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Edited by Ranald Michie and Philip Williamson

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Introduction

The nature of the relationship between the government and the City of London, or more abstractly between ‘politics’ and ‘finance’, is a central issue in studies of modern Britain. The relationship is assumed to have been close and to have had wide repercussions, but thereafter disagreements have emerged. It is a problem in economic and financial history: to what extent has the relationship affected the performance and structure of the economy in general, and the development of its financial and industrial sectors in particular? It is a problem in political history and political science: have government and the City had shared or divergent interests? Which has been more powerful? Has government unduly constricted the City’s financial markets, or has the City exerted excessive influence over the policy agenda and particular decisions? For imperial historians the question has been how far did City interests shape British overseas expansion and, later, the character of decolonisation? Historians of international relations have asked how far City interests have supported or conflicted with particular government foreign policies. The relationship is also an issue in social history and sociology: was there a significant merger of personnel and interest between the City’s financial elite and the governing elites, at the expense of other socio-economic groups?

This book brings together political and financial historians to investigate the government–City relationship during the twentieth century, considered from various directions and by attention to revealing episodes. In the first section, the opening chapter describes the issues as these have emerged in recent historical studies and assesses them from a political perspective, while the second chapter traces the relationship over the long-term from a financial and economic perspective. The next section of three essays then considers issues relating to the broad economic and social environments: the boundaries between markets and government, the debate over the extent to which the City generated a distinctive socio-political elite and, in contrast, postwar efforts to ‘democratise’ ownership of financial assets. The essays in the third section examine the perspective of the Treasury, as the department of government most in contact with

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City institutions, and then those of each of the main political parties: the Conservative party throughout, and the Liberal and Labour parties during their periods of greatest potential impact on City activities.

Before 1914 government–City interactions were limited, while both world wars produced exceptional conditions, in which the state imposed detailed control over the City’s activities, with its co-operation or acquiescence. Examination of the particular character and changing nature of government–City relations is therefore best undertaken on the interwar and the post-1945 years. The section on the interwar period has chapters on the attempt to restore the pre-1914 relationship in radically changed economic and political conditions, and examples of how it operated in the spheres of two other government departments, the Colonial and Foreign Offices. The chapters in the post-1945 section examine aspects of the government–City relationship during the long period of a managed and increasingly beleaguered economy, followed by the impact of a new financial internationalism. It concludes with an overview of the relationship over the last thirty years of the century from the perspective of the Bank of England.

The aim of this book has been to advance debate on the government–City relationship by adding historical depth and understanding, not to seek agreement among the contributors nor to draw general conclusions. What can be said is that the relationship is in the process of fundamental change because of the growing involvement of more players on each side. It is no longer sufficient to consider only the role of the British government, because the European Union is becoming increasingly important in determining the laws, rules and methods of all in the City of London. Nor can the City any longer be identified just with British banks and British financial institutions serving British clients, not only because it is a major participant in global financial markets but also because, with many of its major businesses now foreign-owned, it is answerable to head offices located all around the world. The debate on the relationship between the British government and the City of London is increasingly just one part of the debate on the relationship between any financial centre and its host government, between those who regulate and those who are regulated, and between national sovereignty and trans-national power at a time of financial globalisation. These are not new issues, but they have entered a new phase over the last twenty-five years.

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AND PHILIP WILLIAMSON

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Part I

The long perspective

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1 The City of London and government in modern Britain: debates and politics

Philip Williamson

Substantial historical interest in the City of London is a recent development. Financial historians studied its main institutions, some of its leading banks and aspects of monetary policy, but it received little comment even from other economic historians and was usually ignored in more general histories. Only in the 1980s did ‘the City’, considered as a whole, become a unit of study and enter the mainstream of historical attention, and only then did it attract interest from political scientists and sociologists. Partly this reflected the contemporary prominence of the City, due to the transformations which were then taking place in the financial system and the publicity given to the fabulous incomes and conspicuous consumption of financial dealers. A larger reason was a shift in the long-running debate about the relative decline of the British economy, meaning primarily manufacturing industry. After numerous other possible ‘causes’ had been investigated, the financial sector now seemed to be the chief culprit. At first attention focused on the supposed failure of the banks and the Stock Exchange to supply industry with adequate amounts or appropriate forms of capital.¹ Increasingly, however, the damage inflicted by the City seemed more wide-ranging: except during the two world wars, it had exercised the dominant influence over government economic policy. Such claims connected with work by historians in other fields, and gave the City, and indeed financial history, an entirely new salience. Soon the issue of the relationship between the British government and the City of London acquired its own momentum, as it appeared to offer cogent explanations for many features of Britain’s domestic and international experience since 1850.

