

# SMALL SAVINGS

BY A COMMITTEE OF  
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# SMALL SAVINGS

THE CASE FOR A PEOPLE'S SAVINGS BANK

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November 1943



## PART I

# THE GROWTH OF SMALL SAVINGS

### WHAT ARE SAVINGS ?

Savings may be viewed from two different standpoints. We may approach them from the point of view of the individual, or of the economic system as a whole. To the individual, saving is the act of postponing expenditure so that at some future date the amount saved may be spent at a time and in a manner which will give greater satisfaction than immediate spending would have done. The saving may take place over a few months to buy a piece of furniture or pay for a summer holiday, or it may stretch over many years and be used in old age or even by a succeeding generation. To the community, saving is the act of withholding purchasing power from expenditure on goods for immediate consumption so that it may find its way through various investment channels to purchase those capital goods such as factories, houses, industrial plant and locomotives, which our modern economic system demands in such great quantities. In the baldest terms that is the nature of saving.

It follows that saving is essential to our economic life, not, as some have thought, because the act of thrift, of 'doing without', has any moral value in itself, but because it is the means of securing a more advantageous outlay of the individual's spending power through time, and because it is the means of supplying our complicated industrial society with the tools and equipment which are its very basis. That does not mean to say that saving is desirable to an unlimited extent. While it is essential that we build factories and install machinery, there would be little point in doing so if people were not going to spend enough money on consumption to carry off the goods this capital equipment ultimately produced. There must be a balance between spending and saving, and the fact that that balance is sometimes upset is one of the principal causes of those slumps and booms which are the grave recurrent disease of our economic system. The importance of maintaining spending power provides us with a major economic problem that must never be overlooked, although in this pamphlet our purpose is concerned with saving, and with certain limited aspects of saving at that.

### WHOSE SAVINGS ?

Naturally enough, people can only save if they have a surplus of income over and above their immediate needs. The larger that surplus the greater their ability to save, providing that psychologically they also possess the will to save. The will to save is a rather nebulous concept, but it is related to a person's foresight and to his self-discipline. The more clearly he sees the possibilities of the future, old age, illness, bereavement, business opportunities and the requirements of children etc., and the greater his ability to forego the pleasures of present consumption, the greater his will to save. Throughout the centuries of our industrial development it has been the traders and manufacturers who have made large incomes, who have saved, and in doing so they not only built up the capital equipment of the country but they built up handsome fortunes for themselves and their families. The bulk of the saving was done by the wealthy minority ! The working class had so little margin of income above mere subsistence that saving was a luxury it could afford only in small doses and on rare occasions.



During the present century, and more particularly since 1914, this state of affairs has undergone considerable change, and today the wage-earning population makes very substantial savings which contribute materially to the nation's capital accumulation. This growth in the ability of the mass of ordinary people to save reflects the improvement in the standard of life which has been achieved in recent decades, despite the vast inequalities in the distribution of wealth which still persist. This improvement results, on the one hand, from the growth in the National Income which has advanced rapidly with the development of the modern technique of production etc., and, on the other hand, from the success of the struggle which the working class has waged through its trade unions and through its political organisations, to increase its share of that National Income. Not only has the growing ability of the ordinary man to save helped to raise his standard of life by giving him power to purchase occasional articles requiring substantial outlays and by giving him that additional security against hard times which savings bring, but from the point of view of the community the aggregate of these small savings has actually become more important than the personal savings of the rich. Taxation has risen and become more steeply progressive (*viz.* has hit the rich harder and harder in comparison with the poor) and in the face of this high taxation the wealthy have been struggling to maintain their accustomed standard of expenditure and have found they have had little or nothing left for savings, and in many cases have actually encroached on their capital. Colin Clark,<sup>1</sup> whose figures are probably as reliable as any in this sphere where statistics are none too plentiful, has estimated that in 1934 the total new savings of the whole country were accounted for as to 37% by small savings, and as to 63% by the savings of public authorities and the undistributed profits of business concerns, the wealthy, as a group, making no net addition to savings at all out of their personal incomes.

### THE GROWTH OF SMALL SAVINGS

Unfortunately there are no figures which satisfactorily measure the volume of working-class savings, for the reason that some of the principal forms of small savings, e.g. Savings Banks and Saving Certificates, are used to quite a considerable extent by wealthy people. Moreover, ordinary families have their savings partly in the form of personal possessions, *viz.* furniture, jewelry, motor cycles, etc., and often in cash in the house, and it is naturally impossible to get statistical information about such items. However, such figures as are available, although they cannot be said to give precise magnitude to the aggregate of small savings, do agree on the substantial increase in such savings in recent decades. Colin Clark has estimated that total small savings rose from about £87 million per year in 1924 to £172 million in 1934, and an independent estimate made in 1940 more or less confirms these figures.<sup>2</sup> The unmistakable increase is also illustrated by official figures for five of the main methods of small savings, *viz.* Building Societies, Savings Banks, Cooperative Societies, Industrial and Provident Societies and Friendly Societies. The total funds invested through these channels in 1931 totalled £1,265 million, while in 1935 it had risen to £1,757 million.<sup>3</sup>

Not only has the aggregate of small savings increased, but there has been a corresponding growth in the number of persons saving. This can be seen from figures of the distribution of national capital. A reliable estimate based on returns made for purposes of Death Duties gives the number of adult

<sup>1</sup> *National Income and Outlay.*

<sup>2</sup> J. F. L. Bray in the *Economic Journal*, 1940.

