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Reviewing the rhetoric of Self Help from a United Kingdom perspective

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Abstract

This paper explores the rhetoric of thrift, taking as its starting point Samuel Smiles’s best-selling book *Self Help*, which celebrates the 150th anniversary of its publication in 2009. It reviews the paradox in the rhetoric of saving that called on the poor to make provision for their old age, when they lacked and still lack the propensity to save. The paper shows how despite such rhetoric much saving was short-term from the beginning and explains how the rhetoric changed to reflect this with the emergence of state provided welfare. It explains how the savings banks along with other thrift organisations in the United Kingdom became aligned with commercial banks from the inter-war years and in the late twentieth century joined their ranks with a seeming eclipse in the rhetoric of thrift. It speculates on a possible revival in the use of the old concepts of thrift in the wake of the current financial crisis.

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It is appropriate on the eve of the 150th anniversary of the publication of Samuel Smiles’s international best seller *Self Help* and in the midst of arguably the most serious financial crisis since the nineteenth century to explore the changing attitudes to the relationship between saving and spending, particularly in the United Kingdom, over this period (Smiles 1859). By the time of Smiles’s death in 1904, *Self Help* had sold over a quarter of a million copies and been translated into several languages. It was informed by and reinforced attitudes to ‘thrift’, the title of a later book he published in 1875 (Smiles, 1875). To a modern reader the text may seem over burdened with Victorian platitudes from the opening sentence ‘Heaven helps those who help themselves’ (Smiles 1859). Smiles has been criticized by left-wing historians, who condemn him as a champion of an unbridled selfish capitalism of the sort that has dominated much press commentary on the behaviour of the banking community in recent weeks (Hobsbawn 1961, 228). As Peter Sinnema states in his introduction to the recent Oxford University Press edition the modern reader has inherited ‘a demeaned version of Smiles’ (Sinnema 2002, viii). Bob
Morris showed over twenty-five years ago, such opinion, which can be extended to modern attitudes to the rhetoric of thrift and prudence as a whole, are simplistic and overlook the sophistication and coherence of Smiles thought, in which in the wake of the failure to achieve radical political reform in the United Kingdom in the 1840s ‘reason, education and democracy produced freedom for all’ (Morris 1981, 95). As Morris argued small mutual self help organizations often associated with Protestant nonconformity, ‘scattered through the urban centres of industrial Britain’, were integral to Smiles’ vision for ‘human improvement and fulfilment [that] were formulated in such a way that financial failure, sectarian and class hostility, political violence and administrative chaos, and the power of social and economic elites could not place any barriers in the way of self respect and independence’ (108-9). This was not a new theme for Smiles: he had been lecturing on the subject for almost fifteen years and readily acknowledged his debt to earlier authors (Finlayson 1994, 20). His achievement was to illustrate the rhetoric of ‘self help’ with well chosen examples from all walks of life and to temper hedonistic self interest with a mutual respect for others, something sadly lacking in the behaviour of Wall Street in recent years.

Concepts of thrift and saving in the United Kingdom have their origins in the late eighteenth century that coincided with the beginning of industrialization and a growth in population. In 1771 Dr Richard Price, a radical non-conformist minister in Old Jewry in London, published a scheme for a national friendly society which was based on his experience as one of the co-founders of the Equitable Assurance on Lives & Survivorships (Price 1771, and Ogborn 1962, 85-97). The following year in collaboration with Francis Maseres, he proposed establishing a scheme of life assurance for the ‘industrious poor’ (Maseres 1772). An attempt at legislation failed, but the proposal attracted widespread enthusiasm for the formation of local friendly societies of the sort that Smiles later admired. Barriers to membership were high, with entry fines (fees), annual subscriptions and rafts of penalties for such offences as non-attendance at meetings and failure to pay subscriptions on time. After the French Revolution to deflect government suspicion that they might be a focus for sedition, a system of voluntary registration was introduced in 1793 that gave societies a legal status and protected their funds in the courts. By the end of the century there were 5,000 registered societies and
some 2,200 unregistered societies in England and Wales with nearly three-quarters of a million members (Gosden 1961, 4 and 16, quoting Eden 1801, 7). The majority of these societies were formed with the active support of local clergy, landowners and men of business: a paternalism of which Smiles was to disapprove but was to prove essential to the success of provident and savings organizations (Morris 1981, 100-101).