The author is indebted to the British Academy for the award of a research readership, during which this chapter was completed.

¹ Helpful reviews of this debate are Y. Cassis, ‘British finance: success and controversy’, in J. van Helten and Y. Cassis (eds.), *Capitalism in a Mature Economy* (Cheltenham, 1990), pp. 1–22, and F. Capie and M. Collins, *Have the Banks Failed British Industry?* (Institute of Economic Affairs, Hobart Paper 119, 1992).

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The cases made for the City's influence over government have been challenged, and some specific claims have provoked debates. This chapter reviews the various arguments, and from a political perspective suggests ways in which the discussion might be advanced. It urges more careful specification of its leading terms, fuller consideration of the character of its main participants, particularly what is understood by 'government', and a wider investigation of influences on the policy process. Both 'the City' and 'the government' have been more complex and more fluid entities, and been subjected to a broader range of pressures, than is sometimes allowed. The discussion of government–City relations has had the strength of drawing together historians and social scientists from the various fields of economics, finance, sociology, government, politics and imperial relations; even so, some disciplinary barriers remain, inhibiting a more precise understanding of the extent and nature of the interactions.

Debates

One of the earliest historical discussions of government–City relations emerged from the debate on the causes of interwar unemployment. For Sidney Pollard, the government's determination in the early 1920s to re-establish the gold standard was a 'bankers' policy': it expressed the 'specific self-interest' of a narrow section of the City and its spokesman, the Bank of England, while the Treasury 'as ever' reflected 'the needs of the City rather than the country', with terrible costs for industry and employment.² Later, this type of argument was broadened as the main issue became Britain's relative industrial decline, regarded as a persistent problem dating from the late nineteenth century. For Pollard again, 'industry has every time to be sacrificed on the altar of the City's and the financial system's primacy', because the Bank of England and the banking community largely determined the Treasury's priorities.³

Such conceptions also became integral to general interpretations of Britain's long-term socio-economic and political development. At their heart was a growing realisation that notwithstanding the 'industrial revolution' the financial and commercial sector had always been a strong and dynamic element in the British economy, indeed arguably more important for its performance than the manufacturing sector. The general interpretations drew support from socio-economic and cultural studies which

² S. Pollard, 'Introduction' to S. Pollard (ed.), *The Gold Standard and Employment Policies between the Wars* (1970), pp. 1–26.

³ S. Pollard, *The Wasting of the British Economy. British Economic Policy 1945 to the Present* (1982), pp. 34–5, 73, 85–8, 150–1; also S. Pollard, *Britain's Prime and Britain's Decline. The British Economy 1870–1914* (1989), pp. 235–56.

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independently concluded that the leaders of ‘finance capital’ were more powerful than those of ‘industrial capital’, and after 1850 acquired a special relationship with the governing landed classes. William Rubinstein established that the wealth of the financial and commercial middle class of metropolitan southern England exceeded that of the industrial middle class of provincial northern Britain.⁴ Youssef Cassis argued that a merger of the City’s financial elite with the landed elite had produced an acceptance of City views on economic policy.⁵ For Martin Wiener the social and cultural absorption of new middle-class wealth by old landed wealth had produced a ‘gentrification’ of dominant values, smothering the ‘industrial spirit’.⁶

The earliest of the general interpretations came from the ‘new left’. Perry Anderson argued that the survival of a ‘pre-modern’ ruling class and its penetration by ‘monied interests’ explained both the conservatism of the British state and the ‘hegemonic’ position of the City.⁷ For Frank Longstreth the banking ‘fraction’ of capital had achieved primacy in the state system, which enabled the City to dominate economic policy and ‘the political realm’.⁸ Geoffrey Ingham, in a sociological challenge to these neo-Marxist interpretations, gave a different explanation. The Bank of England and the Treasury were not mere instruments of the City, but had independent sources of power and independent interests. Rather, the City’s ‘hegemony’ was the product of a ‘core institutional nexus’ of the City, the Bank and the Treasury, bound together by their one mutual interest – preserving ‘stable money forms’.⁹ From a different perspective, Peter Cain and Anthony Hopkins argued that prolonged alliance between the landed and financial interests had generated a ‘gentlemanly capitalism’, whose character explained the form not just of the British

⁴ W. D. Rubinstein, ‘Wealth, elites and the class structure of modern Britain’, *Past and Present* 76 (1977), 99–126, and W. D. Rubinstein, *Men of Property* (1981).