<sup>3</sup> See E. F. M. Durbin, *Politics of Democratic Socialism*, who quotes these figures and others relevant to this question.



persons possessing property to the value of more than £100 as having risen from a little over two million in 1911 to something over five in 1930.<sup>1</sup> The same point is made clear by the fact that the number of accounts in the Post Office and Trustee Savings Banks stands at more than 20 million, whereas in 1900 the corresponding figure was 10 million and in 1935 12 million. That there should be something like one account for every two members of the total population suggests how very widespread savings are today, when one bears in mind that the State Savings Banks are only one among many methods of saving.

### HOW DOES THE WORKING CLASS SAVE ?

The forms taken by this great mass of small savings are very varied, and it will facilitate description if we recognise that the savings of ordinary families can be divided into two categories. Some saving is what might be termed 'long period saving', or provident saving. It is directed to building up funds to meet special contingencies, such as unemployment, sickness, bereavement, or old age. These are the traditional 'rainy day' savings, although sometimes long term savings may be associated with more definitely purposive and pleasurable expenditure, as, for instance, in the case of House Purchase. The avenues through which savings of this broad type take place are dominated by Industrial Assurance, Provident and Friendly Societies, Building Societies, National Savings Certificates, Superannuation Schemes and Ordinary Life Assurance. The Savings Banks and Cooperative Societies also account for a considerable volume of long term saving, although they also serve the purpose of saving of a more temporary character. Short term savings are not directed to vague and distant objectives dimly associated with the desire for security, but are directed to specific items of expenditure. Savings Banks absorb much saving of this kind, as is witnessed by regular withdrawals at times of the year associated with unusually heavy expenditure. There is also a huge variety of clubs serving the same purpose: public house clubs, Christmas clubs, holiday clubs, clothing clubs, and so on. Purchase by instalments through hire purchase is really yet another form taken by this kind of saving. Finally, saving by means of straightforward, old-fashioned hoarding of cash is by no means uncommon. The teapot on the top shelf of the dresser slowly accumulating half-crowns until the rates fall due or Tommy needs a new suit is familiar enough, but very much larger sums stowed away in some obscure corner of the house are far from infrequent, as those who have canvassed for War Savings have often discovered both in this war and the last.

The choice of methods of saving varies greatly from family to family. Industrial Assurance is very widespread and is indulged in by from perhaps 60% to 80% of working class families.<sup>2</sup> Building Societies and Superannuation Schemes will be used by the smaller, and the more favoured groups of technicians, blackcoat workers, etc. Local circumstances and tradition play an enormous part in determining not only the volume of savings but the methods adopted. In many districts, especially in the North, a long established and respected Trustee Savings Bank may have built up such a strong local tradition as completely to dominate the situation; elsewhere, though not so often, a local building society may have acquired a comparable position. In some parts of the country club saving, with the psychological discipline of the weekly collection, is very strong, and almost every household seems to belong to several clubs, the father's 'pub club' and the mother's clothing club being the most common of all.

<sup>1</sup> Daniels and Campion, *The Distribution of National Capital*.

<sup>2</sup> Charles Madge, *Wartime Patterns of Saving and Spending*.



The means of working class saving are indeed varied, and differ from methods which are safe and beneficial to the individual and to the community to those which are harmful to both. It will be our purpose below to examine in greater detail some of the most common methods of saving, and we shall see that the case for wider and stricter State control in this field is very strong indeed.

### THE EFFECT OF THE WAR

The war has had a great effect on both the volume and methods of small savings. The Chancellor of the Exchequer has mentioned on several occasions the extent to which the Government borrowing programme has been made possible by the support of the small man. Up to 31st March 1943 small savings through government channels, viz. National Savings Certificates, Defence Bonds and the Savings Banks, amounted to £1,968 million out of total borrowings amounting to £5,320 million. These savings no doubt included a substantial quantity of savings by wealthier people attracted by the advantageous terms offered by the Government, especially in the case of National Savings Certificates, and also include some existing accumulations switched over from less patriotic forms of investment. However, the contribution made by wage-earning people has been large and has steadily grown, as has been shown by the enormous growth in the number and membership of Savings Groups with their regular weekly subscription of a shilling or two, and by the significant fact that sales of single Savings Certificates (i.e. 15/- units) have steadily increased relatively to the sales of the multiple unit certificates.

For the reason that National Savings include much from wealthier savers official figures do nothing to indicate the scale of wartime saving in the ordinary working class family. A revealing inquiry, undertaken by Mr. Charles Madge for the National Institute of Economic and Social Research, from which we have already quoted and which we shall have occasion to refer to more than once, has, however, given us a good deal of information on this score so far as certain towns are concerned. This survey suggests that normal peace-time provident saving, insurance, etc., has been maintained pretty much at its pre-war figure, while there has been a vast increase in the number of families contributing to National Savings. The average weekly saving per family in 1942 was probably somewhere about 4/-, although there were considerable local differences. The result of a pretty wide sample analysis suggested that the new National Savings are concentrated rather closely into the hands of a specially favoured group of working class families whose incomes have been much improved by the war, with the result that something like 3% of the savers hold 30% of the small War Savings.

### SUMMARY

To draw together the arguments of the preceding sections we should reiterate that in recent decades saving, instead of being the privilege of the few, has come within the reach of a great many ordinary wage-earners and their families. Savings from week to week out of wages have come to account for a large measure of the nation's total new savings, and this process has been accelerated by the war. Despite indefensible inequalities of wealth, between class and class, and very considerable inequalities within the working class itself, modest savings in one form or another are made by what must be more than half the total population of the country. Therefore, it behoves us more than ever before to see that the methods used are sound and beneficial both to the community and the individual.