There was and is an internal contradiction in the rhetoric of ‘self help’ from the outset in that the needy could not and cannot be expected to help themselves entirely from their own resources. Some degree of paternalism and government support was an essential ingredient for any benefit or savings organisation to prosper. This was recognized by Societies for Bettering the Conditions and Increasing the Comforts of the Poor that were founded in a number of towns and cities in the United Kingdom from 1796. Such societies sought to ‘prevent vice and contagion’ and ‘promote virtue’, but at the same time provided the poor with cottages and gardens. According to Patrick Colquhoun, writing about London in 1796, ‘the improvident and even luxurious living which prevails too generally among various classes of the lower ranks of people in the metropolis leads to much misery and crime’ (Colquhoun 1796). This notion of over-consumption that reflected a dependency culture encouraged by statutory poor relief led him ten years later to propose a National Deposit Bank for Parochial Societies with government support that would act as an umbrella organisation for local benefit societies which would be promoted by the clergy and churchwardens in England and Wales (Colquhoun 1806). The political economist Thomas Malthus in the second edition of his celebrated Essay on the Principles of Population in 1803 also suggested from the perspective of over population that - ‘To facilitate the saving of small sums of money for this purpose [he is speaking of the purchase of a cow] and to encourage young labourers to economise their earnings with a view to a provision for marriage, it might be extremely useful to have County Banks, where the smallest sums would be received and a fair interest granted for them’ (Malthus 1803, Tracts 1816, 98). He developed these ideas in the fifth edition of 1817, going so far as to suggest that by postponing marriage until sufficient capital had been accumulated there would be less need for the state to provide support for needy families as there would be fewer of them (Malthus 1817, 275-6). Although he admitted that such a transition could not be effected quickly (277), his concept of ‘saving a portion
of present earnings for future contingencies’ (309) has remained the bedrock of much of the rhetoric of thrift and providence ever since. Nevertheless he later recognised that ‘the principle of saving taken to excess would destroy the motive to production’ (Malthus 1836, 7). While he extolled saving ‘as a most sacred private duty’, he had doubts about its public application (404 and 434) that was to be translated by Keynes a century later into his well known paradox of thrift – ‘a private virtue and a public vice’ (Keynes 1936, and Ahiakpor 1995). By this time the rhetoric of saving itself had also begun to change with the impact of state social welfare provision (Moss and Russell 1994, 153-5).

Neither the schemes proposed by Colquhoun nor Malthus came to anything, but another scheme advanced at much the same time by John Bone that did not involve government backing was launched in 1806 with the support of the voluntary contributions from the ‘nobility and gentry’ (Moss and Russell 1994, 18). By subscribing to the aptly named Economical Bank, patrons could either secure a place for themselves or recommend the elderly and infirm for place in a house of refuge called ‘Tranquillity’. There were no fines for non-payment of subscriptions which were to be invested at compound rates of interest to be paid to the subscriber ‘at the period of age in proportionate annuity for the remainder of his life’ (Bone 1806). Within less than a year of the launch of Tranquillity, Samuel Whitbread, the reforming Member of Parliament for Bedford, introduced a bill to set up a simplified bank using Post Offices that was based on Bone’s ideas. It failed to win support as parliament was pre-occupied in passing the legislation to abolish slavery. Bone reacted violently to Whitbread’s proposal accusing him of undermining ‘Tranquillity’ (Bone 1807). The experience of the initial response to Tranquillity, however, convinced him that neither Colquhoun nor Malthus were correct in their assumption that the poor had disposable income to save and there was indeed a further contradiction in the rhetoric of thrift. By analysing household budgets, he explained in a pamphlet Want of the People (Bone 1807) that only by the most prudent economy could the majority of the population prevent themselves falling into debt or resorting to crime. He concluded that the rising tide of criminality in British towns was the result of grinding poverty which condemned ‘many of the honest and hardworked people of England . . .to crawl over the soil for a few years, without ever once gasping a single breeze of pleasure, or being regarded with any degree of complacency than the reptiles which crawl over it
also’ (Bone 1807). After such an admission it is hardly surprising that the Economical bank closed its doors in June 1807. Keynes was later to state this problem in general terms when he pointed out the self-evident fact that savings are positively related to disposable income and that with falling incomes total spending may exceed income causing dis-saving and when income rise so does the marginal propensity to save. But as Bone had observed for the poorest sections of society there was never any opportunity for a marginal propensity to save.