⁵ Y. Cassis, *City Bankers 1890–1914* (Cambridge, 1995; first edn in French, 1984), esp. ch. 8; and see similarly, reaching further into the twentieth century, M. Lisle-Williams, ‘Beyond the market: the survival of family capitalism in the English merchant banks’, and M. Lisle-Williams, ‘Merchant banking dynasties in the English class structure: ownership, solidarity and kinship in the City of London’, *British Journal of Sociology* 35 (1984), 241–71, 333–62.

⁶ M. Wiener, *English Culture and the Decline of the Industrial Spirit 1850–1980* (Cambridge, 1981), with specific references to the City on pp. 128–9, 145.

⁷ P. Anderson, ‘Origins of the present crisis’, *New Left Review* 23 (1964), 26–53, and P. Anderson, ‘The figures of descent’, *New Left Review* 161 (1987), 20–77; and see A. Gamble, *Britain in Decline. Economic Policy, Political Strategy and the British State* (1981), pp. 134–43.

⁸ F. Longstreth, ‘The City, industry and the state’, in C. Crouch (ed.), *State and Economy in Contemporary Capitalism* (1979), pp. 157–90.

⁹ G. Ingham, *Capitalism Divided. The City and Industry in British Development* (1984), esp. pp. 9–11, 37, 127–39, 178–9, 215–16, 219, 229–32.

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state but also of the British empire. As a ‘branch of gentlemanly capitalism’ the City had a ‘disproportionate influence in British economic life and economic policy making’.¹⁰

These converging characterisations of the City’s influence over the government, especially Ingham’s concept of a City–Bank–Treasury nexus, have had considerable influence. This is evident in studies of the bimetallic controversy in the late nineteenth century and the financial crisis at the outbreak of the First World War; in Robert Boyce’s discussion of the ‘politics of economic internationalism’ under the gold standard regime of 1925–31; in an investigation of the emergence of Euromarkets in the 1950s, and in a much-noticed 1990s critique of the contemporary state.¹¹ In Ewen Green’s review of the issues from the 1880s to 1960, the City’s lobbying power, structural links with the state and overlapping economic ideology with the Treasury ensured that, in the long run, ‘banking sector priorities were translated into government priorities’.¹² For Scott Newton and Dilwyn Porter the power of the ‘core nexus’ was a leading explanation for the failure of industrial modernisation since 1900.¹³ In such accounts government economic policy turned upon a contest between the international interests of the City or ‘finance’ and the more national concerns of ‘industry’ or ‘production’, with the City’s interests normally prevailing. This was not simply because of its economic importance and its provision of funds to the government. It also resulted from further forms of power: an early integration of the financial and ruling landed elites; the City’s economic cohesion, geographical concentration and physical proximity to, and institutional connections with, the government. The effect was that government always tended to identify the City’s interests with the national interest.

In their coherence, explanatory economy and treatment of a long time-scale, these conceptualisations of government–City relations have seemed

¹⁰ P. J. Cain and A. G. Hopkins, ‘Gentlemanly capitalism and British expansion overseas. I. The old colonial system 1688–1850’ and ‘II. New imperialism 1850–1945’, *Economic History Review* 39 (1986), 501–25, and 40 (1987), 1–26; and P. J. Cain and A. G. Hopkins, *British Imperialism*, 2 vols. (1993; revised one-volume edn, 2001).