## PART II

# METHODS OF SMALL SAVINGS

### INDUSTRIAL ASSURANCE

Undoubtedly the form of saving most widely used by the working class is Industrial Assurance. Rooted in the firm basis of fear of a pauper burial and ardently fostered by the 60,000 agents and collectors of the Industrial Assurance Companies and Societies, life assurance by small weekly contributions has become an established working class convention throughout the country. The magnitude of this kind of assurance can be gathered from the fact that at the commencement of the war the annual amount subscribed in premiums was only just under £73 million and the number of policies in force was 103 million, that is 2.25 per head of the whole population! As mentioned above, Mr. Madge's recent inquiry showed how the great majority of families are paying assurance premiums; in Glasgow, for instance, he found the percentage as high as 95.

Life assurance certainly does serve a social purpose; it helps to meet the rather inordinate cost of burial, a point on which feelings are strangely sensitive in an irreligious age, and it provides additional funds for those extra expenses which the family upset of bereavement brings. Unfortunately with the present system these advantages are purchased at a heavy cost. The defects of Industrial Assurance are widely known and have been widely publicised by official inquiries and private investigations.<sup>1</sup> The principal criticism can be directed against the high level of administrative expenses which, along with tax payments and profits distributed to shareholders, accounted for 37% of the total premium income during the years immediately prior to the war. The expense ratio is enormously high compared with that for any other important form of saving; it even compares badly with the Friendly Societies and other weekly collecting schemes, such as the various Hospital Savings Schemes. The high cost arises chiefly from the vast army of collectors who collect every week sums ranging from a few pence to perhaps a pound, and averaging probably about 3/- to 5/- per household visited. The inefficiency of competition has led to a state of affairs where several of these collectors work the same street every week and in many cases (e.g. in Slough it is said to be 30%) more than one company's representative calls at the same house. This is the first and important score on which the present system of Industrial Assurance can be damned.

The second great criticism rests on the fact that the pressure on the agent for new business is so great, either because he depends on commission for his livelihood or because the standard required if his salary is to continue is so exacting, that he induces people to take out policies they do not really want or which they cannot really afford. As a result of this rather pernicious salesmanship more than 6 million policies were lapsing each year before the war as compared with 10 million new policies effected annually. Although statutory provisions govern the granting of paid-up policies and the payment of surrender values, it is abundantly clear that policy-holders lose badly through this great flood of abortive assurance.

It is not our purpose here to dilate at length on the imperfections of Industrial Assurance. These two major defects in the existing situation, however, show beyond all doubt that sweeping changes are long overdue.

<sup>1</sup> E.g., The Report of the Cohen Committee, and *Industrial Assurance*, Wilson and Levy.



Improvement might be made by further legislation, in particular with regard to lapses and surrender values and to the practice of granting policies 'on life of another', but all such changes would be of only secondary importance. The road to real improvement has been pointed out by Sir William Beveridge,<sup>1</sup> and only by the introduction of some form of State funeral benefit and by incorporating all existing Industrial Assurance under a State monopoly in the hands of some form of public corporation, can the present vicious and wasteful system be fundamentally improved.

### ' ORDINARY ' LIFE ASSURANCE

So-called ' Ordinary Life Assurance ' consists of policies payable at death or on the attainment of an agreed age and in respect of which premiums are paid quarterly or at less frequent intervals, usually without the intervention of a collector. Such policies are larger than those issued by the Industrial Companies, and many of them are held by the wealthier members of society, but to a very substantial degree they represent the savings of the wage-earning groups, and in particular of the growing class of technicians, managers, clerical workers, etc., whose savings may fairly be classed as ' small '. One or two facts illustrate this point. Many Companies underwrite both Industrial and Ordinary Life Assurance and the ' Prudential ', the colossus which dominates the ' Industrial ' field, has something like three-quarters of its ' Ordinary Branch ' policies for sums assured of £300 or less. The Companies which have not got an ' Industrial ' clientele to draw on for ' Ordinary ' business will not show such a high proportion of small policies, but a sample analysis carried out some years ago suggested that perhaps 60% of Ordinary Life Assurance might fairly be characterised as ' small savings '. There is nothing definitive about that figure, but it suggests that premiums paid by small savers for Ordinary Life Assurance may have been in the neighbourhood of £48 million per annum before the outbreak of war. Ordinary Life Assurance business has grown enormously in the last thirty years, no doubt with the rise of the lower middle or upper working class groups of salaried employees, and bears further witness to the vast growth of small savings.

With Ordinary Life Assurance there are nothing like the objections which we found to exist in the case of the Industrial Business. The expense ratio is much lower owing to the absence of collectors and the salesmanship is nothing like so intensive. The policy-holder does, of course, in his premiums subscribe towards agents' commission and the profits of shareholders, and sometimes surrender values seem very disappointing, but take it all round, although much could be said from the socialist point of view for nationalising all insurance, the specific charges which may be made against Ordinary Life Assurance are not very serious. Even as it is organised at present it does serve a definite social purpose tolerably well.

### SAVING FOR SICKNESS

Sickness which interrupts earnings and imposes sudden and heavy expenditure is one of the great shadows which overhang the ordinary wage-earning family. To meet the contingency a whole network of methods of saving exist. A central position is held by the scheme of National Health Insurance worked through the Approved Societies and the disadvantages and inequalities introduced by this machinery are well known. The case has been put so strongly and so completely by the Beveridge Report that here we will not pursue the point, but merely emphasise the imperative need for a real State Medical

<sup>1</sup> Beveridge Report : Appendix D.



Service. In addition to the National Health Insurance Scheme there exists a heterogeneous mass of Societies, Clubs, Trade Unions, Friendly Societies, Hospital Savings Schemes, etc., by which working people try to augment the rather inadequate National scheme. It is impossible to criticise so mixed a group of institutions in general terms. Many Friendly Societies are soundly and economically run and serve a valuable social purpose, as do large numbers of excellent Hospital Savings Schemes. At the same time there are still an enormous number of unregistered Sick Clubs or 'Sick and Divi.' Clubs of various descriptions, some of them ridiculously small, which run as best they can on no proper actuarial basis and with no financial security beyond the personal integrity of the officers. There is a definite need here for a greater measure of control and supervision, by the Registrar of Friendly Societies or by some other Government agency, and new statutory provisions are required. Of course, a really satisfactory State Medical Service would do away with the need for much of this supplementary saving for sickness, but in so far as it is to be allowed to continue it should be brought under sufficiently close control to protect the interests of those who wish to indulge in it.