Nevertheless there were many, as there still are today, who refused to accept this conclusion and remained convinced that Colquhoun and Malthus were correct, particularly at a time when the cost of social welfare provision was rising sharply as Napoleon’s trade blockade began to bite. There were many small local initiatives, but only two proposals for national schemes that interestingly from the perspective of the current turmoil in financial markets embedded guarantees for depositors’ savings, either by special deposits with the Bank of England or by investing proceeds entirely in government stock (Horne 1947, 37-8). Such guarantees were necessary at a time when bank failures were common place. In Scotland Henry Duncan, the Church of Scotland minister of the parish of Ruthwell in Dumfriesshire, drew together many of the ideas of all these abortive initiatives in his proposals for the formation of parish banks. Rejecting Bone’s conclusions and writing in the context of a very Scottish antagonism to compulsory taxation for social welfare provision that can clearly be seen reflected in American Republican sentiment today, he castigated poor rates ‘as a bribe to the industrious to become idle’ and advocated the establishment of an ‘economical bank, for the reception of the small savings of industrious tradesmen, servants and labourers’ (Duncan 1815). This was not mere rhetoric; Duncan had a decade of experience as a parish minister and a deep interest in practical measures to relieve poverty (Moss and Russell 1994, 23-25). The savings banks at Ruthwell, usually credited with being the first successful savings bank in the world, opened its doors in May 1810. He was soon reporting astonishing feats of personal saving, although there is reason to believe that they may have more to do with the ready cash circulating in the local economy as a result of smuggling than genuine providence. There were soon many savings institutions throughout Britain, either spontaneous developments or direct imitations of the Ruthwell
Bank (Moss and Russell 1994, 27-30). The most enthusiastic sponsor of savings banks was George Rose, Member of Parliament for Christchurch in Hampshire, who in 1816 wrote a pamphlet in which he admitted that daily labourers with young children did not have sufficient disposable income to invest, but was convinced that apprentices, unmarried journeymen and domestic servants all had money to save which many habitually spent on ‘drunkenness and dissipation of the worst kind’ (Rose 1816). He argued that providence would prevent young craftsmen resorting to extortionate pawnbrokers and like Malthus act as a deterrent against early marriage and therefore large families. The twin pillars of providence and abstinence with an underlying paternalism and in the case of savings banks security for depositors was to be the abiding rhetoric of the whole savings movement, including building societies and life assurance companies, for the rest of the nineteenth and into the twentieth century.

It was not without its critics. The radical William Cobbett condemned the concept of savings banks on the grounds that the poor did not have enough to save. Persuasive as such an argument was, there was evidence from growing deposits of the new banks that they were meeting a real need, even if they were not addressing their core purpose of reducing social welfare provision except possibly at the margin. With their status and deposits protected by legislation from 1817, savings bank were opened almost daily throughout Britain with a Utopian optimism. The Sheffield Mercury reflected on the first year of operation of the city’s bank in 1818: ‘We consider the establishment of these banks as one of the great improvements which distinguish modern times . . . the establishment of savings banks may ultimately tend to banish poverty and wretchedness from society’ (Moss and Russell 1994, 37). What this report failed to mention was that almost uniformly the bulk of deposits came from regular wage earners, confirming that there was a gap in the market for financial services for the less well off rather than the poor. By attracting deposits from what might be described as an emerging middling class the savings banks achieved the purpose of cementing them into the establishment and by so doing reduced the chances of their radicalization at a time of political tension. At the same time the habit of thrift inculcated by the savings banks had a profound effect on the outlook and disposition of those sections of society that were the principal beneficiaries of industrialisation. This was evident in attitudes to alcohol. Drunkenness, which had
been tolerated in the eighteenth century throughout society, became unacceptable and sobriety, even total abstinence, was embraced by the ‘respectable classes’. By 1825 the savings banks had deposits of £13.5 million, testimony to the success of this rhetoric. There were those who still opposed it, arguing that the income tax introduced to pay for the French wars (1794-1815) and then abolished should be re-introduced to redistribute wealth to the poor.

The moral hazard of providing guarantees was first tested during the 1825 economic crisis when a number of commercial banks either suspended payment or simply failed. The previous year the government prudently had already imposed a ceiling on deposits to prevent investors taking advantage of the relative security that the savings banks afforded. Nevertheless the savings banks proved to be a safer haven than the commercial banks for the remainder of the decade. This of course was not at all what was intended when they were established. Their purpose was to supplement rather than compete with existing financial services. More embarrassingly the government was in fact subsidising dividends to the tune of some £50,000 a year as it was obliged to pay returns at a rate that was fixed above bank rate. In 1828 the rate of return was reduced and the ceiling on deposits sharply reduced, but deposits were to be held and guaranteed by the National Debt Commissioners. As a consequence the volume of business declined sharply, confirming that the savings banks were meeting a market need that was not related to their underlying rhetoric even if they had achieved only a 3 per cent market penetration (Pratt 1830). Inherent in the withdrawal of large deposits was and still is one of the paradoxes of retail banking that such deposits provide the foundations for any financial institution to hold very small accounts with balances that pay little interest and cost more to service than any management fees they yield. This can be construed in an historical context as paternalism, which it may well have been; but from a contemporary context would probably be put down to inertia or prudence if the institution provides guarantees against loss.

