

Paper for presentation at European Business History Association Conference, 26-28 August 2010, University of Glasgow

‘The business of Britain’s National Giro, 1968-78: “Socialist euphoria and self-deception”?’

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preliminary draft: please do not quote without permission of authors

this version: 24 August 2010

Abstract

In 1968 Britain’s National Giro (the Giro) opened for business as part of the Post Office, using the latter’s branch network to provide an alternative national payments system to the major commercial banks’ traditional cheque-clearing system. The Giro was a visionary project, but inherent weaknesses rapidly became apparent during its first ten years of commercial struggle. With large losses and business volumes well below expectations, it was fortunate to escape closure or privatization after a 1971 government review. After this review, a Conservative minister accused the Giro’s main Labour political sponsor, Anthony Wedgwood Benn, of ‘Socialist euphoria and self-deception’ in the organization’s establishment. The Giro sought to address its key weaknesses. It restructured its operations and finances, and appointed a managing director from the private sector. It refined its objectives, enhanced its marketing, added services, and tried to win more government business. Slow improvement in performance led to eventual privatization in 1990, but only after it had become a very different organization from that originally conceived. This unusual organization reflects major themes in postwar British political economy: the balance between the public and private sectors; the extent to which government should involve itself in business; and class issues.

key words: the National Giro; the Post Office; British banks; the Labour government; Tony Benn.

1. Introduction

During the 1964-70 Labour government, Britain's National Giro (the Giro) was approved and began operations. It was part of the Post Office, and used the latter's branch network to provide an alternative national payments system to the traditional cheque-clearing system operated by the major commercial banks. But the Giro, a rare British state-owned financial institution, struggled commercially, as inherent weaknesses rapidly became apparent during its first few years of operations. With large losses and business volumes well below expectations, it was fortunate to escape closure or sell-off after a 1971 government review. After this review, when a Conservative minister accused the Giro's main Labour political sponsor, Anthony Wedgwood Benn, of 'Socialist euphoria and self-deception' in the organisation's establishment, the Giro sought to address its key weaknesses. It restructured its operations and finances, enhanced its marketing and added additional services. It also appointed a managing director from the private sector, who privately lamented lack of government support through his Whitehall 'back-channels'. Slow improvement in performance allowed it to enjoy some eventual success before privatization in 1990, but only after it had become a very different organization from that originally conceived. We present a brief chronology of the Giro in Table 1.

[INSERT TABLE 1]

The Giro was a visionary project, but failed in its execution despite significant advantages: the ability to learn from successful giro systems in other countries; a large potential market among personal customers; no legacy issues in adopting a computerised system; and strong political support from the Labour government. The Giro was not ill-considered, and was always intended to be a commercial project, but its fundamental failure was to anticipate demand for its services, particularly from private individuals, which never materialised. It therefore over-built its infrastructure, at the same time believing that its niche in the financial services market could allow it to compete successfully with a narrow range of services. It was hampered by government constraints on its services and investment powers. The government also failed to boost the volume of business passing through the Giro's under-used infrastructure, though much greater volumes of state benefits and salaries paid through the Giro would probably have placed great pressure on Post Office branches as account holders withdrew cash.

In this paper we take up Fridenson's (2004) challenge to business historians to reflect on failure. We explore the first ten years of this unusual organisation, whose history reflects major themes in postwar British political economy: the balance between the public and private sectors; the extent to which government should involve itself in business; and class issues. Our main sources are records from Britain's National Archives, the archives of the Giro and the Post Office, and the accounts of the Post Office. The remainder of the paper is structured as follows. The next section examines why a giro system was established in Britain in the late 1960s. In the third section we review the first ten years of the Giro's operations. The fourth section assesses the weaknesses of the Giro which contributed to its commercial struggles. In the final section we draw conclusions.

2. The case for establishing the Giro

In late 1964 Britain elected a Labour government and Harold Wilson became Prime Minister. Within a year, Parliament had approved the establishment of the National Giro ('the Giro') to operate a national credit payments system, making use of the post office branch network, to provide an alternative to the traditional cheque-clearing system operated by the major commercial, or joint-stock clearing, banks. Britain was relatively late in introducing such a system - many European countries and Japan had developed giro systems much earlier, with giros established, for example, in Austria and the Netherlands in the late nineteenth century and early twentieth century respectively.¹ These were usually post office-operated systems, and by the 1960s were well-established with high market penetration.

We argue that the Giro's creation owed more to political than economic or commercial pressures, although the Giro was always intended to be a commercial operation, even if returns were expected to be modest. The 1964-70 Labour government had several motivations for establishing the Giro which amounted to an ambitious agenda involving expansion of the public sector. It would: provide a 'working-class' financial institution which would side-step the reluctance of the clearing banks to service this part of the population and working-class antipathy to these banks; modernise the payments system to improve the efficiency of money transmission, which could bring macroeconomic benefits and reduce the expensive attachment to cash as a means of payment; support the modernisation of the Post Office and the development of the British computer industry; and help promote the regional policy aim of dispersing jobs from south-east England. We now explore these themes in more detail.

The Radcliffe Committee

The most obvious stimulus to the Giro's creation was the report of the Radcliffe Committee on Britain's monetary system (UK Parliament, 1959 [Radcliffe Report]). The Committee was established in 1957 in the aftermath of what appeared to be persistent failures of monetary policy to control inflation (Booth, 2000; Cairncross, 1987; Dow, 1964, pp. 90-103). Some members had already analysed the problem as 'excess liquidity', where the public holds more liquid assets than it needs, and is induced to spend more at levels that initiate or sustain inflationary pressures (Dow, 1964, p. 308; Radcliffe Report, pp. 15, 138-139, 170). A small, but significant, part in containing 'excess liquidity' was the proposal to create a giro system to provide a means of settlement of accounts by the transfer of credits from payer to payee. Although very modest in conception, the Committee saw it as a potentially useful method of curbing the growth of the public's wish to hold bank notes, while simultaneously creating a flow of funds to the Treasury to ease its borrowing and debt management problems (Radcliffe Report, p. 331). It recommended that: '... in the

¹ A British giro was not a new idea: a well-supported campaign for a giro and an expanded role for the Post Office Savings Bank in the first quarter of the twentieth century died after the 1928 publication *Postal Cheque System: Report of a Committee of the Post Office Advisory Council* (Davies, 1973, pp. 63-86).

absence of an early move on the part of existing institutions to provide the services which will cater for the need we have in mind, there would be a case for investigating the possibility of instituting a “giro” system to be operated by the Post Office’ (Radcliffe Report, p. 332). The Post Office was selected for two reasons: to match the design of the Japanese and some European versions of giros; and because it seemed the institution best placed to provide financial services to the working classes, the social stratum of most concern to the Committee.

In response to the Radcliffe Report comments, the Post Office produced a 38-page internal report in February 1960 (NGA, GIRO/R/P/1, ‘Report on the Practicability of Giro’). This report considered that a giro would be attractive to organizations receiving large numbers of remittances (e.g. building societies, hire purchase companies, insurance companies, utilities, local authorities) but sounded a cautious note: ‘Before a decision was taken to inaugurate a giro system it would be desirable ... to ascertain what actions the banks are planning to popularise banking’ (NGA, Report, 1960, paras. 23 & 40). Computerisation could overcome the costs of processing large numbers of small transactions in small accounts. The report included consideration of different characteristics of national giro systems, which varied widely in size and activity, the nature of systems used, account numbers, transactions volumes, charges, financial performance and degree of centralization (with, for example, regional clearing of transactions in France and Germany). Typically giros offered no borrowing facilities and charged no fees for transfers within the system but only for transfers in and out of the system. In most countries, public departments used the giro for revenue receipts and expenditure payments.