### SUPERANNUATION SCHEMES

This is a modern form of thrift directed to providing the worker with a pension which, with the aid of the National Old Age Pension, will support him when working days are finished. Its growth in the few years before the war was rapid and it was spreading from the black-coat salariat into the factory. The usual form taken by a superannuation scheme is that of a fund contributed to jointly by employer and employee. The fund may be administered in the firm itself through trustees, or be handled by an Insurance Company which shoulders the death benefit risks, if these are included, and adjusts payments and pensions on a sound actuarial basis as well as undertaking much of the administrative work. Contributions to these schemes by ordinary working class families seem to average between 2/- and 5/- a week for the families affected by them. The proportion of families where the wage-earner is covered by any such scheme differs widely with industry and locality. Mr. Madge's inquiry has shown that the percentage is as high as 45 in York, where the industrial scene is dominated by some employers well known for their enlightened social outlook. In Blackburn, where years of depression have made it difficult for firms to take on fresh financial commitments, the figure is only 12%. For Coventry the percentage is only 9, which suggests the progressiveness in the technique of the modern industries of that town is not matched by the social outlook of the employers. From a broad social point of view there is everything to be said for the growth and extension of superannuation schemes. In conjunction with the National Old Age Pensions they are the means of making the last years of a working couple's life a time of quiet comfort, instead of a period of anxious poverty and dependence on family charity.

The difficulty with pension schemes as they are today is that they tend to be overmuch in the hands of one or two enterprising Insurance Companies which have specialised in this business with great success in the past ten years or so. These Companies have become expert at the job and have done much to improve the scope and administrative methods of the schemes, but with so much of this business in the hands of one or two firms there is a tendency to monopoly which may occasion some concern.

From the point of view of the nation as a whole one drawback to superannuation schemes is that they tend to hinder the mobility of labour by giving a man a vested interest in remaining with one firm. This has advantages; the employer likes to be sure of the permanence of his more valued employees



and the employee is grateful for any additional security of tenure. At the same time national efficiency may be hindered by anything which stops men shifting into new trades and firms as economic conditions change. An incidental result of the introduction of a superannuation scheme is that the very high expense to the employer of including elderly employees may make firms with such schemes unwilling to take on new employees who are men of advancing years who so become virtually unemployable so far as firms with pension schemes are concerned.

A final point to be noticed in connection with pension schemes is the extent to which their growth has been linked with the tax concessions afforded to firms making contributions to them. This has meant that the Insurance Companies have gained their new business to some extent at the taxpayers' expense and accordingly it is only justice that the State should have extensive rights of control in the interest of the employees, over the terms of pensions schemes negotiated through these Companies. The future of this type of saving appears so great that it would be very unwise for the tendency to monopoly to be allowed to develop ; a State scheme is a practicable possibility and should be introduced. Some suggestions made below where we discuss the functions of the People's Bank indicate the lines that could be followed.

### BUILDING SOCIETIES

A very large amount of saving, much of it from the small man, is undertaken through the Building Societies, partly from those who use the building society as a sort of deposit bank and saved something like £50 million per annum before the war, and partly from the steady stream of repayments of advances, which amounted to more than £80 million in 1937/38. The war brought the temporary cessation of house building and special difficulties to these societies, which greatly reduced their business, but from the point of view of normal peacetime savings these institutions are of major importance to the small saver.

Little can be said in criticism of the savings deposit aspect of these societies, as the administrative cost has been relatively low and the security of quite a high order. More questionable, however, is the House Purchase business itself in view of the excessively long period over which many mortgage repayments are spread and the high aggregate repayments compared with the initial cost of the house. Perhaps the answer to this objection lies not so much with the building societies themselves as with the provision of adequate housing facilities at cheap rents by the State or by local authorities so that those who cannot really afford, and do not really wish to embark on, house purchase are not compelled to do so. The great shortage of cheap rentable accommodation in recent years may have encouraged a good deal of working class thrift, but it has given the building societies opportunities which they were not slow to take and has burdened many families with a form of saving they could not really bear, with consequent repercussions in enforced economies in other directions.

### THE SAVINGS BANKS

The Government Savings Banks consist of the Post Office Savings Bank and the Trustee Savings Banks which, par excellence, are the instruments of working class savings both for long and short terms. The Post Office Savings Bank is a colossal organisation with more than 16½ million active accounts totalling in all more than £1,185 million at the end of September 1943. It is centrally administered, but operates through a vast number of branches, since all post offices except the very smallest sub-offices transact Savings Bank



business. The Trustee Savings Banks are local institutions varying considerably in age and size. From small banks with a single office they vary to large, old-established institutions with many branches sometimes stretching over several counties. These banks provide much the same facilities as the Post Office Savings Bank, but as their business is banking purely and simply and their staffs and offices have not to cope with a thousand and one other jobs, the service and attention given to depositors is of a higher level than with the Post Office. Funds deposited with these banks are lodged with the National Debt Commissioners, who exercise general supervision over the conduct of the banks. The Trustee Savings Banks at the end of September 1943 had  $4\frac{1}{2}$  million accounts and total deposits amounting to nearly £500 million. In addition to these Government Banks there are one or two independent institutions which fulfil much the same function, the Yorkshire Penny Bank, the Birmingham Municipal Bank, the Railway Savings Banks run for railway employees, etc.