The difficulties that confronted the savings movement coincided with period of political instability in the United Kingdom which was to lead to political reform that not only heralded the end of the ‘old corruption’, but also and more importantly an emphasis on
individual self-determination, nowhere more evident than in proposals for the New Poor Law that was rooted in Benthamite Utilitarianism. Much of the discussion which informed the new legislation went over the old ground of whether the poor had sufficient disposable income to save. The balance of opinion, based admittedly on very partial evidence, was that they could and that one of the barriers to providence was the over-generous existing poor law or social welfare provision. In the immediate aftermath of the introduction of the New Poor Law, which was a period of economic difficulty, this view appeared to be confirmed by a growth in the number of depositors as opposed to total savings, even though the savings banks were only serving some 5 per cent of the population – what might be termed the ‘aristocracy of labour’. Such progress attracted criticism from radicals who believed that savings banks were only attracting deposits because they were guaranteed and paid returns that were set well above bank rate. The response from the savings banks was that their principal customers were indeed the aristocracy of the labour market and not professional men or people of the middling sort. Nevertheless legislation in 1844 slashed interest rates and reduced both the annual limit on deposits and the total could be held to £120. There was a storm of protest from the savings movement over concerns that those with large deposits would be forced to withdraw them either to spend or more worryingly be tempted ‘to invest it in plausible, but delusive undertakings’ (Moss and Russell 1994, 49). As a result legislation was revised and the reduction in the ceiling on deposits abandoned. Not all commentators agreed that the government should have bowed to such pressure. The Times newspaper, at the time a radical imprint nicknamed The Thunderer, repeatedly questioned the morality of encouraging those with low incomes to save so as to avoid the workhouse in times of economic hardship. This sustained attack was to have damaging consequences during the recession of the late 1840s and the fraudulent collapse of three Irish savings banks and the Rochdale Savings Bank in the north-west of England. Then, as now, the response was tighter regulation, improved governance and the publication of a consolidated account each year by the National Debt Commissioner.

The first report published in 1852 was the first systematic review of the penetration of the savings movement since its inception. It had been most successful in London where disposable incomes were high with almost 12 per cent of the population of Middlesex,
some 223,000 people, holding accounts. This was followed by Devon with just under 9.5 per cent, then the East Riding of Yorkshire with a little more than 9.1 per cent, and Hereford with 8.2 per cent. Across the whole country the average was between 5 and 6 per cent. The ratio of the number of withdrawals to deposit of 2:1 suggested that the savings banks were by now firmly established as a means of short-term ‘purpose’ savings to meet projected expenditure, such as rents, and not, as the rhetoric suggested for long term thrift. This volume of transactions one mostly small accounts presented trustees with a serious problem as they yielded almost no income to the banks. Despite this evidence that savings banks were providing a diluted commercial bank service for better-off artisans and domestic servants that was confirmed by the actuary of the Edinburgh Savings Bank who reported that they had made no headway in attracting deposits from the industrial classes, trustees remained wedded to a rhetoric of a higher moral purpose for the movement. This view was encouraged by a sustained economic recovery, falling prices and growing prosperity as Britain began to reap the benefits of free trade. A speech by the Reverend Dr Buchanan of the City of Glasgow Savings bank in 1851 was typical when he quoted the example of one individual: ‘He is a boot clever to his trade and a crack workman. He could show you specimens of fancy stitching that might have been worthy of a place at the Great Exhibition [held that year in London]. He can make 30 shillings a week with ease – and he has been in a position to do so for many years – and yet if disease or old age were to overtake him as he is, he would have no refuge but the workhouse, and would, when he died, have to be indebted to the poor’s rates for his coffin’. He compared him with a man who had been introduced to the savings banks shortly after it opened and become a regular investor: ‘And what has been the result? Two or three years ago a snug little business, in a county town, of a kind that suited him, was offered for sale. To purchase the stock and the goodwill together required a sum of about £500. Our prosperous merchant had by this time that sum at his credit . . .’ (Moss and Russell 1994, 58).

Such optimism was quickly eclipsed when in 1853 withdrawals exceeded deposits, caused in part by emigration and by a rising cost of living that reduced the ‘marginal propensity to save’ and in part by political criticism that was to lead eventually to the establishment of the Post Office Savings Bank in 1861. During the late 1850s there was
an intense debate about the future of the movement in the United Kingdom. *The Times* newspaper argued that ‘Government should not be mixed up with in banking for any class’, while proponents of the movement rejoined that government was under a moral obligation to encourage saving. The tone of the rhetoric was shifting away from provision for periods of unemployment and old age, reflecting a fall in expenditure on poor relief, towards a temperance agenda that was to persist for the rest of the century. The Archdeacon of Salop, the Very Reverend John Allan, forcibly stated such the social agenda of the movement: ‘We want to lead the poor, under God’s blessing, to self-reliance and self-help . . . Many indulge largely in tobacco, without considering that for every ounce per week that is spent in thus weakening their energies, thirteen shillings in the year passes away in smoke. To be a depositor at a savings bank is to have the best certification that I know of for sobriety and honesty’ (Moss and Russell 1994, 65). With a rapidly industrialising population, drunkenness and insobriety were a threat not just to productivity but also to life. Mr Nixon, the owner of a factory at Mountain Ash near Aberdare in Wales, expressed a widely held opinion amongst employers when he told a party he hosted for his workforce: ‘You ought to save a little money so that when you get old you may have a house over your head and something to fall back on . . But I tell you this I will not have a drunken man on the premises, for the drunken men are the pest of the neighbourhood, and I will have them weeded out’ (Moss and Russell 1994, 66). The only weakness in such arguments was that the movement, as the returns showed, had not achieved uniform national coverage. This led Charles Sikes, a Yorkshire industrialist, in 1859 to advocate a savings bank based on the national network of Post Offices.