The Giro and the commercial banks

Relations between both Conservative and Labour governments and Britain’s largest commercial banks, the joint stock clearing banks which dominated the payments system, were difficult in the 1960s. Governments regarded these banks as uncompetitive, and inefficient hoarders of labour, which persistently threatened government attempts to control inflation. Simultaneously they failed to cater to the banking needs of the majority of the population. Conservative governments were wary of interfering in the internal management of the clearing banks, not least because of the standing of some bank chairmen in party circles. But Macmillan’s government grew angry at the prominent role taken by bank staff pay settlements in breaking the ‘pay pause’ introduced by Selwyn Lloyd in July 1961.²

The possibility of state-sponsored competition from a Post Office giro encouraged the clearing banks to adopt more ‘responsible’ pay policies and introduce a quasi-giro system of credit clearing in 1961 despite reservations over its commercial viability (Booth and Billings, 2011). The Macmillan cabinet considered publication of a White Paper proposing a giro system in early 1962, but advice from the Bank of England (‘the Bank’) encouraged the government to wait, holding the threat of a Post Office giro over the clearing banks until the performance of their credit clearing

² For details of the pause-busting settlements, see a series of articles in *The Times*: ‘Higher pay for some bank staff’ (5 January 1962); ‘More pay for 23,000 bank employees’ (2 March 1962); ‘Pay rise for bank employees’ (23 March 1962).

system could be judged (TNA, CAB 129/108, C(62)36, Cabinet Memorandum from Postmaster General, 23 February 1962, includes letter from H.C.B. Mynors, the Bank's Deputy Governor, dated 23 January 1962). The government maintained pressure on the banks through the Cameron Committee on pay reforms and a refusal to allow an increase in bank charges to accommodate rising labour costs (see more detailed discussion in Booth and Billings, 2011). Eventually, the Assistant Postmaster General publicly ruled out a Post Office giro on the grounds that the banks' credit clearing system should be allowed time to develop and that 'two independent systems of transfer would probably prove less convenient than one and more expensive than one in the long run' (*Hansard*, House of Commons Debates, Vol. 673, 4 March 1963, Col. 174).

The clearing banks' problems were linked to efficiency: they were struggling to contain cost pressures which would only have been exacerbated by increased numbers of customers and transactions (Booth, 2007, pp. 151-152). Criticisms over pay and efficiency came in a series of official reports (Cameron, 1963; Monopolies Commission, 1968; National Board for Prices and Incomes, 1965; 1967; 1969). Although most of these were published after the decision to establish the Giro had been taken, and the reports failed to provide any additional rationale for the Giro, they reinforced the view that the banks were inefficient.

The antipathy, even hostility, of the clearing banks to a British giro was evident in the comments of John Thomson, chairman of one of the 'Big Five' banks, Barclays: 'We regard a Post Office giro as wasteful and unnecessary in a country where the clearing banks maintain a comprehensive network of branches and have special staff trained to convert developments in automation to our own uses' (Barclays' in-house journal *Spread Eagle*, February 1965, quoted by Lascelles, 2005, p. 70). These banks recognized that a potential giro system would compete for a different class of customer outside their own traditional middle-class business. They were ambivalent about seeking new working class customers, not only for this reason, but also because they feared a problem that the Post Office Savings Bank (POSB) had expressed to the Radcliffe Committee - the costs of processing large numbers of frequent small transactions on accounts with unremunerative low average balances.³ However, they were decidedly not prepared to surrender a new, potentially lucrative strand of business, as the postwar controls over banking began to unwind. We return to these themes later.

The banks' antipathy towards the Giro was mirrored by the Labour party's antipathy towards the banks. This fueled speculation over nationalization, a potential threat until the late 1970s. The political character of the Giro was made clear by the senior Labour politician James Callaghan, who criticised Conservative doubters and '... the joint-stock banks [which] were essentially facilities for the middle classes' (Callaghan, 1973, p. 7).

³ The POSB's Director of Savings had told the Radcliffe Committee that its customers were using their accounts much more actively than before World War Two, which had raised POSB costs and forced it to limit the amounts customers could deposit (Booth and Billings, 2011).

Anthony Wedgwood Benn, the Giro and the Post Office

After the election of Wilson's Labour government in October 1964, political responsibility for the Post Office passed to Anthony Wedgwood Benn, Postmaster General, with whom the Giro was sufficiently closely associated that it was sometimes described as 'Benn's bank'. Benn quickly commissioned another Post Office report which concluded that a giro, if it worked in collaboration with the clearing banks, could subsist alongside them, in part because it would initially take business away from existing Post Office services (NGA, GIRO/PO/P/3, 'Report on the Practicability of a Post Office Giro', February 1965).

The Post Office Board (hereafter 'the POB') reviewed the report, which saw scope '... for a relatively small Postal giro system which, from the public's point of view, would usefully supplement the facilities provided by the clearing banks and modernise the old-established Post Office remittance services, and from the Post Office point of view, might be an acceptable (though far from exciting) commercial proposition' and cautiously recommended that 'The giro project outlined in the Report be viewed with some favour subject to (i) the understanding that the remittance sector as a whole must pay its own way; (ii) the establishment of satisfactory relationships with the banks' (RMA, Post 69/75, POB (65) 25, March 1965: 'Giro Reappraisal', memo by Deputy Director General and Comptroller and Accountant General, Sir Kenneth Anderson).

The 1965 report reiterated the view of the 1960 report that the steady expansion of instalment payments (hire-purchase, mail-order and credit shopping business, mortgages) offered significant growth potential for a giro. There was sufficient encouragement in this report for the government to publish a White Paper, which concluded that:

... the case for establishing a Post Office giro is a strong one on economic and social grounds. It is likely to meet a real need cheaply and effectively and will not only modernise the existing remittance services of the Post Office, but also help to rationalise the nation's money transmission facilities generally using the most modern computer techniques. It thus demonstrates the way in which public enterprise can serve the more sophisticated needs of a modern society. (UK Parliament, 1965, para. 21)

The proposal passed easily through the cabinet and Parliament, apart from apparently minor controversies over whether to make welfare benefit payments through the Giro (Benn, 1988, pp. 166, 173-174, 241-242, 294-295). But the failure to make such payments through the Giro undermined its commercial viability, an issue to which we return later.

The Giro was intended to offer a simple payments system. Internal transfers (i.e. between Giro accounts) were free, but payments in and out of the system (through the clearing banks) were subject to charge. No interest was paid on balances, and transactions could be initiated in Post Office branches, by post, or in bank branches. A 24-hour turnaround service was promised, with an updated statement after each transaction so that account-holders could easily keep track of their finances. Business customers could bank cash at Post Office branches, initiate standing orders or

transfers by supplying computer tapes of transaction details, and collect cash or cheques through Giro accounts by supplying their customers with pre-printed forms.

The Post Office may have seemed an unlikely home for the Giro, with a centralised bureaucracy, starved of investment, resistant to change and with weak industrial relations (Broadberry, 2006, p. 355). Both its postal and telecommunications services were relatively highly unionised, its productivity stagnant (Broadberry, 2006, p. 318), and it suffered a six-week postal strike in early 1971 (Davies, 1973, p. 179). There is, however, a more positive side to this story. Benn was an enthusiastic supporter of the techno-nationalist strand in the Labour government's policy which argued that public enterprise should strengthen existing science-based industries. He played a key role in developing this policy while the party was in opposition, and believed that the Post Office, already a science-based enterprise, could make a major contribution (Booth and Billings, 2011). He had identified the POSB as a 'great area for development', not least because it could form the basis of a working-class (giro) bank into which welfare benefits could be paid and through which additional national savings could be mobilised (Benn, 1965, pp. 137-140, quote from pp. 137-138).

Benn initiated changes in the status of the Post Office which extended those begun in the early 1960s. The 1961 Post Office Act targeted a return of 8% for the financial years 1963/4-1967/8, which had almost been achieved in 1966/7 (UK Parliament, 1967, p. 16).⁴ In the late 1960s the Post Office briefly combined a range of different activities: postal services, telecommunications (privatised as British Telecom in the 1980s), and financial services, including the Giro and the POSB. Benn had decided early on that the Post Office was too big to be managed effectively as a single organisation, especially given the projected demand growth of the telephone service. He proposed a three-way split into posts, telecommunications and savings, with each part constituted as a separate nationalised industry subject to the same financial targets as other public corporations. Benn had brought the consultants McKinsey into the Post Office at a very early stage and they endorsed this conclusion.⁵

The status of the Post Office, previously a government trading agency, was changed to that of a public corporation in 1969 (Broadberry, 2006, p. 318) and the Post Office Act 1969 also created the Department for National Savings (DNS) which took over the Post Office Savings Department, and with it the POSB, which became the National Savings Bank (NSB) in 1969. The post of PMG was replaced by that of Minister of Posts and Telecommunications (MPT). The management reforms initiated by Benn may have encouraged the Post Office's senior officials to pursue the Giro as a commercial opportunity, as appears to have happened with the National Data Processing Service, also operated by the Post Office (Booth and Billings, 2011).

The Giro's creation served a further purpose consistent with techno-nationalist policy, promoting Wilson's 'white heat of the scientific revolution', which sought to nurture

⁴ Return was calculated as income before interest but after depreciation at historic cost, expressed as a percentage of average net assets (Thomas, 1978, p. 287).

