RUTH SUNDERLAND: The gloriously British way we can ALL go to war against our vast debt of £2 TRILLION

By RUTH SUNDERLAND FOR THE DAILY MAIL

PUBLISHED: 00:04, 4 February 2021 | **UPDATED:** 00:13, 4 February 2021

Tucked away in the National Archives, among state documents and papers of historic significance, is a humble letter written by an anonymous woman.

The script is a beautiful cursive, and although the paper is blotted and torn, the poignancy shines through, 100 years after the writer posted it when Britain was in the throes of World War I.

'It is heartbreaking to read in the Daily Mail every day a request for money for the War Loan when one has not any to give,' she writes.

'As I have no money I am hoping you can turn this bracelet into a bullet.'

Few people these days would contemplate giving their jewellery to the Chancellor, Rishi Sunak, even when the national debt is soaring because of the pandemic.

Yet, just as in 1914 and 1939, our Government is having to find vast sums to win a life-and-death battle, albeit against a virus and not a human foe.

And the average citizen has never been in a better position to provide them. Britons have amassed an astounding £150 billion of 'accidental savings' during the lockdowns because they have not been able to spend as usual on holidays, eating out and other activities outlawed by the pandemic.

Just as in 1914 and 1939, our Government is having to find vast sums to win a life-and-death battle, albeit against a virus and not a human foe. Many are itching to splash out, and that will act as fuel to get the economy off the ground again, but people will also be looking to save some of this gargantuan surplus — which is a problem, given that bank and building society rates are at rock bottom, languishing below inflation. Pictured: A 20th century War Bonds poster advertisement

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But one person's problem is another's opportunity. Rishi Sunak will need billions of pounds more to rebuild our shattered economy once Covid-19 is finally in retreat, and he could borrow an idea from history by creating a contemporary version of War Bonds to mobilise savers in that battle.

Fightback

David Lloyd George, who was Chancellor in the early part of the Great War, and his successors in No 11 raised huge sums from savers through War Bonds, which were basically IOUs from the government to members of the public, paying a fixed rate of interest.

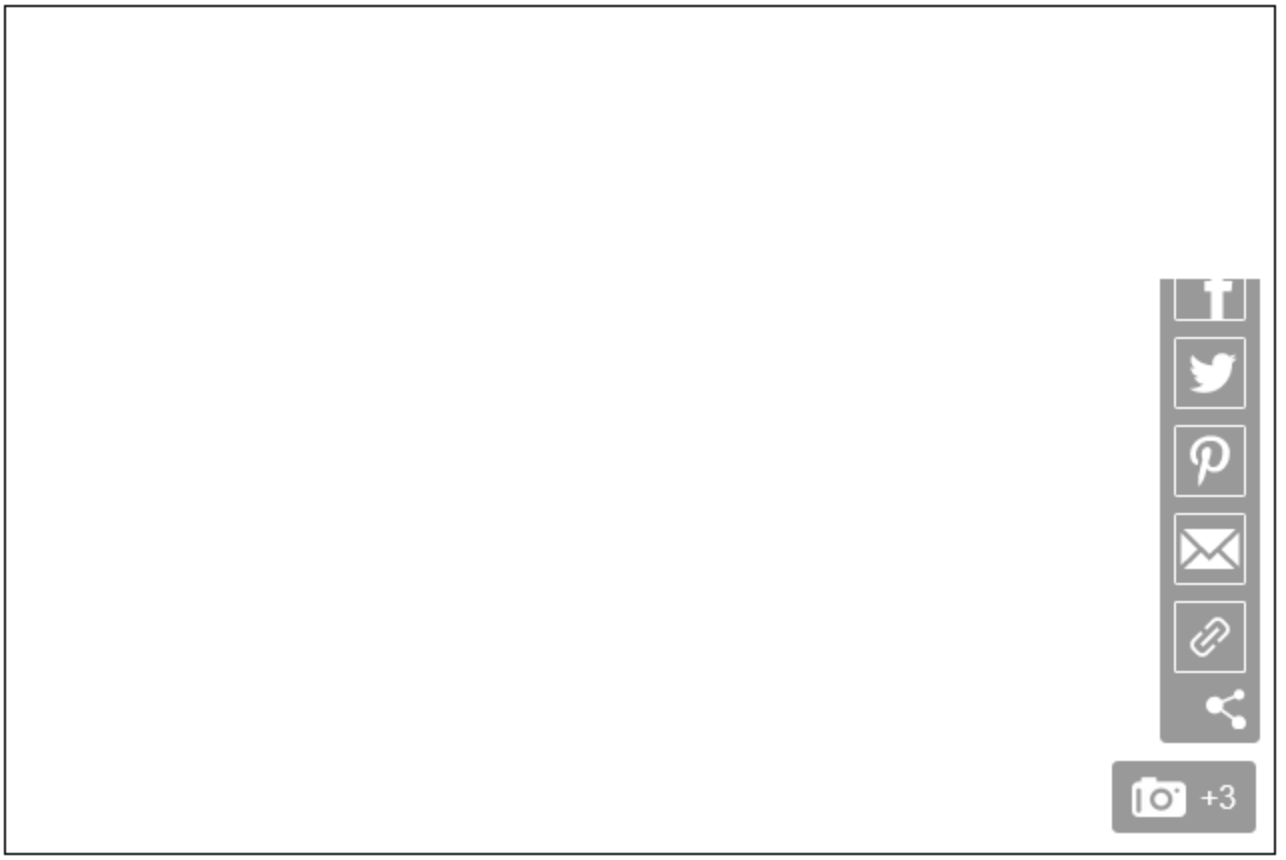
It was a simple but highly effective idea, and one to which we should return now.