This was the context in which Samuel Smiles penned *Self Help* that was published in that year. In keeping with the attitudes of churchmen and social reformers, such as Charles Kingsley, John Keble and Henry Newman, the objective of *Self Help* was as much moral improvement or individual fulfilment as financial reward. In Smiles’s view, the struggle to live prudently was an achievement in itself because man’s natural state was prodigality. He contended that for all its tedium and repetition, labour was both honourable and pleasurable with results, even from the most humble tasks that were never lost. It was this very sense of continuity that, according to Smiles, provided the motive for thrift as savings resulted in investment which in turn made for far more
opportunities for work: ‘The building of all the houses, the mills, the bridges, and the ships, and the accomplishment of all other great works which have rendered man civilised and happy, has been done by the savers, the thrifty; and those who have wasted their resources have always been their slaves’. Everyone had a moral duty to save: ‘A penny is a very small matter yet the comfort of thousands of families depends upon the proper spending and saving of pennies’ (Smiles 1959). Inevitably there was something naïve about his views that denied the poorest lacked a marginal propensity to save. Although Smiles was a committed free-trader with a dislike of political interference, he did admit that government had a responsibility to regulate society and institutions. It was in this spirit that William Gladstone, then Chancellor of the Exchequer, introduced the measure for the formation of the Post Office Savings Bank in 1861 with provision that, if they so chose, savings bank could transfer their deposits and wind themselves up. Nevertheless Gladstone was at pains to reassure the savings banks that the Post Office Savings Bank was to complement rather the compete with them. Branches were swiftly opened across the United Kingdom and a national pamphlet campaign launched to encourage deposit. Their tone harkened back to the earlier rhetoric of provision for the vicissitudes of life and old age, particularly the purchase of life assurance. By the close of 1862 the Post Office Savings Banks had attracted over 178,000 customers and total deposits of almost £1.7 million at the expense of savings banks which experienced a sharp decline in the number of depositors throughout the country. There was an urgent need for the movement to speak with a common voice through a national extension committee that was formed in London in 1862, which was to lead in 1886 to the formation of the Trustee Savings Banks Association. Savings banks were not only facing competition for small deposits from the Post Office, but also for their larger custom from the commercial banks that were seeking additional retail deposits through evolving branch networks to shore up their balance sheets. However, they were unable to pay as competitive rates of interest on their current accounts.

In the period of prosperity in the late 1860s and into the 1870s the behaviour of depositors in the savings banks and the Post Office savings Banks again gave the lie to the rhetoric with evidence that saving for spending took precedence over saving for life’s vicissitudes. By this time there was little that could not be mass-produced and in every
town and city there were magnificent new shops to entice the unwary shopper. Even Samuel Smiles did not believe that thrift should be practiced at the expense of domestic comfort, including the occasional indulgence. The reaction, hearkening back to Colquhoun’s ideas of over-consumption, was to warn against the dangers of overspending and the intemperate use of alcohol and emphasise the virtues of domestic economy and saving. The Reverend T E Crolland, chaplain of the County Asylum at Haywards Heath in Sussex, railed against the state of British society at a savings bank meeting in Liverpool in 1873 ‘as pretty well saturated with extravagance and the result was a good deal of waste, squalor and misery, full unions [workhouse], crowded jails and gin palaces. I they could advocate the people to be thrifty then instead of waste, squalor and misery, there would be economy, decency and comfort, instead of poverty, drink and vice, there would be general sobriety, prosperity and honesty’ (Moss and Russell 1994, 89). With competition from the commercial banks and an increasing volume of transactions, the savings banks to cover their costs had at the same time to find ways of offering higher interest rates to their larger customers on which they depended to meet their overheads. There was provision in the legislation to enable them to do this by opening special investment accounts that were invested in local government stocks which paid higher returns than National Debt Commissioner. During the 1870s the savings banks and the thrift movement in general gained ground in the north of Britain, particularly Scotland, while it lost ground to the Post Office Savings Bank in the south. This was to have important consequences with Scotland and northern counties becoming synonymous with provident institutions that have only been eclipsed in the current banking crisis with the well-publicized difficulties of HBOS (Halifax bank of Scotland) and RBS (Royal Bank of Scotland).