⁵ McKinsey had swept through many other British organisations in the public and private sectors recommending change (Channon, 1973, p. 239; Gourvish, 1987, p. 35; and Booth, 2007, p. 217, footnote 41 for a list of McKinsey clients).

the British computer industry against American competition. The Giro was a new operation, computerised from the start (Grady, 1967), a logical decision at a time when financial institutions were beginning to make significant use of computers and planned to extend their use.⁶ The Giro provided a major customer for Britain's computer industry, which by the time Giro opened in 1968 had effectively been reduced to one firm, ICL, the product of mergers encouraged by government and a recipient of significant state development funding (Booth and Billings, 2011).

The Giro and Merseyside

A final argument for the Giro was its contribution to regional policy. Its central office, the National Giro Centre (NGC), was to be in Bootle, Merseyside, at the time an unemployment black-spot and close to Wilson's own parliamentary constituency. The Giro represented the creation of a new institution, of unusual size in terms of the number of jobs created, which could make a long-term contribution to the Merseyside regional economy. It was an ideal project to 'take jobs to the workers', consistent with regional policy objectives, which included the dispersal of private sector jobs and government departments from London and south-east England to other regions of the UK. Political considerations impacted on several relocation choices, but many of the objections raised by businesses or government departments to location in the regions were irrelevant in the Giro case. It had advantages over relocations of existing activities: there were no existing employees to oppose relocation; no efficiency consequences from relocation; and no need to provide incentives to an existing business, as a 'footloose' multinational might have demanded (Billings and Booth, 2010).

3. The Giro's first ten years

Wilson had claimed in 1968 that the Giro would be '... within a year or two, making a useful profit' (NGA, GIRO/OPEN/16, speech at the NGC opening) and the 1965 White Paper had forecast 200,000 business and 1 million private accounts serviced by 3,000 staff 'within five years of inception of the service' (UK Parliament, 1965, para. 17). The reality of its early years was very different: disappointing account numbers and transaction volumes translated into poor financial performance. Post Office figures for 1969/70 showed a £6 million loss on only 120,000 accounts, with a forecast improvement to £0.1 million profit on 779,000 accounts in 1973/4 (TNA, T319/1330, letter from P. Neale, Ministry of Posts and Telecommunications, to D. McKean, Treasury, 18 August 1970). We present a variety of performance data in Table 2.

[INSERT TABLE 2]

A new Conservative government had come to power in 1970 with a 'no lame ducks' industrial policy, although it soon retreated from this in areas such as Rolls-Royce. But the struggling Giro, contributing losses to a state-owned corporation, attracted

⁶ The shift of the clearing banks from manual and mechanised systems to computerised operations was well under way, but bankers were struggling with business volumes and experiencing difficulties in computerisation.

almost immediate attention and the government initiated a review of its future, which the Giro was fortunate to survive. This review became entwined in a series of issues other than the Giro's own poor performance: the relationship between the government and the Post Office; an official review of National Savings; the Merseyside unemployment situation; and the potential difficulty of accommodating legislation to close the Giro in a programme dominated by legislation linked to Britain's entry into the European Economic Community (the forerunner of the European Union).

The 1970-1 review

Initially three options were floated for the Giro: hive it off as an operation independent from the Post Office; combine it with the NSB; or sell it to the joint-stock clearing banks (TNA, T319/1330, note by R.T. Armstrong, 1 July 1970). A few months later the main options considered for the Giro's future were closure, sale, or restructuring (TNA, T319/1330, draft report, 9 November 1970). Closure would have resulted in significant job losses, created difficulties for existing customers, and alternative uses for the Giro infrastructure, which represented sunk costs, would have been limited. Politicians and officials wondered whether public sector ownership was appropriate. A sale, most likely to the clearing banks, was unattractive: the Giro would have been difficult to disentangle from the Post Office; continuing losses could have created demands for subsidy or, alternatively, profits made under private ownership would have been embarrassing; and the basis of future charges to Giro customers would have been difficult to fix. But a potential sale was radical thinking for 1970 - Britain's first privatisation is generally recognised as the sale of a tranche of shares in British Aerospace in 1981. Nor was Giro a good candidate for privatisation, but the arguments over its possible sale anticipated some of those that would arise in later debates over the bolder Thatcher government's privatisation policy (Vickers and Yarrow, 1991).

The Post Office's own analysis of the Giro's failings was devastating:

... the [Post Office] Board concluded that significant errors of judgement were made soon after the opening of the service, in particular:- 'potential demand was greatly over-estimated and over-optimistic targets were published; marketing objectives were not clearly defined; and publicity was unfocused and ineffective; procedures were cumbersome, inflexible and restrictive, and literature was too complex; costs were underestimated - some elements not being included at all in the original feasibility studies'. (TNA, T319/1330, draft report on 'Future of the Giro' dated 9 November 1970, sent to A.W.C. Ryland, Post Office chairman, by F. Wood, Ministry of Posts and Telecommunications, 18 November 1970)

Ministerial responsibility for the Post Office and the Giro now rested with the MPT, the former Olympic athlete and newscaster, Christopher Chataway, a moderate Conservative. He chaired a working party which reached broadly similar conclusions, also noting the lack of appropriate management skills. If the Giro were to continue dramatic changes would be needed, such as the redefinition of objectives, stronger management, much improved marketing, and higher charges (TNA, T319/1331,

‘Report of the Inter-Departmental Working Party on Giro’, undated, but c. July 1971, paras. 12 and 37).

Many internal Treasury exchanges reflected on the possibility of merging the Giro and the NSB (TNA, T319/1330, 1331, 1332). The DNS itself made clear that if the Giro were to continue it wanted it to be part of the DNS (TNA, T319/1331, note of meeting between A. Currall, Director of National Savings, and P.J. Kitcatt, Treasury, 21 May 1971). The Deputy Governor of the Bank of England argued to the senior Treasury official Sir Douglas Allen for the Giro’s closure on the grounds that its forecasts were suspect, that money transmission for individuals would be unprofitable without public subsidy, and there was little to be said for extending Giro services into money transmission for businesses (TNA, T319/1331, note from D.O. Henley to Ryrie, 21 June 1971).

Views on the Giro’s prospects differed, but scepticism was rife in government and among Whitehall officials, coupled with awareness of the political difficulties which a closure decision could bring. The option of allowing the Giro to continue, but with closure at a later date, began to appear attractive, and this mood was reflected in an internal Treasury communication: ‘We really do not expect Giro to make a success of its business ventures and it might be more acceptable to allow Giro to demonstrate fully its inadequacy before making any major changes’ (TNA, T319/1331, C.D. Butler note to P. Kitcatt, 14 July 1971).

Chataway argued: ‘... that the effects of a closure would be extensive and politically damaging ... there is therefore, in my judgment, a good case for saying that by closing Giro now we are on a political hiding to nothing, whereas by continuing it we have virtually nothing to lose’. He suggested appointing an eminent accountant, Sir Henry Benson of Cooper Brothers, ‘for an impartial expert opinion’ to resolve questions on financial issues (TNA, T319/1331, letter to Anthony Barber, Chancellor of Exchequer, 30 June 1971). This suggestion was taken up, and Benson’s bleak findings endorsed the criticisms of the Giro:

A great deal ... consists, either directly or indirectly, of a serious criticism of the competence of the present management of Giro. Much of the report shows that the management have consistently under-estimated their costs and over-estimated their profits and productivity, and that they have been operating, without realising it, on the basis of insufficient information and inadequate analysis. (TNA, T319/1332, note by P. Kitcatt, 15 October 1971)

Benson suggested extensive changes to refocus the business and move it into eventual profit. When circulating the draft report,⁷ Chataway again pointed to the difficulties of closure:

In the context of our policy of contracting unnecessary public sector expenditure, Giro may seem almost to plead for euthanasia ... Nevertheless, Sir Henry concludes ... in favour of continuation. The Post Office Board remain

⁷ Benson’s report was not published and we have been unable to locate a copy on file in the National Archives.

confident that Giro can in the foreseeable future be made to pay its way, and are concerned about the effects which closure would have on Post Office morale. They would, I think, publicly challenge a Government decision to close the service. ... Some 3,000 people ... would be thrown out of employment in the Liverpool area. ... On public presentation a decision for continuation would, I think, be generally welcomed (Giro enjoys an undeservedly favourable press). (TNA, T319/1332, 11 October 1971)

If analysis of the Giro's failings was widely-shared, agreement over solutions was difficult. The Post Office wanted the Giro to continue, but acknowledged that its performance had to improve. Chataway was directed to prepare a paper to address the need for legislation if the government wanted to close the Giro but the Post Office were unwilling to make its own closure decision and contended that it had a legal duty to provide the Giro (TNA, T319/1332, minutes of Cabinet Ministerial Committee on Economic Policy, 20 October 1971). Legal opinion was inconclusive.