¹¹ E. H. H. Green, ‘Rentiers versus producers? The political economy of the bimetallic controversy c. 1880–1898’, *English Historical Review* 103 (1988), 588–612; J. Peters, ‘The British government and the City–industry divide: the case of the 1914 financial crisis’, *Twentieth Century British History* 4 (1993), 126–48; R. W. D. Boyce, *British Capitalism at the Crossroads 1919–1932* (Cambridge, 1987), esp. ch. 1; G. Burn, ‘The state, the City and the Euromarkets’, *Review of International Political Economy* 6 (1999), 225–61; W. Hutton, *The State We’re In* (1995), pp. 22–3, 79–81, 112–36.

¹² E. H. H. Green, ‘The influence of the City over British economic policy c. 1880–1960’, in Y. Cassis (ed.), *Finance and Financiers in European History 1880–1960* (Cambridge, 1992), pp. 193–218.

¹³ S. Newton and D. Porter, *Modernization Frustrated. The Politics of Industrial Decline in Britain since 1900* (1988): see the themes stated on pp. xi–xv.

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powerful and persuasive. Yet like other general interpretations they risk becoming schematic and reductionist, establishing assumptions which foreclose further investigation and exclude alternative explanations. Such terms as ‘the City’ and ‘government’ might be given excessive force, and be presented as unitary agents capable of uniform intentions. Coincidences of outlook between the two might be mistaken for causation; opinions of particular bankers might be elevated into ‘proof’ of City domination, when quite different and more adequate explanations of government decisions could be found. There certainly seem to be difficulties with these approaches. Doubts have been expressed about the extent of the City’s cohesion, its distance from industry and its political influence.¹⁴ Episodes which appeared to be prime cases of division between ‘finance’ and ‘industry’, notably the debates on bimetallism and tariffs before 1914, have on further scrutiny been found to be less clear cut.¹⁵ The notion of an Edwardian ‘identity of views between political circles and banking circles’¹⁶ sits uneasily with the Unionist party’s adoption of tariff reform, which challenged the City’s long-standing attachment to free trade, and the Liberal government’s 1909 budget, which aroused considerable City protest for threatening capital accumulation. Against the government decision in 1925 to restore the gold standard might be set its original 1919 decision to abandon it, despite the recommendation of its own banker-dominated official committee, largely because of concerns about unemployment and the attitudes of industrial labour.¹⁷ The outcomes of the sterling and budget crises of 1931, for all the allegations of a ‘bankers’ ramp’, were more the product of party-political manoeuvres than City or Bank of England pressure.¹⁸ Nor is it difficult to find friction between the Bank of England and Treasury officials or government ministers, whether over use of the gold reserves in 1917, bank rate

¹⁴ See the important sceptical commentaries by M. Daunton: ‘“Gentlemanly capitalism” and British industry 1820–1914’, *Past and Present* 122 (1989), 119–58; ‘Financial elites and British society 1880–1950’, and ‘Finance and politics: comments’, in Y. Cassis (ed.), *Finance and Financiers*, pp. 123–46, 283–90; and ‘Home and colonial’, *Twentieth Century British History* 6 (1995), 344–58.

¹⁵ See the A. C. Howe and E. H. H. Green debate in *English Historical Review* 105 (1990), 377–91, 673–83; Daunton, ‘Gentlemanly capitalism’, pp. 149–51; A. C. Howe, *Free Trade and Liberal England, 1846–1946* (Oxford, 1997), pp. 199–204, 233–6; E. H. H. Green’s modified analysis, ‘Gentlemanly capitalism and British economic policy 1880–1914: the debate over bimetallism and protectionism’, in R. E. Dumett (ed.), *Gentlemanly Capitalism and British Imperialism* (1999), pp. 44–67, and the Howe and Green chapters 7 and 8 below.

¹⁶ Cassis, *City Bankers*, p. 308.

¹⁷ P. Cline, ‘Reopening the case of the Lloyd George Coalition and the postwar economic transition 1918–19’, *Journal of British Studies* 10 (1970), 162–75.

¹⁸ P. Williamson, *National Crisis and National Government. British Politics, the Economy and Empire 1926–1932* (Cambridge, 1992), chs. 8–11.

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in the 1920s, credit control in the 1950s and 1960s, or public sector expenditure in the 1960s and 1970s. Even combined Bank and Treasury advice did not necessarily prevail: in 1952 a joint plan for an immediate return to sterling convertibility ('Robot') was defeated by Conservative ministers. Three major government enquiries on the financial system – in 1929–31, 1957–9 and 1977–9¹⁹ – attest to recurrent political doubts about City activities.