By the mid-1880s attitudes were beginning to change with social commentators and philosophers, such as T H Green, arguing that personal freedom could only be achieved through a degree of state direction and control and challenging the notion that the poor had a marginal propensity to save. This was very different from Samuel Smiles’s conviction that hardship and struggle allowed an individual to escape from a natural state of prodigality into one of self-determination. Such ideas were to be confirmed by the first systematic social surveys conducted in the 1890s and to lead to the beginnings of the
welfare state by the Liberal government just before the outbreak of the First World War and to the emergence of the Labour party. With the rhetoric of thrift off the political agenda, government could afford to allow the Post Office Savings Bank, aimed directly at the poorest in society, and the savings banks, whose customer base was amongst the better off, to co-exist. In the southern half of Britain the result was that many savings banks closed and handed over their funds to the Post Office, while in the north they prospered, helped by rising real wages and increase in both the annual limit on deposits and the ceiling on total deposits. As before increased custom came from craftsman and artisans, mostly it would seem in the service and tertiary sectors of the economy (Lloyd-Jones and Lewis 1991). There was an accompanying growth in saving by and for children. By 1899 the savings banks had achieved a some 7 per cent penetration. Much of this growth seems to have been in saving for a purpose, for example holidays and entertainment, than for the long term. In the prosperous final decade of the century a rise in savings was experienced across the whole thrift movement with huge increase in membership of friendly societies and a sharp increase in the sale of life insurance products. In the face of criticism of their rhetoric by social commentators, the movement questioned its purpose but was encouraged to persist when analysis showed that the majority of customers held small deposits of about £10. Although there were those, who condemned the fin de siècle consumer society, there was little evidence despite a sharp rise in alcohol consumption to account for 8 per cent of family budgets, that spending was outstripping saving.

The long recession that started at the turn of the century and lasted for almost a decade confirmed Keynes’s observation that the propensity to save is correlated with disposable income. By 1905 total withdrawals of savings exceeded deposits but turnover did not decline, suggesting that savings accounts were being used effectively as a form of current account. There were those who rejected a Keynesian explanation for a decline in savings ratios, preferring to the lay the blame at extravagant expenditure on the luxuries and amusements of Edwardian Britain. There were many in the savings bank movement that clung to the old rhetoric that for most families thrift was an essential virtue, safeguarding health and happiness. Such attitudes were summed up by a press reporter observing a shabbily dressed old women making a deposit in the Savings Bank of Glasgow; ‘She can
only go on working and fighting till the end with what spirit she can. There is heroism in
the conflict, too, all the greater perhaps because it is unremarked by any, and least of all
by the poor woman herself” (Moss and Russell 1994, 110). The axe was finally laid to
any such ideas by the evidence presented to the Royal Commission on the Poor Laws and
Relief of Distress by Charles Booth in 1906 who from his detailed investigations of
household incomes showed that a large part of the population ‘have not the ambition or
the ability to establish out of their wages a fund to which they may turn in times of
stress’. The commission were not so naïve to lay the blame at the door of improvidence,
but identified more fundamental explanations in an ageing population as life expectancy
rose and structural unemployment as old industries and crafts declined. In keeping with
these findings many of the savings banks ceased to promote thrift as an avenue out of
poverty, but instead attacked extravagance, amusements, gambling and particularly an
over-indulgence in alcohol that appealed directly to the Liberal government elected in
1906. Although Lloyd-George, the Liberal Chancellor of the Exchequer, was a
confirmed teetotaller, his principal concern was ‘to wage implacable warfare against
poverty and squalidness’, tackling the problems identified by the Royal Commission.
Duty on alcohol, tobacco and petrol was raised sharply and income tax and death duties
set at unprecedented levels. His People’s budget of 1909 was only passed after a
constitutional crisis and amongst savings banks a concern remained that increased
taxation would discourage thrift amongst depositors. The National Insurance Act of 1911
made provision for the first time for health insurance and unemployment benefit to those
engaged in certain cyclical industries. Although the state might have appeared to take
over the original role of the savings movement, the Liberal government went out of its
way to emphasise that thrift was as much the handmaid of the new welfare state as ‘a new
and very general desire will arise among men to augment the State allowances, which is
theirs in certain emergencies, by some effort of their own, for they will have the State’s
assurance that sickness and unemployment, the grim spectres which have hitherto
confronted working men, will not rob them of a penny of their savings’ (Moss and

The progress of welfare reform including the introduction of old age pensions was
interrupted by the First World War. Although the war savings campaign is of
considerable interest, it need not concern us here except that it led to the establishment of municipal banks in towns with no savings banks and to the peacetime government sponsored National Savings Campaign designed to cool the economy by deferring spending. Such a policy simply underlined the fact that saving was now recognised to be largely for future consumption. Despite the competition from National Savings and the Post Office Savings Banks, the savings banks more than held their own in the early years after the war. While their rhetoric still included the need to supplement state welfare benefits, it began to embrace much more explicitly saving for consumption, such as household furniture, holidays and travel. Thomas Henderson of the Savings Bank of Glasgow argued that: ‘To many thoughtful minds in the savings bank movement it has been apparent for some time that, if savings banks are to maintain their hold upon the community, then they must adapt their methods to the changing needs of the day, they realise that the old conceptions of their functions which was limited very largely to making provision for a rainy day, must give place to a wider conception and meet, more adequately, present day requirements (Moss and Russell 1994, 152). The managers of the Coventry Savings Bank were struck by the number of depositors who withdrew savings in 1925 to buy houses: ‘The purchase of a house is an excellent use to make of savings, and the most satisfactory way of doing so is to save the money to pay for it’ (Moss and Russell 1994, 153-4). As enthusiasm for house purchase swept Britain, particularly the south of England, the savings banks could not match the growth of the building societies in attracting depositors usually with much higher rates of interest. They were not, however, eclipsed and the number of depositors and total deposits continued to grow, while those of the Post Office Savings Bank fell.