The balance of opinion among ministers other than Chataway was in favour of closure, with a gradual rundown if needed. Lord Jellicoe, Lord Privy Seal and head of the Civil Service Department, circulated a commentary on the Benson report and a scathing assessment of the Giro's performance, management and prospects, which called for its closure (TNA, T319/1332, 'EPC(71)78 Future of the Post Office Giro' [Economic Policy Committee], circulated 15 October 1971, note written by R.A. [Dirk] Meyjes and M.A. [Mark] Schreiber).

The impact on employment on Merseyside became a major consideration as the Giro review dragged on. Ministerial opinion on the issue was split: 'The loss of employment on Merseyside if the Giro were closed was not a sufficient reason for maintaining it, and, in any case, the money required to meet the losses the services would be likely to incur in the next few years might be better spent on providing alternative employment there' (TNA, T319/1332, minutes of Cabinet Ministerial Committee on Economic Policy, 20 October 1971). By November 1971 the rate of unemployment on Merseyside was nearly double that at the time the NGC opened and the drawn-out review was complicating other decisions which could affect public sector employment on Merseyside (Billings and Booth, 2010).⁸

The final decision on the Giro was made at a meeting of senior ministers. Chataway argued that there were three options: legislate for closure of the Giro; allow the Giro to continue and reform it; and persuade the POB to close the Giro of its own volition, which was considered unlikely. Eventually, Prime Minister Edward Heath made the decision to allow the Giro to remain open on several grounds: the worsening economic outlook; the unemployment position on Merseyside; the lack of parliamentary time - a bill to close the Giro, the need for which was unclear, would

⁸ The unemployment consequences of Giro closure would have been significant: '... unemployment in the Merseyside Development Area could rise from 5.3% to 5.5%, making it the second highest behind Scotland. The unemployment figure for Liverpool only, in which Bootle is included, would rise to over 6%' (TNA, T319/1331, 'Report of the Inter-Departmental Working Party on Giro', undated, but c. July 1971, para. 42).

have taken up time needed for European legislation; and a reluctance to force closure on the Post Office (considered ‘stooges of the Government’ in the 1971 postal strike). It was clear that the government regarded this as a decision deferred - the Giro could be closed after continuing poor performance and improvement in the wider economy (TNA, T319/1332, minutes of ministerial meeting at 10 Downing Street, 12 November 1971).

Chataway announced the decision to the House of Commons on 17 November 1971. Davies’s partisan history of the Giro inaccurately inferred that the decision, described as the ‘green light’, signalled government support for the Giro (1973, p. 180). Various Whitehall exchanges over Chataway’s draft statement produced a version intended to make easier eventual closure. The statement pointedly did not say that the government believed the Giro ‘could be made to pay’: ‘... [the POB] believe that Giro can be made to pay and can offer a competitive service ... In the light of this and the consultants’ views the Government have accepted the Board’s conclusion that Giro should continue’ (TNA, T319/1332, final draft statement).

Chataway was accused by Labour members of prejudicing the Giro’s prospects through delay, and criticised by Conservative members for failure to privatise or close the Giro. The Conservatives blamed the naive optimism of Benn, Giro’s main political sponsor, for leaving them with a difficult problem to resolve. Chataway’s response in parliamentary exchanges anticipated future bitter differences in British politics over the role of the state in business and the economy: ‘... it is a great pity that the Giro was launched on the basis of hopelessly optimistic estimates of business ... If it had not at some point fallen under the baleful influence of the right honourable Member for Bristol South East (Mr. Benn) with his particular mixture of Socialist euphoria and self-deception we should not be in this difficulty’ (*Hansard*, Parliamentary Debates, 17 November 1971, Col. 424).

Many of the Giro’s costs were fixed, so revenue increases would be necessary - charges were to rise, marketing was refocused on business and public sector customers and additional services were added. The review set two financial objectives for the Giro. Firstly, it should make a positive contribution to Post Office finances within a year of introducing a new scale of charges in 1 July 1972. Secondly, it should cover its overheads including depreciation and interest on both assets and losses within five years of that (i.e. by July 1977). On 16 February 1973 Sir John Eden, the new MPT, announced that following increased charges, the Giro was making positive contribution to Post Office overheads (TNA, T319/2246). The POB appointed Alfred Singer, finance director of the food retailer Tesco, as managing director of the Giro in 1973. Singer soon realised the magnitude of his task:

[He] ... confessed ... that his great mistake had been to be so naive as to assume that when the Government took a political decision to maintain Giro, Government Departments would bend their effort to making a success of it. He had soon become disillusioned on this score, and he did not consider the Post Office as the right environment in which to operate. It was still motivated by service rather than commercial considerations ... He already sees Giro’s main future in the field of salary and other company accounts. (TNA,

T319/2246, J.B. Unwin to Mr. Downing, 2 November 1973, note of lunch with Singer)

He repeated his lament a few months later: '[Singer] argues (perhaps with some justification) that HMG have subjected Giro to all sorts of reviews carrying a threat of premature extinction but that, having decided to give it another lease of life, they are not showing much interest in helping it find its feet.' (TNA, T319/2246, G.S.

Downing to Harrop, 31 January 1974, note of lunch with Singer). A Treasury official summarised the Giro's changed position: 'Giro survived the Government's review of a year or so ago because of the unemployment at Bootle that would otherwise have resulted. Its original conception as a poor man's bank (but without cheque account of course) has now been discarded' (TNA, T233/2493, note by Miss E.E.M. Baker, Treasury, 29 August 1973).

Progress and the 1974-5 review

Conservative and Whitehall sceptics were right: the Giro struggled to meet the performance targets set for it and heavy losses continued. The *Financial Times* noted the competition from the Paymaster General's Office (PGO) in providing a payments service to government departments and suggested that the Giro needed to target monthly-paid employees: 'weekly wage earners do not provide the sort of balances needed to make for a viable organisation' (*Financial Times*, 'Giro: the small man's bank thinks big', 27 March 1974). But the picture was not uniformly bleak, with improvement in areas such as cash collection for commercial customers and rent collection and bill payment business for local authorities and nationalised industries. The Giro won some business from the clearing banks, such as the contract to collect takings for the British Gas Corporation's showrooms soon after a similar switch by the major retailer Woolworth's (*Financial Times*, 10 July 1974, 'Giro wins national gas takings account').

The general election of 28 February 1974 returned a minority Labour government to power and Benn was once again the minister responsible for the Giro, this time as Secretary of State for Industry. Ryland wrote to Benn two months after the election, claiming good progress and listing the Giro's achievements, but had to acknowledge the reality of its position:-

... the financial position and prospects are still far from encouraging [with] ... no prospect of meeting the target set by the previous Government of covering all costs, including interest on losses, within 5 years [1977-8]. In our view, the only way of making Giro enduringly profitable is to allow it to offer a full range of banking services, including credit facilities, so that it can compete freely and effectively with the banks. Given the very large swing of the competitive advantages towards the banks since Giro's target was set, we do not see this conclusion as in any way discreditable to Giro. (T319/2246, letter from Ryland to Benn, 28 April 1974)

Ryland went on to suggest a capital restructuring, with the conversion to equity of the Giro's debt to the Post Office (all at fixed interest rates), which represented the initial investment in the Giro and its accumulated losses. He also wanted more government

business, claiming ‘... little evidence of any major action - outside the field of social security and unemployment payments - to give Giro the opportunity of getting a fair share of government money transfer business’ and noting that government departments held only £6 million in working balances at the Giro against £200 million at the clearing banks (T319/2246, letter from Ryland to Benn, 28 April 1974).

A Committee to Review National Savings had been announced on 30 March 1971. The Review, chaired by Sir Harry Page, former City Treasurer of Manchester, and President of the Chartered Institute of Public Finance and Accountancy, covered the DNS, of which the POSB, now the NSB, was the major part, and the trustee savings banks (TSBs). The Review had proposed a new system for the TSBs to improve their running and governance which would involve a large reduction in their number, enhance central controls, and give them fuller powers in the area of personal financial services (UK, Parliament, 1973).