The value of the Government Savings Banks is obvious. Their unquestioned efficiency and their complete security, along with the various facilities and conveniences they provide for those who use them, make them the ideal means of small saving, whether it be the saving of small amounts over a few months, or whether it be the building up of a reserve of purchasing power for the future with all its unseen contingencies. In connection with these Banks it should be noted that many forms of group saving are conducted; many privately run clubs deposit with these Banks, and many 'School Banks' and similar organisations are run in conjunction with them. In particular a scheme of 'Direct Transfer' whereby a deduction from a man's pay goes straight into a personal account in the bank in the man's name, the firm never knowing how the account stands, is a valuable form of saving much extended in recent times and presumably with a big future. Such group schemes of saving have the advantage of the psychological discipline of the regular weekly payment which has been so great a factor in the growth of industrial assurance and saving clubs.

It is emphasised below that the Savings Banks could be made the basis of a real State Thrift Service and their powers and functions considerably enlarged.

## NATIONAL SAVINGS CERTIFICATES

The National Savings Certificate (it was then called the War Savings Certificate) was introduced during the last war to increase the support the small saver could give to the War Savings Campaign. It has the advantage to the investor that, unlike most other Government securities, its price does not fluctuate as it is not transferable and can be cashed on known terms at any time. The Certificates are also very attractive on account of the interest, which is not paid in the form of a dividend but is added to the principal and treated as an increment of capital not chargeable for income tax. The rate of return has always been very favourable and for this reason there is a maximum holding which at present is £375 per person, with an additional limited holding of a secondary issue of certificates on less remunerative terms. The interest accrues in a manner which makes it increasingly advantageous to hold the certificates for a substantial time and perhaps partly because of this fact, and partly because of a rather inexplicable psychological reaction, holders of these certificates do tend to hold them for fairly long periods, compared, for instance, with investments in the savings banks. The Savings Certificate has been very popular from the last war to the present day, and more than £1,190 million worth of Certificates in the names of 16 million different holders were outstanding at the end of September 1943. From the



saver's point of view there is everything in favour of the Savings Certificate and, although designed for small savers, it was officially estimated some years back that only one half of the Certificates held could really be said to belong to working class people. The only criticism that might be made against the Certificate is that it is administratively rather clumsy and the cost to the Post Office which handles them both in its offices, where they are bought and cashed, and in the Savings Certificate Branch, where the millions of records and counterfoils are kept, must be pretty high.

In connection with the Certificate the National Savings Committee should be mentioned ; this Committee is the controlling body of a movement with a large number of voluntary workers up and down the country who undertake propaganda and educational work to encourage savings generally and maintain large numbers of Savings Groups for regular weekly saving through Government channels. Although the National Savings Committee runs Groups which save through the State Savings Banks, and while in time of war it controls the War Savings Campaign generally from the propaganda standpoint, it has become particularly closely associated with the National Savings Certificate and the vast majority of its Group saving is for the purchase of these Certificates by small instalments.

### THE CO-OPERATIVE SOCIETIES

A large volume of working class earnings is saved through the Cooperative Societies in which funds are deposited by members who hold a Share Book in much the same way as they might use a Savings Bank. The funds thus deposited are in fact left with the Societies for considerable periods of time and, of course, provide the capital required by the Cooperatives for the conduct of their business. In addition to this straightforward and important savings aspect of the Cooperative Movement there is another manner in which the Cooperative Societies serve the purpose of thrift. There is no doubt that the 'divi.' on purchases is to the working class housewife a valuable means of saving for items of recurrent expenditure such as clothes, rates, etc. It is the more valuable as the saving is made unconsciously and automatically by the act of purchasing goods and demands no mental or moral effort to make a definite weekly contribution. The great popularity of the 'divi.' as a means of saving has been responsible for the tendency among many Cooperative Societies to aim at a high 'divi.' rather than low prices, a matter of frequent controversy in the history of the Cooperative Movement. Although the 'divi.' is regarded chiefly as a means of short period saving it is worth noting that facilities exist for it to be credited to the Share Book for those who wish to save over a longer term.

### HIRE PURCHASE\*

A legitimate form of short period saving is that which is directed to the purchase of items requiring the outlay of rather large lump sums. The principle of Hire Purchase which gives the advantage of use of the object while saving for it is being undertaken seems reasonable enough. The case is stronger

\* To the economist it may seem illogical to include "hire purchase" and those savings clubs which provide credit facilities among methods of saving. Admittedly anticipation of consumption is in a theoretical sense the reverse of saving, which is the postponement of consumption. The treatment followed here is, however, convenient as these credit schemes, like savings in the stricter sense, do lead to the acquisition of durable consumers' goods out of income.



the more durable and the more expensive the item to be purchased. Furniture, motor cars and wireless sets are pretty well suited to this form of purchase, but the method is more questionable when it is applied to goods such as clothes, which are more quickly consumed or depreciate rapidly.

The dangers of Hire Purchase are two. Firstly, that the terms exacted by the firm selling the goods (or more often the finance company which backs the hire purchase) may be rather exorbitant, the total of instalments being out of all proportion to the cash price. Secondly, people with weak wills and little foresight may be tempted to take on obligations which they cannot meet in the future. The first point has to some extent, but not entirely, been met by legislation introduced before the war which brought in certain very necessary controls on the avarice of the hire purchase companies, but the rate of interest charged still makes very heavy additions to the cost of the article. The second point cannot be met entirely by legislation, as many people have weak wills and optimistic dispositions which lead them to enter into contracts that their financial positions do not justify. Some good could, however, be done if a further legislative curb were put on those methods of high pressure salesmanship and advertisement which take advantage of the frailty of human nature in the interest of the commission of the salesman and the profits of the shopkeeper and the finance company. It might prove a very good thing if we even went the length of scheduling those goods which might be bought by means of hire purchase and excluding this means of purchase for all other commodities.