The first response to the crisis in the economy at the end of the 1920s was to raise interest rates to protect the exchange rate and to slash government expenditure including welfare payments. This approach was rejected by Keynes and his supporters, who argued that the correct approach was to increase expenditure and the slash interest rates allowing sterling to float against other currencies. He argued that far form there being a moral imperative to save, for those who could afford it there was a moral duty to spend to sustain production, echoing the ideas of Malthus over a century earlier. Although the government accepted the need for cheap money by reducing interest rates, particularly on
the massive war debt, it did not accept the need for increased expenditure either public or private. Throughout 1932 and 1933 the savings banks went to great length to counter Keynes’s claim that depositors were saving when they should have been spending. They could be forgiven as advice from economists was conflicting and thrift remained very much part of the government agenda through the National Savings Campaign. One unintended consequence of cheap money was a massive housing boom in the mid-1930s that itself stimulated expenditure and the withdrawal of deposits. There were still those who rejected the concept of saving for spending, but the majority would have agreed with Max Nicholson, general secretary of the National Savings Committee who summed up the new approach:

Jam tomorrow and never jam today seems to me equally unsound in the moral as in the economic sphere, even admitting that we are our poor brethren’s keepers. The real issue is, given the right amount of savings from the saver’s point of view, what monetary or economic measures are necessary to ensure sufficient aggregate spending to keep activity and employment going – or to get them going, as the case may be (Moss and Russell 1994, 182).

The suggestion that the savings banks should enter the hire purchase market was a bridge too far for some commentators, such as the Reverend Beaumont James, the vicar of a working class parish, whose views have a contemporary ring: ‘house purchase . . . is one of the most pernicious forms of hire purchase. Often those who went into house to be purchased under some plan came from a social class which had no experience of possessions before; they were ignorant of all that they were committing themselves to, and sooner or later found themselves in difficulties’ (Moss and Russell 1994, 183).

This debate that had its origins in the very beginning of the savings movement was interrupted by the preparations for hostilities in the summer of 1939. As in the previous conflict the savings banks were subsumed into the War Finance Campaign that need not detain us here. Just as in the previous conflict the saving campaign continued after the war during the long period of austerity that lasted into the early 1950s and saw saving ratios fall from 10 per cent in 1945 to less than 3 per cent in 1950. Under the post-war Labour government the welfare state was further extended with the creation in 1948 of
the National Health Service and a costly programme of nationalisation of essential services and industries. Against this background the whole savings movement had no alternative but to return to the inter-war rhetoric of saving for future consumption – a purpose, particularly the purchase of household goods and for holidays and recreation. The Oxford Savings Bank was typical in telling depositors:

In many cases saving through the Bank is for short periods only, but the Committee believes that the type of savings, for example, to meet commitments for household expenditure, or for holidays or Christmas, is a form of Thrift no less valuable than the old established conception of saving as being the accumulation of small sums over a longer period of years, often with no particular end in view. Experience has shown that the short-term saver, having learnt the values of his short-term saving, becomes a long-term saver.

This did not mean that the old rhetoric was completely abandoned as it could be applied to both long and short-term savers. Advertisement still contrasted the contented provident saver with the dismal improvident. The predominance of short term saving aligned the savings banks much more closely with the commercial retail banks that by now had greatly extended their branch network and were competing directly for deposits, particularly those of larger better-off customers making it difficult for savings banks to service smaller accounts.

