that the particular category of stock should be clearly indicated on transfer deeds, etc.

One incident in connection with the conversion is of some interest. On 24th January the Bank was approached, through the Government brokers, by a Stock Exchange firm with a request for the loan of £1 million 4½% Bonds. Borrowing stock is a normal Market practice and borrowing it from the Bank of England is not without precedent. But in the circumstances early delivery of the stock to a buyer would be important only if he wished to dissent: the Bank, therefore, refused the application.

On 13th February the Chancellor announced that more than two-thirds had been converted - a highly satisfactory result. The press pointed out that institutional and money market investors must have converted a much higher proportion than two-thirds of their holdings.

According to the Finance Accounts of the United Kingdom the final results were as follows:-

<u>4½% Conversion Loan</u>

	%	
Outstanding 31.3.40		£350,340,021: 4: -
Reduced by Stock transferred or purchased during year April 1940-March 1941		502,357:16: 2
		£349,837,663: 7:10
Paid off	29.9	£104,484,520: 4: 1
Converted into 2% Conversion Loan 1943-45	70.1	245,353,143: 3: 9
	100.0	£349,837,663: 7:10

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The earliest date for the redemption of 2% Conversion Stock was 1st July 1943. At the end of 1942 there remained £242 million of the £245.5 million resulting from the conversion of the 4½% Loan. The yield to redemption in 1945 was £1:17: 6. In view of the small saving that could be realised by redemption two years earlier and considering the large borrowing programma of the Government it was decided to let the stock run to its final date.

Meanwhile the National Debt Commissioners and the Issue Department were acquiring the stock, and at redemption date (1st July) the Commissioners held £75½ million, and the Issue Department £37½ million. The largest holding in the hands of the public was one of £60 million by the Reserve Bank of India.*

<u>5% Conversion Stock 1944/64</u>

This was the only 5% Government loan outstanding. It had been issued in 1929 and 1930 to an original amount of about £323 million, which had been reduced to about £318 million when, in November 1943, the question arose as to whether it should be repaid at the earliest redemption date, 1st May 1944.

The National Debt Commissioners and the Issue Department had also been steadily acquiring this stock in anticipation of repayment. It was anticipated that if notice of repayment were given, which would have to be done on 1st February, not more than about £100 million might remain at that time in the hands of the public.

Repayment was obviously desirable. Its announcement by the Chancellor on 27th January was accompanied by no conversion offer, but the importance of prompt reinvestment in one of the current Government loans was stressed. On 1st May the Issue Department held £160.5 million, the C.R.N.D. £68.6 million, and the public only £89 million.

* £245.3 million were paid off on 1st July, leaving £100,000 unclaimed on 31st March 1946.

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Defence Loans Acts and National Loans Acts

The Defence Loans Act of 1937 authorised a five-year borrowing plan for defence up to £400 million, making provision for repayment out of Defence Votes. £100 million 2½% National Defence Bonds and £80 million 3% National Defence Loan 1954/58 were issued under this Act.

The Defence Loans Act of 1939 increased the borrowing limit of the 1937 Act to £800 million.

In the interval the Treasury worked on a draft of the first of the ? Defence National Loans Bills, which was sent to the Bank in July 1938 for comment, especially on Clause IV, which dealt with the power of Trustees to invest in securities. On the 26th July the Bank wrote to the Treasury -

> "Our technical comments on the Bill are enclosed separately; our particular comments on Clause IV are as follows:-
>
> It seems probable that the vast majority of Trusts are entitled to invest under the Trustee Act in any British Government securities and that, therefore, the area covered by Clause IV can hardly be of any great importance. But we feel that on balance it is better not to envisage ab initio a breach of the ordinary Trustee Law. There would be plenty of opportunity later on to deal with such breaches if it became either necessary or really important.
>
> There remains the question of the advisability of introducing further provisions covering -
>
> (a) authority to companies to hold Government securities beyond their authorised limits.
>
> (b) authority to Trustees to borrow for the purpose of subscribing.
>
> Here again (as regards (a)) we believe it is undesirable to envisage such prompt interference with companies' affairs and suggest that the subject should be left for consideration until the need or importance might have been determined. As regards (b) we are emphatically against any such provisions. Previous legislation on this point arose out of the arrangements made with bankers to lend to their clients for investment in War Loans, a thoroughly unhappy precedent, the repetition of which we should not wish to contemplate."

The Act was passed on 27th March 1939 in a greatly abbreviated form (two short paragraphs and a preamble) and omitted any reference to the points to which the Bank had taken exception.

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The Treasury returned to the points at issue in October 1939, when they were drafting a National Loans Bill, and suggested that "things are serious enough to justify inclusion" (of Clause IV). They also wished to authorise companies to hold Government securities beyond their permitted limits. The growth of Unit Trusts made legislation the more imperative "which, after all, was in the end thought desirable" in the last war. The draft in general followed closely that of the Defence Loans Bill submitted in July 1938.

The Bank again resisted the inclusion of the extra clauses. As regards Unit Trusts they consulted Freshfields, who thought that with the alteration of a word or two the draft bill would empower Trusts to invest in securities issued under the Act. The Bank also advised against any concession to holders by paying interest without deduction of income tax.

The Act as issued on 16th November 1939, however, included (in Clause IV) authority to both Trustees and companies to disregard their existing limitations. The powers of the Treasury were extended (in other directions) by the National Loans Acts of 23rd January 1940, 30th May 1940 and 30th April 1941.*

* For some provisions of the 1941 Act affecting the transfer of stock see p3. of "The Accountant's Department during the war (Whitchurch)"

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