Benn signalled to the Chancellor of the Exchequer, Denis Healey, his own disquiet and that of the Post Office that the proposed expansion of the TSBs’ powers would prejudice the Giro’s prospects (TNA, T319/2246, letter of 22 May 1974). The Treasury noted these views and thought it likely that Benn would obstruct reforms of the TSBs unless a review of the Giro also led to an expansion of Giro powers to offer a wider range of services and a major financial restructuring (TNA, T233/2247, note from J.B. Unwin re Page recommendations on TSB and Giro, EC (74)34 Future of Giro, 9 July 1974). Out of this process emerged the 1974-5 review of the Giro, which was much more limited than the 1970-1 review, and the options of closure or sell-off were not considered. This was partly from a desire to avoid a review as extensive and drawn-out as that of 1970-1, but also recognised the political constraints.

There were extensive discussions in the Treasury about the Giro’s prospects, the possibility of a merger of the Giro with the NSB and/or the TSBs, and over the timing and extent of a capital restructuring in which debt would be converted to equity capital on which dividends rather than interest would be paid. Treasury officials acknowledged that there were arguments for a capital restructuring but were wary that it would be a ‘soft option’, allowing Giro to show early profits. There were also difficulties over the mechanics of a capital restructuring, mostly related to the Giro’s status as an operating business within the Post Office rather than as a separate legal entity, and the tax treatment of dividends and interest on internal debt within the Post Office (TNA, T319/2249, 2712 and 2713).

There was a strong political undercurrent to the Treasury discussions. ‘From a Treasury standpoint, it would be desirable to defer action, but, under a Labour administration with Mr. Benn as the Minister responsible, political considerations almost certainly rule this out’ (TNA, T319/2249, note from Cousins to Harrop and others, 16 September 1974). Benn may have had greater ambitions for the Giro, as a Treasury official noted suspiciously that he ‘... had apparently expressed curious views about linking in the Giro with the so-called Lever Bank and the National Enterprise Board [⁹]. Mr. Benn apparently thinks that Giro could become the vehicle for

⁹ Institutions which involved greater government involvement in the economy.

channelling vast sums of money into the corporate sector' (TNA, T319/2712, note from Unwin to Harrop, 31 October 1974).

The lobbying led to the formation of a Whitehall group to review the Giro (TNA, T319/2248). The group broadly endorsed the views of Ryland and Benn, recognising that a wider range of services could help the Giro achieve profitability. It also acknowledged the economic arguments for extending the range of personal banking services to lower income groups to encourage savings, and reduce the expense of money transmission and security problems through a reduction in cash payments. Steps would be needed to produce a 'level playing field'. For example, the Giro was subject to a 20% liquidity requirement, compared to that of 12.5% for banks generally, but the latter were also subject to the Bank of England's Special Deposit requirements. Extension of the Giro's banking powers raised concerns:

Giro and the TSBs will be competing for largely the same segment of the personal market. ... Both the clearing banks and the TSBs are well established with particular strengths. The sub-committee therefore strongly recommends that if the Giro is to compete in the banking sector greater caution must be shown, particularly in those areas where the clearing banks and the TSBs are strong. (TNA, T319/2248, Giro Banking Facilities, GWG(B) (74)7, draft note by Treasury, c. 24 September 1974)

Benn sent the group's report to Healey to explain how the Giro's salvation would come from an expansion of the services offered, winning more government business and a capital restructuring (TNA, T319/2712, letter from Benn to Healey, with c. 20 page 'Report of the Informal Working Group on Giro Development Plans', 4 November 1974). A White Paper (UK Parliament, 1975) resulted, which led to: a capital reconstruction effective from 1 April 1975 writing off half the accumulated losses, on which interest had been payable, thus making the Giro's targets instantly more readily achievable; raised charges; and the Post Office (Banking Services) Act 1976, which expanded the range of services the Giro was allowed to offer to include personal loans and overdraft facilities for businesses, local authorities and nationalised industries.

Assessing the Giro's financial performance

The published accounts of the Post Office provide some rather limited data on which to base a judgement of the Giro's financial performance (see Table 2). After the Giro began targeting business customers there were improvements in efficiency, measured by the number and value of transactions handled per employee. But this business was low margin and even when profits were achieved they were unspectacular on much higher volumes of business than in the Giro's earliest years.

The Giro did not produce separate accounts in its early years, and it is hard to know how much to read into its reported results as its activities were so closely integrated with those of the Post Office that its true financial performance would be near-impossible to disentangle. The *Economist* had foreseen the problem before the Giro opened, arguing that it would be desirable to produce separate accounts '... not only to rebut charges that [the Giro] is subsidised, but also to strengthen ... profit-

consciousness and accountability ...' (11 November 1967, *Post Office: Giro In, Telegrams Out*).

From 1972 separate profit and loss accounts and balance sheets were presented for the Giro and Remittance Services and Data Processing Services divisions of the Post Office. Until the Giro's formal separation into a separate business in 1978 results for the Giro and other remittance services (postal orders and money orders) were combined. Post Office costs recharged to the Giro for the use of post office counters, postage, costs of telecommunications etc. always represented more than half of the Giro's costs. In addition, there were large unrealised losses on its investment holdings in government securities in the inflationary conditions of the early 1970s, and interest was payable on the funding received from the Post Office, a burden which rose as accumulated losses grew.

The Post Office's accounting for the Giro raised doubts among those examining the financial results. The Cooper Brothers representative Foster suggested that the Post Office was subsidising the Department of Health and Social Security (DHSS) and other government Giro users (TNA, T319/1332, notes of meeting, 7 September 1971). In 1973 the Treasury wondered whether the internal Post Office accounting arrangements amounted to 'fudging the books' to make the Giro's performance look more favourable (TNA, T319/2246).

Any calculation of a cost per job created by the Giro is therefore fraught with difficulty, but on a crude basis its cost-effectiveness was dubious, amounting to between £90-100,000 per job at end-2009 prices, without taking into account operating losses. Giro-related capital expenditure of £11.5m plus £5m development costs were identified (TNA, T319/1331, 'Report of the Inter-Departmental Working Party on Giro', para. 8). This represents a cost of around £93,400 per job, adjusting to end-2009 retail prices and assuming 3,000 jobs were created. The Post Office's Annual Reports show the Giro made losses in its first seven years of operation. Including these losses, but excluding unrealised losses on investments, produces a figure well in excess of £200,000 per Giro job at end-2009 prices. The accuracy of such figures is open to debate. We cannot know for certain that charges for services provided by the rest of the Post Office to the Giro were set on an arms-length basis, as was claimed at the time. Not all costs and losses attributed to the Giro would have been avoidable, as Chataway had argued in 1971 that continuing losses '... would to a large extent be book-keeping losses since Giro is making and will continue to make substantial contributions to the fixed overheads of the postal business' (TNA, T319/1332, 11 October 1971).

The Giro's impact should not be considered simply in terms of its own financial performance or job-creation effects but also its impact on the wider financial services market. For instance, an official report concluded in 1978 that: 'Giro's principal achievement has been the improvement in Clearing Banks' services brought about by its existence. It has failed as yet to achieve the success in its own right that was hoped for and it appears that continued management attention and Government support will be needed before it can reach the effectiveness of the continental Giro systems' (Price Commission, 1978, para. 10.12). The Giro itself felt that this report failed to recognise its contention that the clearing banks had much greater scope to cross-

subsidise money transmission services through their interest spread (TNA, FV64/236, letter from D.J. Hughes, Director of Finance, Giro, to S.G. Linstead, Department of Prices and Consumer Protection, 5 May 1978).

4. The Giro's failings

Why did the Giro struggle so badly in its early years? We have already discussed the government reviews of 1970-1 and 1974-5 which investigated this question. When we examine the Giro's business model, it is clear that there were significant weaknesses, which we examine in this section. In 1976 the Giro's managing director Singer identified:

A number of factors [that] contributed to Giro's early problems: ... over-investment ...; an inadequate range of customer facilities; an inappropriate capital structure; a stultification of growth during the long period of government reviews in 1970 and 1971; an ill-defined marketing strategy. (Singer, 1976, p. 41)

We suggest that the 'over-investment' and the 'stultification' were really the consequences of the early failure of the Giro's strategy, rather than causes contributing directly to it. The 'over-investment' reflected the desire to ensure that the Giro had the capacity to handle the demand expected, and the 'stultification' reflected the difficulty the Post Office, government and public officials had in coming to terms with the magnitude of its initial failure.