More considerable still is the perspective in studies of the City of London itself. For the period after 1914 these reveal much government or Bank of England control, regulation and intervention, not only during the emergencies of the two world wars and their immediate aftermath – when it is accepted that the government overrode most City activities – but even during 'normal' periods of peacetime. The government's borrowing and funding requirements, measures to support the balance of payments, taxation policies, nationalisation of utilities, credit restrictions and even labour legislation all affected, and frequently inhibited, the business and international competitiveness of City firms and markets.²⁰ In the 1970s a common City view was that the financial community was 'the victim of government action and was incapable of putting its case effectively in Whitehall or Westminster'.²¹ When after 1971, culminating in 'Big Bang' in 1986, the government and the Bank took measures to overcome restrictive practices within the City – practices created or encouraged by their own earlier interventions – its structures and activities were again decisively shaped by government action, even though the outcomes were often different from what had been intended.

Neither particular cases of City–government tensions nor a persistent government imprint on the City are necessarily incompatible with the argument that the City had a strong influence over economic policy. The weight of particular episodes might still seem to favour the prevailing interpretations, while the effects of government within the City could have been of a different order to the City's effects on government. Nevertheless, such counter-cases and contrary perspectives emphasise the need for caution. It may be that, as Martin Daunton has written, the 'notion that economic policy was dominated by an alliance of the City and Treasury

¹⁹ Respectively the (Macmillan) Committee on Finance and Industry, the (Radcliffe) Committee on the Working of the Monetary System, and the (Wilson) Committee to Review the Functioning of Financial Institutions.

²⁰ These are leading themes in R. C. Michie, *City of London. Continuity and Change Since 1850* (1992), and R. C. Michie, *The London Stock Exchange. A History* (Oxford, 1999).

²¹ M. Moran, 'Finance capital and pressure-group politics in Britain', *British Journal of Political Science* 11 (1981), 382, 399.

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City and government: debates and politics

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is a regrettable commonplace of modern British history which obscures other, and more interesting, features of policy formation'.²²

'The City'

The contrasting histories of the City of London by Ranald Michie and David Kynaston have both shown that as an economic entity the City 'defies easy generalisation'. It might be defined as a national and international clearing house, a collection of markets used by intermediaries in trade, money, securities and financial services. As such its essence and its strength consisted in the remarkable diversity and flexibility of its activities.²³ Its markets and firms were highly specialised in their functions, types of client and geographical areas of expertise, and even within the City itself they operated in a highly competitive environment. Precisely because it was an international clearing house the City was vulnerable to sharp structural changes in the world economy – especially the two world wars and the 1929–32 depression – as was its financial sector to sudden international capital flows. Some instances of supposed 'City' pressure on government, notably during successive sterling crises, are more fully understood as emanating from foreign markets and institutions. Another of the City's core businesses, providing funds for the British state, meant that from the First World War onwards many of its activities were subordinated to the demands of a massively enlarged national debt. The effect was that the City's activities and its structure of firms changed considerably over the century – from 1914 to the 1950s losing much of its long-established commercial and international financial business and becoming increasingly concerned with domestic finance, before new forms of trans-national finance emerged during the 1960s and re-established its international pre-eminence.²⁴

Assessments of the City of London's long-term influence over government policy need to give careful attention to these changes in composition. Yet so diverse, fluid, competitive and prone to external pressures were its activities, and so tied to the immediate conditions and fluctuations of their specialist markets were its brokers, bankers and merchants, that the ability of the City as a whole to form a coherent policy 'interest' requires demonstration, rather than being taken for granted.²⁵ It can be

²² M. Daunton, 'How to pay for the war: state, society and taxation in Britain 1917–24', *English Historical Review* 111 (1996), 916.

²³ Michie, *City of London*, pp. x, 21–3, and see the evocation of complexity and fluidity in D. Kynaston, *The City of London*, 4 vols. (1994–2001).

²⁴ See Michie, *City of London*, and his chapter 2 below.

²⁵ For further comment from various directions, see Daunton, 'Gentlemanly capitalism', 146–51, and Daunton, 'Financial elites', pp. 139–42; R. C. Michie, 'Insiders, outsiders