## SAVINGS CLUBS

The number and variety of Savings Clubs is enormous. There are Holiday Clubs, Christmas Clubs, Public House Clubs, Loan Clubs, Clothing Clubs, 'Perm' Clubs and so on. The range seems almost limitless; and then there are the clubs carrying sick benefits which have already been discussed. If we are to attempt some comment on this multiplicity of clubs we may begin by distinguishing two broad groups of clubs: those directed to some form of annual share-out, usually at Christmas or at the time of summer holidays, and those for the purchase of some specific goods or class of goods.

Vast numbers of clubs of the first category are run on licensed premises where officers of the club, who are usually well known and trusted patrons of the house, receive subscriptions on a certain night each week and pay out once a year. The officers usually receive some remuneration, probably in the form of a quarterly levy on members, in consideration of their services. In the past many of these clubs were very badly run, as was shown by the crop of defalcations which was exposed every year shortly before Christmas, but more recently the breweries have exercised a greater degree of supervision over many of these clubs, controlling the appointment of officers, banking of funds, etc., and thereby safeguarding the interests of the members and the good name of their houses. The position has certainly much improved, but is by no means perfect. No matter how high the standard of the conduct of such a club, there are certain features which may be criticised on broad social grounds. The obligation to visit a public house on a certain night each week almost certainly leads to expenditure on drink which might otherwise not take place. Then the annual share-out in the convivial and festive atmosphere of a public house at Christmas-time results in much of the carefully saved money being spent on drink. As the club is closely linked with the brewery or publican naturally this will not be discouraged. It is a pretty fair assumption that in some cases an amount of cash saved for necessary family purposes, such as children's clothing, will to some extent be dissipated in alcohol.



A popular variant of this type of club is the so-called 'loan club', where the club lends money to its own members at interest. This assists the running expenses of the club and raises the level of the ultimate share-out. In essence, the idea may be harmless enough, but in practice, since the club profits financially from these transactions, it will encourage borrowing, even charging fines on those members who do not borrow. These practices may easily encourage the habit of borrowing, a necessity at times, but not a thing to be encouraged as a regular habit.

Many clubs of the 'share-out' and 'loan' type are run in social clubs, churches, institutes, etc. They share the same characteristics as the 'pub' club except that they may have the advantage of not being conducted in too close proximity to the sale of liquid refreshment. At their worst all these clubs are a menace to those who are foolish enough to join them and something which in the public interest should be strictly controlled in some such manner as that suggested below. Even at their best they can scarcely be regarded as ideal methods of thrift for the reasons we have indicated.

A very prevalent form of savings club is the holiday or Christmas Club run at a place of employment. If this is a properly conducted affair, perhaps run by the firm through deduction from pay, or by a properly elected committee with trustworthy officers and adequate rules and audit, then it may be said to serve a useful function. While in many cases such clubs are run in a satisfactory manner, in other cases this is far from so. It is very common for a club to work under the loosest kind of arrangement; just one girl or man in a shop collects subscriptions week by week with no check or supervision over the banking of the money, which may, in fact, be merged with the collector's own funds or kept in a box somewhere on the premises with no proper safeguards as to its security. Not only does one find this sort of club very well patronised but very frequently the members are willing actually to pay the collector for his trouble in running the club. This sort of thing is thoroughly unreliable and uneconomic for those who take advantage of it.

A further type of savings club is constituted by those which are directed to the purchase of some specific commodities. In the case of the purchase of clothing this form of club is so prevalent in some industrial areas as to be the normal means of buying clothes for large numbers of families.<sup>1</sup> These clubs may be of different kinds. There are those where a shopkeeper accepts weekly instalments and the contributions mount up over a period of weeks or months and are eventually spent in purchase of goods at that shop. Sometimes the contributions cover an agreed period, perhaps twenty weeks, and the check for the purchase of the clothes may be issued in advance, the shopkeeper trusting to good faith to collect the future instalments. A variant of this idea is found where an agent forms a club of perhaps twenty members who pay a shilling a week for 20 weeks. Each week a draw decides who will have the check for £1, some members thus gaining the advantage of getting their goods at the very outset of the club period. The agent might be remunerated by the firm or possibly a free 'share' in the club, the other members all paying one week extra subscription for this purpose. Probably no very severe strictures can be brought against clubs of these types, although sometimes the agent's commission may seem an expensive levy on the members and sometimes, but not often, the shop may charge higher prices to club members knowing that their checks will not be negotiable anywhere else.

A very large volume of saving through clothing clubs, etc., occurs in clubs run by commercial companies which exist just for this purpose. Their agents

<sup>1</sup> See *Our Towns* (Appendix VII), published by the Women's Group on Public Welfare.



and collectors call at the houses and collect weekly subscriptions. The purchase check is frequently available as soon as the first contribution is paid and can be cashed only at certain stores which are in a scheme with the credit company. The credit company collects the remaining instalments, with persistence even over the smallest amount, and makes its profits out of a commission from the shops where the goods are bought, and which, it is alleged, frequently amounts to some 17% ; viz. the shopkeeper only receives about 16/6 from the credit company for every pound's worth of goods supplied. To compensate himself for this high margin of commission a shopkeeper, if his business consists preponderantly of club transactions, may charge higher prices than other retailers, confident that the club members are tied to him. The social effects of these clubs sponsored by commercial credit companies are obviously bad and demand drastic control. The activities of the insistent and insidious tout who enlists members and collects their subscriptions in the interest of his own commission and the credit company's profits cannot be regarded as performing any useful purpose whatever for the community. Rather is it the reverse, when we take account not only of the expensive terms on which the goods are bought, but of the trial and worry which follow in the efforts to maintain subscriptions which a family cannot really afford and which are repeatedly demanded, sometimes with threats of legal proceedings. Even though for the most part these commercially run clubs keep within the law and are run in a more or less businesslike manner, their social and human effects condemn them and they should not be tolerated.