There were three elements to the Giro's over-estimates of demand for its services: excessive optimism, partly fuelled by grossly inaccurate market research which exaggerated potential demand; resistance to the Giro concept from its target group of working class customers; and failure to anticipate the behaviour of the Giro's main competitors, the clearing banks. These failures were compounded by others. One was the reluctance of other parts of the public sector (government departments, nationalised industries, the armed services, the National Health Service (NHS) etc.) to use the Giro in the payment of state benefits, employee salaries, and for other purposes. A second, more arguably, was the failure to create a single institution to cater to the needs of working-class customers for financial services. These key failings ensured that insufficient business passed through the Giro's under-used infrastructure and it was unable to generate a sufficient cash float on which to earn interest, which was its main source of income. The Giro was further hampered by government constraints on its services and investment powers and its mode of financing, although none of these factors would have mattered had demand forecasts been realised.

Demand for the Giro's services

The 1965 White Paper's prediction that Giro would have 1.2 million accounts within five years of opening did not seem implausible by comparison to other financial institutions and giros elsewhere. The 1965 Post Office feasibility study estimated that there were 10.5 million accounts with the clearing banks, over 10 million with TSBs,

5 million building society investors and 22 million POSB accounts. To achieve its target, the Giro would have needed to persuade only a small percentage of those either with or without an existing account to open a Giro account. A target of 1 million personal accounts was based on market penetration of 22 accounts per 1,000 inhabitants, compared to much higher rates in countries such as France (125 accounts per 1,000 inhabitants), the Netherlands (73.6), Sweden (66) and West Germany (40.8) (NGA, GIRO/PO/P/3, Appendix 4). Davies (1973, p. 195) also documents the market penetration of giro systems elsewhere.

A market research report by Research Services Ltd., based on a survey of 3,602 individuals, suggested that the White Paper target could underestimate demand (a copy of the 1966 report is on TNA, T319/1330).¹⁰ This was reported cautiously to the POB:

The indications are that the potential level of demand from private individuals to open Giro accounts is a good deal higher than we have so far thought likely. But until we can analyse the results of the survey, we are bound to treat the preliminary findings with a good deal of reserve. Evidence of an interest in using giro is no guarantee that the public will take the positive step of opening an account when the service is available. All in all, there is some reason to believe that the demand for Giro could build up much more quickly than we had earlier envisaged but much depends on the success of the competition which the Clearing Banks will mount against Giro. (RMA, Post 69/79, POB(67)76, Giro Progress Report, Memorandum by Director General of Remittance Services (J.W. Grady), October 1966).

A later meeting of the POB noted that ‘The initial market survey had pointed to an initial $\frac{3}{4}$ - $1\frac{1}{4}$ million account holders, rising to 3 - 9 million within a few years’ (RMA, Post 69/79, POB(66)13th meeting, 25 November 1966). But the projections on which the Giro’s business was based were much lower than those suggested by the market research (RMA, Post 69/80, POB(67) 7th meeting, 5 July 1967).

There were good reasons for expecting a significant demand for Giro’s services. Post offices opened for longer hours than banks (nearer 50 hours per week than the banks’ 30), were less intimidating to the ‘Great Unbanked’ who would be reluctant to set foot inside a bank branch, and there were more branches - over 22,000, compared to around 14,000 clearing bank branches and 1,500 branches of the TSBs. A 1962 pre-Giro newspaper article captured the desire for wages to be paid into POSB accounts: ‘Many working men ... did not want to go to “high faluting” banks. Besides that, Post Office hours were more convenient for working men than those of the banks’ (*Northern Echo*, ‘Use Savings Accounts for Wage Cheques’, 4 December 1962).

But any expansion of financial services that would involve heavy cash withdrawals from Post Office branches was impractical. Fears that branches would be

¹⁰ Research Services was one of the largest and best-run market research companies at that time, and run by Dr. Mark Abrams, who also did opinion polling for the Labour party, and was often invited to comment in newspapers, and on radio and television (Schwarzkopf, 2008, pp. 266-283).

overwhelmed by weekly-paid workers trying to withdraw cash on Fridays and Saturdays had permeated discussions in 1959-60 over the repeal of the Truck Acts (which required that workers be paid in cash) and the Radcliffe Committee's suggestion that a giro should be considered (RMA, Post 69/68, POB (60)47 Savings Department: Report for 1959/60, 7 July 1960; TNA, NSC 45/175, minutes of meeting on Wages Bill at the Treasury, 19 March 1959; TNA, NSC 45/176, First Report from the "Giro" Group', 2 December 1959). The *Economist* had recognised that this was still a potential problem for the Giro, cautioning that '... it will be bad taste ... to boast ... if Post Office counter queues stretch out onto the pavement, as is already often the case' (11 November 1967, *Post Office: Giro In, Telegrams Out*).

The 'Great Unbanked' did not flock to the Giro - the percentage of adult employees paid in cash fell only slowly: from 75 per cent in 1969, to 54 per cent in 1979, reaching 37 per cent in 1984 (Kirkman, 1987, p. 113, Table 10.1). Britain was a long way behind some other countries in the use of giro systems and the move to cashless payment. In Germany, for example, the savings banks had 6 million giro accounts by the end of 1960, 9.9 million in 1965 and 17 million by 1970, of which 14.2 million were private accounts, handling direct debits, standing orders and salary payments (Thomes, 2011, p. 131).

In part the reluctance to use the Giro may stem from the attitudes discussed by Conservative ministers in 1958:

Our methods of dealing with money in this country - the weekly wage packet, the handing over of the housekeeping money by the wage-earner to his wife and so on - are deeply rooted in tradition and I do not think that they are likely suddenly to change. Nor is it desirable that they should, if only because the banks are not at present equipped to cater for a large number of new clients whose spending habits are based on a weekly cycle. On the other hand, I feel sure that in the longer term, as living standards improve, there will be and ought to be a gradual but steady trend away from the weekly cash packet towards a wider use of the banking system. Experience on the other side of the Atlantic suggests that this trend is a natural accompaniment of rising prosperity. (TNA, NSC 45/175, memorandum from F.J. Erroll, Economic Secretary to the Treasury, to Iain Macleod, Minister of Labour and National Service, 16 December 1958)

But the Post Office and the Giro were their own enemies, failing to exploit the possibilities offered by technology. The clearing banks pioneered cash dispensing, or automated teller machines (ATMs) in Britain (Bátiz-Lazo, 2009). Given that the ability to access cash was a significant impediment to encouraging the spread of its accounts among personal customers, it seems extraordinary that the Giro, an institution whose main business was money transmission, had no ATMs of its own until 1985.

The Giro's range of services and relationship with the clearing banks

The range of services initially offered by the Giro was limited. It did not offer overdrafts, loans, executorship or advisory services and saw its own services to some extent as complementary to those of the clearing banks. The Giro had therefore not

expected that it would need to provide such services, such was the confidence in its anticipated success. But there was always a realisation that a giro would need to co-exist with the clearing banks, with whom a large proportion of its transactions would have to be interchanged. There would also be some competition in its target area of money transmission. The 1960 report had noted cautiously: 'Before a decision was taken to inaugurate a giro system it would be desirable ... to ascertain what actions the banks are planning to popularise banking' (NGA, GIRO/R/P/1, 'Report on the Practicability of Giro', paras. 23 and 40). The memorandum presenting the 1965 report to the POB stressed that '... a basis for peaceful co-existence with the banks should be found. Clearly we cannot afford cut-throat competition with them' (RMA, Post 69/75, POB (65) 25, March 1965: 'Giro Reappraisal' by Deputy Director General and Comptroller and Accountant General, Sir Kenneth Anderson).

The need for 'co-existence' was therefore one reason for the initial limitations on the range of the Giro's services. The banks watched the Giro carefully. Lacking the power to offer loans to its own customers, from its opening the Giro had an arrangement to refer account holders to the finance house Mercantile Credit for personal loans. This drew objections to the Deputy Governor of the Bank of England from the banks through Sir Archibald Forbes of the Midland Bank, and chairman of the Committee of London Clearing Bankers, (TNA, T319/1330, note from R.T. Armstrong to Sir Douglas Allen, 23 April 1970). But despite the clearing bankers' bluster, the Giro had little impact on them in its early life. The Treasury noted: 'As for the banks, they have not hitherto been particularly worried about Giro because it has not really threatened their business' (TNA, T319/1332, note by P. Kitcatt, 15 October 1971). This impression is reinforced by histories of British banking covering this period in which the Giro barely features (Ackrill and Hannah, 2001; Capie, 2010; Holmes and Green, 1986; Winton, 1982).