Introducing Recovery Bonds in the Budget next month would be a win-win, providing money to fund the economic fightback and a healthy return to savers.

A modern day Recovery Bond could fund much-needed infrastructure projects, including road, rail, green energy and medical research, while at the same time offering a superior return to the miserly rates on offer at the banks.

Experts say a guaranteed return of 2 per cent, plus the promise of getting the capital back in full, would be enough to encourage people to invest.

Rishi Sunak might reflect that enlisting the help of the public through savings bonds at times of national emergency has a long and fascinating history.



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The first £350 million tranche of War Bonds, which offered a then-generous rate of interest of 3.5 per cent and were repayable in ten years, was issued in 1914.

Sadly, it was a flop — so much so that the Bank of England secretly bought up a large chunk to disguise the disaster.

A huge propaganda campaign was then mounted to persuade Britons, many of whom were living on very straitened budgets, to buy the bonds. Posters assured the public that 'unlike the soldier, the investor runs no risk'.

Subsequent War Bonds were issued annually on ever better rates of interest, to the point where it became difficult for the government to make the payments.

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Winston Churchill, when he was Chancellor in 1927, refinanced some World War I bonds at 4 per cent interest.

Five years later, Neville Chamberlain reduced the interest on a tranche from 5 per cent to 3.5 per cent, with the agreement of investors, as it was still a very good deal at the time.

When Britain went back to war in 1939, savers once again did their bit. Local savings weeks were organised, with women volunteering to form groups on their streets and collect small sums from the neighbours each week.

People were exhorted to 'Save Your Way to Victory' and 'Lend to Defend the Right to be Free'.

Remarkably, the 1914 to 1918 war debts were not finally repaid until 2014, by then Chancellor George Osborne.

Like many of a certain vintage, I feel a touch of nostalgia for War Bonds, having inherited a small number paying 3.5 per cent from my grandmother — a rate I'd love to achieve today.

People now may be less inclined to hand over their savings to the Government as an act of patriotism than they were in 1914 — but a decent interest rate and the guaranteed return of capital over several years would no doubt do the trick.

Helpfully, there is a recent precedent. In 2015, George Osborne introduced National Savings Pensioner Bonds for the over-65s, offering 2.8 per cent on a one-year bond and 4 per cent over three years. They were hugely popular with the public.

Recovery Bonds could also be issued through National Savings & Investments, which, although lately the subject of a rise in complaints, remains a trusted institution backed by the Government. This could be a chance for NS&I to redeem itself.

Lifeline

The bonds could be designed to pay a fixed rate of interest over a set time, possibly with one-year, three-year, five- year and ten-year options, with a bigger return the longer people invest.

Finance expert Dr Ros Altmann argues that rates of about 2 per cent would be enough to attract savers who are receiving derisory returns from the banks, often of well under 1 per cent.

An index-linked variant would appeal to those concerned about the possible return of inflation.

Apart from the financial side, investing in these bonds would create a 'feel-good factor' as people would know they were helping to rebuild prosperity.

Because of the extreme stress on our finances caused by Covid-19, our national debt is already more than £2 trillion.

Large posters encouraging people to buy War Bonds to raise money for weapons are seen on display on Nelson's Column in Trafalgar Square, London in May 1941

Some financial experts will no doubt point out that nowadays there is no need for governments to tap their citizens for cash when they can turn to international money markets for cheap funding.

It's true that the UK's credit rating is strong and we would have no problems raising finance by that route.

But without wishing to sound crudely patriotic, it is much better that the Government meets our financing needs by borrowing from its own citizens, in our own currency, than by going into debt to foreign investors.

These bonds would not be the cheapest way for the Government to borrow money and would only ever be part of the solution to funding our burgeoning debt. But they could play a very worthwhile role.

And Recovery Bonds would have a positive psychological impact at a time when many of us are feeling miserable, as they would give people a small but tangible stake in the economic revival.

Rishi Sunak is already committed to issuing green bonds for investors who want to fund environmentally friendly projects, so it is not a big leap to launching Recovery Bonds.

They would be a lifeline to savers and a boon to the economy as a whole.

Now that really would be a rabbit to pull out of his Budget hat.