The list of variants of the idea of a savings club could be extended. From those already indicated the need for control and supervision in this field is obvious. The fact that we lack detailed knowledge and statistics leads the whole matter to be overlooked, but it none the less demands remedy. This might most easily be accomplished by legislation enforcing registration of all clubs, approval of rules and general control over appointment of officers, banking of funds and audit. Perhaps the tragedy is not so much that costly and sometimes insecure forms of savings clubs abound, but that vast numbers of people should have such low wages and such insecurity that they find these devices a necessity. Moreover, the ignorance and prejudice which brings these second rate forms of thrift club to be preferred, for instance, to the Post Office Savings Bank which is there for all to use quite free of charge and with absolute safety, demands continuous education in relation to this aspect of public affairs as in so many others, as well as the legislative controls we have suggested.

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### PART III

## A STATE SAVINGS SERVICE

### A PEOPLE'S BANK

In the first part of this pamphlet we saw how small savings have so increased in size and scope as to constitute a really important factor not only in the standard of life of the working class but in the process of the capital accumulation of the nation. In the second section we examined the methods whereby this saving is carried on, and noticed the imperfections of many popular forms of thrift. Some specific weaknesses and abuses were pointed out and Government control and supervision were advocated. It is the purpose of this section to suggest that the State should itself take positive measures to provide facilities for small savings on a much more comprehensive



scale than it has done in the past. Development in this direction would be neither difficult nor revolutionary, for a good basis on which to build already exists in the Savings Banks and the National Savings Movement. Such a policy would have the fortunate consequence of promoting thrift facilities free from the objections which apply to many present forms of savings, and at the same time of giving the State increased control over the investment of the amounts saved, which would become increasingly important as the economic functions of the State expanded.

The administrative pattern of a State thrift organisation would have to be worked out by those familiar with the details of the existing machinery, but the broad lines which the organisation might follow can fairly readily be discerned. There would be much to be said for bringing together the Post Office Savings Bank, the Trustee Savings Banks and the National Savings Movement into one great People's Bank, which, if it did not include the functions of the department of the Registrar of Friendly Societies, would have the closest liaison with that department. It seems a fair inference that the Post Office Savings Bank would rather dominate the new organisation, although the other institutions would have much to contribute. The personal touch, the air of quiet dignity and the readiness to give all kinds of help and advice on financial matters, which are typical of the Trustee Savings Banks, contrast well with the curt, bureaucratic efficiency of the Post Office counter. The incorporation of the Trustee Savings Banks into the People's Bank might be the means of introducing a measure of regionalisation into the administration. Then, since the aggregate savings deposits would grow enormously, the existing Trustee Bank branches might form the beginning of a network of People's Bank branches which in time would cover all towns of any size. This would remove the bank business from the already overburdened Post Office counter to separate premises where the rather more intimate and human atmosphere of the Trustee Savings Bank, combined with the massive efficiency of the Post Office, would be good ground on which to build up an efficient but flexible administration.

The National Savings Committee and its organisation has twenty-five years' experience in working with voluntary bodies, in thrift education and propaganda and in popularising sound forms of group saving. The National Savings Movement would certainly add something of value to the People's Bank. The voluntary local committees would fill a useful function in building up local goodwill and in introducing that degree of local variation and flexibility which would be highly desirable in a huge organisation easily tending to become rigid and bureaucratic. Propaganda and educational work in schools and elsewhere should be continued and developed, not merely in the form of pious exhortations to the Christian virtue of thrift, but in the form of the dissemination of knowledge of elementary economics which would help to develop a more rational attitude to the whole business of saving and spending. This educational work should also aim at spreading as widely as possible knowledge of the advantages and disadvantages of existing institutions, Industrial Assurance Companies, Building Societies, etc. All this would encourage more enlightened behaviour among people who at present are led by their ignorance to be the easy prey of all kinds of attractive stunts, schemes and propositions promoted by commercial interests which in many cases do not give a damn for the welfare of the people to whom they appeal.

### THE FUNCTIONS OF THE PEOPLE'S BANK

The range of functions of the People's Bank in its effort to encourage and facilitate 'small savings' would be wide and can be sketched only in outline. Some activities of the Bank are obvious and essential, others are



desirable but of a more optional character. Clearly the main purpose of the Bank would be to carry on the ordinary business of deposit banking as is already done by the State Savings Banks. The extension of group saving in connection with this should be taken very seriously. School banks run in conjunction with the People's Bank should be encouraged. Savings Clubs depositing their funds in the Bank and run on rules laid down by the Bank, and subject to proper audit, should be extended to take the place of those less desirable forms of club which, as suggested above, should be limited by legislation. Perhaps most important of all, the Scheme of 'Direct Transfer' whereby a deduction from pay is paid over by the firm into a man's private account in the Bank should be developed to the greatest possible extent. The many forms of War Savings Group started by employers and others under the pressure of a patriotic war effort should be able to be continued in the forms suggested and prove of lasting social benefit to the wage-earning classes.

We referred above to the popularity of the National Savings Certificate, which is administered by a branch of the Post Office. If it were decided to continue this working man's security it would, of course, be taken over by the People's Bank, but there might be a good case to discontinue it after the cessation of the actual War Savings Campaign, diverting savings of that type into ordinary bank deposits which are cheaper to the Government both from the point of interest and administration.