The wider banking market changed far more rapidly than the government and the Giro had anticipated, exposing the Giro's limited range of services. We have seen that the Conservative government of the early 1960s allowed the banks time to create a credit clearing system that made it difficult for the Giro to build business quickly and effectively. But the clearing banks had moved well beyond this in a relatively short time, partly in response to the pressures applied by governments to improve their efficiency and partly in response to their loss of business to competing institutions in the 1960s.

Regulatory arbitrage in the face of government lending controls on the clearing banks drove their corporate customers to look to alternative sources of finance such as the merchant banks and the London branches of the American banks, both of which experienced strong growth. Lending controls also discriminated against the clearing banks' personal customers, who fell outside the categories of 'preferred borrower' and were therefore more likely targets of credit squeezes applied for monetary policy reasons. These pressures, coupled with the new 'Competition and Credit Control' monetary regime introduced in 1971 and the disclosure of their true financial positions in 1970 (Billings and Capie, 2009), led the clearing banks to rediscover their competitive instincts. They were computerising rapidly, had introduced direct debiting, reduced charges for credit transfers, established marketing departments, introduced cheque guarantee cards, credit cards, and cash dispensers (early ATMs),

and were diversifying into a wider range of financial services (Ackrill and Hannah, 2001; Broadberry, 2006, pp. 338, 356; Capie, 2010; Holmes and Green, 1986; Winton, 1982). None of this should have mattered to the Giro if its market niche in money transmission really existed, but given the other misjudgements associated with its launch, the limited range of services significantly reduced its attractions to potential customers.

The failure to attract public sector business

Benson drew attention to government Giro use in his 1971 review: ‘We consider that if the Government was prepared to take positive steps to stimulate the use of Giro in all Departments where it can be shown to be economic it would have a considerable effect on the position of Giro, more than any other factor and would make a solid foundation for future success’ (TNA, T319/2249, apparent extract from Cooper Brothers 1971 report).

Government departments did not make heavy use of Giro’s services: ‘In 1975 the Giro handled just under 2% of the possible £27 billion worth of business generated by the Government’ (Hardman, 1994) and Giro cheques represented only 11 per cent of state benefit payments in 1984 (Kirkman, 1987, p. 129). But such limited use reflected some real practical difficulties as well as concerns over costs. The 1965 Post Office feasibility study had recognised the potential for government business, but noted a major stumbling block to which we have already drawn attention:

Government Departments were interested in the possibility of using Giro and the report had been prepared on the assumption that they would use giro where it was in their advantage to do so. Payment of wages, however, was not practicable since this would lead to such heavy demands for cash on Fridays and Saturdays that our public offices could not handle them. (RMA, Post 69/76, POB(65)5th meeting, 5 March 1965, Item 8, Giro reappraisal)

The Department of Pensions and National Insurance prepared a report on the payment of pensions using the clearing banks’ credit transfer in February 1965, before approval of the Giro. The report concluded that use of the system would be impractical - pensioners with bank accounts were limited in number, and there would be problems with the notification and timing of payments (TNA, PIN 28/70). In 1968 the Department returned to the question but concluded that there were considerable practical difficulties: Giro’s withdrawal charges would make this a more expensive method than payment through pension order books; all recipients would be obliged to open or need to be given a Giro account; and entitlement to the state pension was not unconditional - a declaration of entitlement was needed, achieved when a recipient signed for their pension at a post office counter (TNA, PIN 28/70).¹¹ By 1969 the Department was anticipating future pressure to use the Giro to pay the approximately 6 million retirement pensions and 0.5 million war pensions for which it was responsible and a further report concluded that use of the Giro’s standing order system was feasible subject to the costs of using the Giro (TNA, PIN 28/70, report: ‘The

¹¹ This study was based wholly on published Giro material - the Department did not want to alert the Giro to its investigation.

Payment of Pensions by Giro Credit Transfer System' by the O & M (General) Branch, October 1969).

In another wide-ranging letter to Benn, the Post Office chairman Ryland sought support for the Giro in winning more government business. He noted limited use of the Giro for some social security and pension payments, and Inland Revenue tax collection. But the Giro was, however, not used by the DHSS and the NHS for salary and retirement pension payments, or for payment of grants to local authorities (TNA, T319/2249, Ryland letter to Benn, 28 June 1974). A sceptical Treasury was again an obstacle: it did not consider the Giro the most cost-effective payment method for government departments, with the choice left to individual accounting officers, who had the options of using the clearing banks, the Bank of England, the PGO, as well as the Giro (TNA, T319/2249, note on payment methods, 1 August 1974). Revised guidance was issued, which made several points on the use of the Giro, but left decisions at a departmental level and made no central directives (TNA, T319/2712, letter from 2 January 1975 D. McKean, Treasury Officer of Accounts, to Accounting Officers on 'Transmission of Money').¹²

The failure to establish a 'working class financial institution'

Benn's vision of a great working-class bank, which could, for example, have combined the Giro, the POSB/NSB and the TSBs was not realised.¹³ Other possibilities, such as a merger between the Giro and the PGO (TNA, T319/2246), were floated in the numerous Treasury discussions about the Giro. Benson had also floated the possibility of linking the Giro to the PGO and/or the NSB, but noted that the agents deposit business¹⁴ weakened the case for a merger with the NSB (TNA, T319/1332, note of 16 September 1971 meeting at Cooper Brothers office by N.L. Wicks, 22 September 1971). The logic of some combination was acknowledged: 'Had one been starting from scratch separate organisations [NSB and Giro] would not have been established' (TNA, T233/2493, note by Miss E.E.M. Baker, Treasury, 29 August 1973). But there were significant differences between the Giro and the NSB, and practical and organisational barriers to a single institution, which the archival evidence suggests was favoured by neither the Treasury nor the Post Office.

The Giro, a new operation, was designed to operate on a computerised basis from its inception (Grady, 1967). The POSB, established in the mid-nineteenth century (Daunton, 1985), struggled with new business, was slow to computerise and was not interested in generating the current account business on which the Giro would depend. In 1961 Post Office planners had estimated that a computerised POSB would require at least ten years to complete (RMA, Post 113/1, Post Office Organisation & Methods, Report 156: 'A general description of some Post Office ADP projects', March 1961, para. 33). The scale of the NSB was significantly different to that of the Giro - in mid-1971 it had 22 million live accounts, with new accounts being opened at a rate of

¹² Numerous drafts on this and other files indicate the difficulties in drafting this guidance.

¹³ The Co-operative Savings Bank, the savings bank which was linked to the co-operative movement, could have been another part of such an institution.

¹⁴ The use of Giro accounts for cash collection by business customers.

1.36 million per year (TNA, T319/1331, J.B. Unwin, Treasury, to J.B. Pearce, 13 July 1973) and was still converting to a centralised computer system (TNA, T319/1331, C.D. Butler note to P. Kitcatt, 14 July 1971).

The Post Office's own evidence to the Page review stressed the difference between the Giro and the savings banks. The Giro was '... after customers who will use their account actively, keeping in them sufficient working balances to support the activity ... to provide a satisfactory income for Giro' whereas the NSB and TSBs were '... presumably after customers who will keep relatively inactive balances, in order to keep transactions costs at as low a level as possible and enable the savings banks to pay customers competitive rates of interest on balances'. But the evidence conceded that 'Some degree of competition exists, particularly with the TSBs, where current account facilities are provided free or at low cost to the account holder ... unduly cheap withdrawal facilities tend to perpetuate the "cash" society' (TNA, T306/49, letter from L.N. Heatherington, Secretary's Office, Post Office Corporation, 18 January 1972).

In 1973, a Treasury minister advanced the view that the NSB's accounts were being used as current accounts, and that this was business which should go to the Giro (TNA, T233/2493, 30 July 1973 note by Chief Secretary to the Treasury, Patrick Jenkin). But this was a 'red herring' and the DNS did not view it as a serious problem: '... only a very small minority of [NSB] ordinary account users - about 125 thousand out of 25 million - use their account more than 40 times per annum. It was agreed that it would be impossible to weed these accounts and to do so would produce staff savings only in a matter of double figures' (TNA, T233/2493, 13 August 1973 note by Diane Seaman, Treasury).

The Page review's vague Recommendation 45 that 'Serious consideration should be given to some harmonisation between the National Savings Bank and National Giro' (UK Parliament, 1973) did not find favour among Treasury officials. They feared that a merger between the two would prevent proper assessment of the five year break-even target set for the Giro after the 1970-1 review and that the organisations were offering complementary and not competing services, with the Giro focused on money transmission and the NSB on attracting savings. The Treasury was reluctant to see a merger between the Giro and the NSB, which it considered financially viable with its own computer system and other infrastructure (TNA, T233/2493).