The twenty years from 1950 to 1970 can best be characterised as an unequal struggle between the whole of the thrift movement in the United Kingdom and the commercial banks that were rapidly extending their services to retail customers who were themselves coming to expect a range of financial services that the savings institutions lacked the power to provide. The savings banks responded by amalgamations that were stimulated by the need to automate processes to reduce the cost of managing thousands of small accounts and the need to introduce movement wide services, such as cheque payment, which often required either legislation or government approval. As is well known this was to lead inexorably to the amalgamation of nearly all the banks into regional groupings and finally into one single UK wider organization – the TSB, which was floated on the stock exchange in 1986. Although the decision to float rather than leave
the TSB as a mutual organisation was taken by the Conservative government which was opposed to any involvement by the state in the market for financial services, with hindsight it would probably have happened in any event. The problem for the TSB and its managers was that they lacked any experience of commercial banking and most of the capital raised at flotation, which was much in excess of capital requirements, was lost in very risky ventures into merchant banking and insurance. After a period of reorganisation and restructuring around its core business of retail financial services, Lloyds Bank, an old established UK commercial bank, acquired TSB in 1995 and has traded under the name Lloyds TSB until now. This transition from a network of savings banks of various sizes with deep local roots into a fully fledged commercial bank was painful and not without its critics. It involved the final jettisoning of the old rhetoric of thrift. From the perspective of the current banking crisis, it is easy to look back with hindsight and agree with those who had doubts at the time; but that would be simplistic.

From the early 1960s systematic data of savings ratios has been collected that appears to show a clear correlation between saving and disposable income that is partly a coefficient of movements in house prices. When house prices are rising savings fall and when they drop savings rise. The ratio varied widely from a high of 12.4 per cent in 1980 to a low of 4.9 per cent in 1988 during a period of expansion that saw house prices soar, recover in the 1990s to almost their 1980 level, and then fall swiftly after 2005 into negative territory by 2008 for the first time for fifty years. These trends seem to confirm the Keynesian consumption function and suggest that the rhetoric of thrift has never had much effect on the disposition to save. The difficulty, however, with these ratios is that they are based on a crude calculation of the difference between household income and expenditure. Because they take no account of the relationship between borrowing and saving, the implication is that when the ratio falls households stop saving. Research by Research Analysis and Knowledge Management (RAKM) in 2003 suggests that this view is mistaken and that what happens during periods of economic expansion is that many households shoulder a greater burden of debt, but nevertheless continue to save (RKAM 2004). A subsequent report in 2004 entitled ‘Is thrift a thing of the past’, posed the question ‘the concept of thrift has been sacrificed on the alter of retail therapy’ (RKAM 2005, 34) and in 2005 contrasted such a state of affairs with a period when saving in the
form of deferred expenditure was a commonplace with a complete reversal in the previous five years (RKAM 2006, 7):

The evolution of the UK’s, and indeed the world’s, economy saw a significant change in the way debt and savings were treated, driven by legislative change. “Debt” became “Credit”, and “Thrift” became an archaic idea. Saving as a concept did not entirely die out; indeed the same events that opened up the supply of finance to the population also broadened the opportunities available for putting spare money to work, as the economies expanded rapidly substantial gains could be made by those investors who were willing to speculate. As markets and returns continued to grow, the perceived risk of investment fell and thrift became marginalised by the desire to speculate; traditional saving mechanisms were unable to compete with the returns from equity based products and were hampered by falling inflation and the associated decline in interest rates.

Perhaps not surprisingly the report found, as in the previous study, that between a quarter and a third of the population were savers with no borrowings with the largest percentage being in Scotland and southwest England. As interestingly 20 percent of active borrowers were also savers and that nine out of ten of the population had an account that could be used for saving. In its most recent study RKAM has shown that well before the credit crunch began to bite borrowers were prudently saving and the proportion of the population with no borrowings was 45 per cent (RKAM 2008, 5). Taken together these reports suggest that the marginal propensity to save is not as cyclical as the crude savings ratios might suggest and concepts of ‘thrift’ and ‘providence’ are still embedded in the moral compass of a large proportion of the population.

It would be fallacious to infer from such evidence that there might be a revival of savings banks and other thrift institutions in the United Kingdom when so many commercial and even investment banks are now actively in the market for retail deposits; but it is clear that those who argued for flotation largely to provide credit for consumers during periods of expansion were, perhaps, mistaken. What we can expect is a return to a rhetoric of long-term saving that has its origins at the very beginnings of the savings movement, which will be promoted more actively by both financial institutions and government and,
if taken seriously, will have serious implications for our consumer culture with its dependency on over-consumption that concerned Colquhoun. With a requirement almost certainly to have to operate within much tighter capital constraints than before that in themselves will be deflationary, there will be every incentive for financial institutions to promote thrift to sustain their capital base rather than aggressively sell credit facilities. This takes us right back to Malthus’s concern that ‘the principle of saving taken to excess would destroy the motive to production’ (Malthus 1836, 7) and Keynes’s aphorism ‘a private virtue and a public vice’ (Keynes 1936). It may be that Samuel Smiles’s Self Help will have more relevance on the hundred and fiftieth anniversary of its publications that might have been thought a decade ago. The conundrum remains as to why in other parts of Europe mutual savings institutions with similar origins to those in the United Kingdom have survived; whereas in Britain they were largely transformed in the 1980s and 1990s into commercial financial institutions and many were quickly acquired by commercial banks, simply becoming brands in a portfolio. Arguments advanced were lack of size and access to capital which in retrospect has contributed to their undoing, as was unquestionably the case with the TSB.
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