In the discussion of superannuation schemes we commented on the growing popularity of this form of provision for old age. The schemes put up by Insurance Companies, as we saw, have certain disadvantages and there is good reason to think the People's Bank could serve a most useful purpose by operating a State Superannuation Scheme for Industry. The scheme already exists in embryo in the National Savings Provident Scheme which is operated by the National Savings Committee and the Post Office. Under this scheme the employer and the employee pay joint contributions which are invested in Savings Certificates which accumulate for the man on retirement, when a lump sum is available which, if desired, can be invested in a Government Annuity. This scheme could easily be adapted to work with the People's Bank, using a special form of blocked Deposit Account instead of the unwieldy Savings Certificate. Death Benefit could be incorporated into the Scheme if only the right to underwrite Life Assurance were restored to the Post Office. This power was taken away some years ago because the public had never responded to the idea of State Life Assurance. With the restitution of that power the new Bank could see that it was administered in such a way that it did become attractive to the public and its development in relation to Superannuation would be of prime importance. The State Superannuation Scheme would have one advantage over private schemes; when a man moved from one firm to another, if each used the State Scheme, he would be able to carry with him his 'blocked' deposit account which would constitute his superannuation fund. In this way superannuation schemes would not have the effect they threaten to have of hindering the mobility of labour.

These functions of the People's Bank seem essential, but others can be visualised as highly desirable. If State Life Assurance were reintroduced it might be developed to a considerable extent by the Bank. If existing Industrial Assurance is not to be brought into one great Public Utility Corporation as Beveridge has suggested, then there would be a very strong case for at least giving the People's Bank the right to issue Industrial Assurance Policies, thereby forcing the present companies to meet the competition of an institution which did not use armies of weekly collectors, and giving the individual who objects to associating himself with these institutions the opportunity to get the insurance cover he reasonably desires by the purchase of a weekly stamp.



Then, if house purchase by mortgage and the purchase of recognised types of expensive articles, such as furniture, motor cars, etc., by hire purchase is to continue, it would be desirable that the Bank should undertake this kind of business, at any rate in the more obviously socially useful spheres. If it did not entirely supplant private Building Societies and Finance Companies it would at least give them the task of competing with State enterprise operating in their own line of business.

We have already suggested that the vast miscellany of savings clubs should be brought under Government control. The People's Bank would be the obvious instrument for the purpose. Not only would it hold the funds of the clubs but would supervise and approve the rules under which they worked, the appointment of officers, etc.

Yet another field in which the People's Bank might provide additional facilities for the community would be in arranging for direct payment out of deposits of sums due to public authorities for rent, rates, electricity, and so on. This is already done by the Birmingham Municipal Bank and some Trustee Savings Banks and has been developed considerably by the Savings Banks of the U S S R. Obviously this service would become more important as the services provided by public authorities increased.

From this brief note the case for a real State Savings Service working through a People's Bank seems very strong indeed. Even with the functions we have described it would have a wide and important sphere of action but it would provide a piece of administrative machinery which might be able to take over additional functions in the future as the economic functions of the State continue to develop with the course of progress and the lapse of time.

## INVESTMENT POLICY—CAPITAL ACCUMULATION

We have concentrated throughout this pamphlet on savings considered from the point of view of the individual saver and their effect in helping him to raise his standard of life by a better application of such purchasing power as comes his way. From the national point of view these small savings find their way into investment where for the most part they become embodied in real capital goods. The extension advocated here of a State service for small savings would bring large volumes of money to find investment through Government channels. In the past such funds in the hands of Government Departments have been applied for Government purposes and in particular have been used to support issues of Treasury Bills which provide the short term credit which is the means of bridging gaps between the receipt of tax revenues and Government expenditure. Incidentally they have indirectly placed the Government in a position where it has been able to exert substantial control over the money market. It is possible to imagine that in the future with small savings through Government channels vastly increased and the immediate demands of Government war spending coming to an end, that such funds might be of importance if some form of State Investment Board were introduced. Through such a Board funds could be made available for public undertakings involving capital outlay, and possibly for industry, more particularly for the smaller industrial units which owing to the nature of the Capital market have found the supply of long term capital an extremely difficult problem.<sup>1</sup>

<sup>1</sup> See *Planned Investment*, C. P. Mayhew, Fabian Society, for a discussion of the idea of a State Investment Board.



## SOME POLITICAL IMPLICATIONS OF SMALL SAVINGS

It would be incomplete if we left this subject without a thought for some of the wider issues raised by the growth of small savings and their suggested development through Government thrift institutions. The social benefit of saving, providing that it is not excessive to the economic needs of the community nor to the level of current expenditure necessary for the well-being of the family, must be generally admitted. It gives additional security to the working class home and greater command over the items of costly expenditure which from time to time are required by all households. Savings of this kind must be sharply differentiated from those great accumulations of wealth which, largely by the accident of inheritance, give to the few, economic and political power alike over the lives of others and the fortunes of nations. It is essential for socialists to be conscious of this distinction lest in our eagerness to attack the latter, which we rightly regard as one of the basic evils in our society, we are led to assail the modest savings and personal property of the working class.

The growth of small savings brings its own political implications. The increase in the number of families with some small reserve of savings, be it ever so small, means those families have something to lose. This will not make intelligent and enlightened people less disposed to countenance social reform, and possibly a fundamental change of economic system. With ignorant, selfish people, fearful lest anything should rob them of what they have acquired, the position may, however, be different, and they may become less willing to support movements for social and political advancement. This is no reason for not wanting the working man to have his opportunity for saving, and for doing it in the best manner. It is, however, a fact to be recognised, and once again emphasises the need for general education and enlightenment where economic and social matters are concerned, if those who are opposed to progress are to be prevented from taking advantage of popular ignorance. It is the duty of those who are concerned for social progress to do their utmost to spread knowledge in this sphere so that the situation created by the growth of small savings may never be exploited for reactionary political ends.

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