Other failings

A number of other factors have been identified which may have contributed to the Giro's poor performance. The Giro, as a trading division of the Post Office, was wholly debt-financed by loans from the Post Office.¹⁵ But funding was readily available, and at rates lower than a risky and untested venture like the Giro could have enjoyed as an independent private sector entity.

¹⁵ It did not become a separate legal entity until 1985, by which time the Conservative government was viewing it as a target for privatisation.

The Post Office objected to Giro's restricted investment powers, which were limited to investment in various forms of short- and medium-term government debt: Ways and Means Advances, treasury bills and government stocks with less than five years to maturity. These could have been extended with Treasury approval, and the Post Office wanted to determine the Giro's investments, including the power to invest in the business of the Post Office itself, but was unable to overcome the objections of the Bank of England and the Treasury, which wanted the restrictions to support the gilt market and retain control of credit policy (TNA, T319/1330, May 1970 note re 'Giro and Mercantile Credit' on 'Listing of the provisions in the Post Office Act [1969] relating to Giro's banking function'). The Giro suffered unrealised investment losses in the 1970s as inflation drove down fixed interest security prices, but the losses from this forced investment in government bonds were a minor factor in the Giro's overall performance.¹⁶ To some extent the Giro, the POSB and the TSBs shared a common problem: their ability to generate sufficiently large cash balances on which to earn an interest margin to offset their running costs without levying substantial charges on their customers. All were obliged to invest in low-risk and hence low-return, government securities.

5. Conclusions

Political considerations impinged strongly on the Giro in several ways: its initial creation; the scope of its services; its location; and its technical choices. The Giro was established to meet the coincidence of several needs and owed much to the strong patronage of Wilson and Benn. It was therefore vulnerable to changes in government and to some extent a 'political football'. To describe the Giro as the result of 'Socialist euphoria and self-deception' would perhaps be excessive and unfair, but given the Giro's key weaknesses which rapidly became apparent, there was a degree of naivety, wishful thinking and lack of what is now described as 'joined-up thinking'.

But the Giro was not simply a 'blue sky' project. There were successful giro systems in other countries and the Post Office had made efforts to establish likely demand. Ultimately, however, the Giro was a leap in the dark dependent on its ability to create its own market. It entered a financial services market in which there was extensive private provision. The central problem of the Giro, as it was originally conceived, was never resolved: how could it ensure that a sufficiently large number of customers opened accounts and retained large enough balances on them to allow the Giro to make a profit, while it also kept fees low, paid no interest on balances, and allowed account holders easy access to their funds? The working-class customers who were the Giro's main target did not yet go to the Giro or any other financial institution for their money transmission needs. With hindsight, the market niche on which the Giro was predicated did not exist.

The misjudgement of the Giro's market by the Labour government and the Post Office led to the creation of a much more substantial infrastructure than necessary to meet its

¹⁶ In the first ten years of the Giro's operations (1968-78), profits including unrealized investment losses amounted to £23.5 million, excluding unrealized investment losses £20.8 million (Table 2).

business needs. But once created, the Giro's costs were largely 'sunk', the short-term marginal costs of its operations were low, and its close integration with the Post Office and the lack of separate accounts made it difficult to judge its true performance or the possible impact of its closure on the rest of the Post Office. The reliance on Post Office personnel rather than experienced bankers or other businessmen was understandable, although possibly naive. Its technological choices, even if guided by techno-nationalist government policy, were not inappropriate, and demonstrated longevity, not requiring up-grading until the end of ten years' operations (Post Office, *Annual Report and Accounts*, 1977-8). But the Giro's failure to reach anticipated levels of business meant that its technical solutions were never fully stretched. Nor is there any evidence to suggest that Merseyside was an inappropriate location, although this made it more difficult to close the Giro.

In commercial terms the Giro failed badly - the limited range of services and wildly optimistic estimates of demand for its services resulted in losses for many years. Few businesses of any sort would be allowed, or able, to continue under such circumstances. But it was also a political and social project launched at a time when its private sector competitors were about to experience major changes in their competitive environment, through computerisation, changed monetary policy and the introduction of new products. The Giro's modest commercial success came much later than expected and only after its activities had been refocused on commercial customers and an expanded range of services offered.

We should view the Giro as an experiment in government enterprise, part of the 1964-70 Labour government's broader attempt to redefine the boundary between the public and private sectors of the economy. The Giro's failure to fulfil the high hopes for it was symptomatic of much wider and more serious failings across Britain's nationalised industries, which became more apparent in the 1970s, and for which Margaret Thatcher believed the cure was privatisation (Hannah, 2004).

Acknowledgements

The authors thank Nigel Hardman of Santander for his assistance with the Giro's records and for his insights into its history. We also thank the archivists at the Royal Mail Archive. Early versions of this paper were presented at meetings of the Monetary History Group (October 2008) and the London School of Economics Business History Unit (November 2008). We thank participants at these meetings, in particular Mike Anson and Terry Gourvish, for many helpful comments.

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Table 1. The Giro: chronology of key events

Date	Event
1959	Radcliffe Committee recommended that Post Office investigate the possibility of establishing a giro system in the UK if commercial banks or Trustee Savings Banks were unwilling to
February 1960	Post Office feasibility study
March 1963	Assistant Postmaster General's statement to House of Commons ruled out establishment of Giro
October 1964	Labour government elected
February 1965	second Post Office feasibility study
August 1965	White Paper: 'A Post Office Giro'; Giro approved
18 October 1968	National Giro Centre, Bootle opened by Prime Minister, Harold Wilson
1970	business deposit service for corporate customers introduced; election of Conservative government
1970-1	Cooper Brothers review of Giro's viability for government, after which continuation of the Giro was confirmed
1974-5	further review by Labour government leading to White Paper: 'The Development of National Giro' - half accumulated losses written off, charges raised, product range expanded
1978	name changed to National Girobank; further services added
1979	listed bank status acquired - regulated as a bank by Bank of England
1983	became associate member of the Committee of London Clearing Banks
1985	launched credit card; founder member of the LINK ATM network; became plc wholly owned by the Post Office
July 1990	acquired from Post Office by Alliance and Leicester Building Society
1997	Alliance and Leicester demutualised and listed on London Stock Exchange
2008	Alliance and Leicester taken over by Banco Santander

sources: Hardman (1994); Alliance and Leicester plc (1997)

Table 2. The Giro: key statistics, 1969-78

	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
total employee numbers, Post Office Giro and Remittance Services Division	3,029	3,110	4,119	3,683	3,061	3,245	3,495	3,339	3,377	3,450
account numbers open at year-end (000s)	100	n/a	400	460	473	488	493	517	559	588
total number of transactions (m)	28	78	96	105	108	n/a	n/a	n/a	n/a	n/a
total value of transactions (£m)	250	947	1,341	1,819	2,269	n/a	n/a	n/a	n/a	n/a
average value per transaction (£)	9	12	14	17	21	n/a	n/a	n/a	n/a	n/a
total number of transactions including social security orders (m)	n/a	n/a	n/a	125	135	155	163	195	228	242
total value of transactions including social security orders (£m)	n/a	n/a	n/a	7,100	9,100	12,600	20,400	29,800	n/a	n/a
average value per transaction including social security orders (£)	n/a	n/a	n/a	57	67	81	125	153	n/a	n/a
average number of transactions per employee per year (000s)	n/a	n/a	n/a	34	44	48	46	58	68	70
average value of transactions per employee per year (£000s)	n/a	n/a	n/a	1,928	2,973	3,883	5,837	8,925	n/a	n/a

	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
year-end customer balances (£m)	n/a	n/a	58	68	81	111	147	192	n/a	n/a
average customer balances (£m)	n/a	182	230							
average balance per customer account (1972-6 at year-end) (£)	n/a	n/a	n/a	158	174	231	300	380	326	391
total revenue (£m)	1.5	5.3	7.2	8.6	12.8	19.1	24.1	36.4	46.8	60.4
profit/(loss) before depreciation on government securities (£m)	(1.7)	(6.0)	(6.0)	(6.4)	(4.1)	(1.0)	(2.7)	1.4	2.7	3.0
profit/(loss) after depreciation on government securities (£m)	(1.7)	(6.0)	(6.0)	(6.4)	(5.1)	(4.1)	0.1	0.8	2.1	2.8

source: Post Office, *Annual Report and Accounts*, various years.

n/a = not available

financial year-end = 31 March

Averages are authors' calculations from annual report data.