

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.

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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).

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.

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.

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 bi-metallism 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.

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.

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.

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 Randal 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

argued that the demands of its various businesses for easy access to and ready international exchange of money did create common interests – in open markets, free international trade, a stable and convertible currency, government credit-worthiness and low taxes. These were, however, very general concerns which left room for differences over extent and means; and once each was expressed as a specific policy preference, they could conflict. For example, during the Edwardian period City men were faced with a choice between free trade and low direct taxation. Most opposed Joseph Chamberlain's tariff reform campaign when it started in 1903, but after 1906 an increasing number accepted it as preferable to the Liberal government's tax increases.²⁶

In practice, when historians use the term 'the City' they rarely mean the whole accumulation of economic activities located in the City of London. Most often it is treated as a synonym for the City-based banks, leaving aside the commodity markets, trading companies, shipping interests, and even the insurance markets and the Stock Exchange. Yet even here there are complications. This 'City' is usually identified with only some of the banks, and at different times with different types of bank. Before the 1930s these are the leading merchant banks, with their international businesses, but from the 1940s they become the clearing banks, whose principal concerns were domestic.

Such semantic shifts in the historical literature indicate an important point about contemporary meanings. From the perspective of the government and the Bank of England, what principally constituted 'the City' varied, not just over time but according to what seemed most relevant for their purposes. There was 'the City' which rarely impinged on their concerns, and which when it did tended to be regarded as a problem or irritant. This was true of the Stock Exchange, whose interests and opinions usually carried little weight in government or with the Bank.²⁷ There was 'the City' which handled the technical and normally routine business of government borrowing. Its leading bankers were important and needed to be consulted, but this business rarely gave rise to issues which can properly be termed 'economic policy'. The 'City' whose views were considered significant for policy reasons might consist of a different

and the dynamics of change in the City of London since 1900', *Journal of Contemporary History* 33 (1998), 547–71; M. Moran, 'Power, policy and the City of London', in R. King (ed.), *Capital and Politics* (1983), pp. 49–51; S. Checkland, 'The mind of the City', *Oxford Economic Papers*, n.s. 9 (1957), pp. 264–5, 273–4, 276–8; R. Roberts and D. Kynaston, *City State. How the Markets Came to Rule Our World* (2001), p. 17.

²⁶ See Howe's chapter below, pp. 141–3.

²⁷ Michie, *London Stock Exchange*, pp. 186, 423–5, 601.

set of bankers; and as economic policy objectives changed – from maintenance of the gold standard to management of the domestic economy – so the relevant types of bankers altered. Is ‘the City’ said to be important for government policy in the 1900s the same ‘City’ which seems to influence policy in the 1950s? How far can cases made for ‘the City’s’ capacity and means for influencing government in the 1900s be generalised to apply to the 1950s?

‘The City’ as a whole was not organised as a pressure group or ‘interest’. In the early part of the century, occasional petitions to senior ministers were organised by ‘the bankers and merchants of the City’, notably on the issue of the 1909 budget.²⁸ In 1920 there was even a joint representation from the heads of the Bank of England, clearing and merchant banks, Stock Exchange and London chamber of commerce, proposing a radical solution to the problem of the postwar floating debt.²⁹ But these were exceptional actions at the height of perceived crises, not part of sustained efforts to shape policy – and they had little or no impact on government. A ‘parliamentary committee of bankers’ had only an indistinct and transitory existence before 1914. From the 1960s some attempts were made to unite ‘finance capital’, embracing all the various financial businesses within one organisation, but without success. Particular types of bank or market members did form representative associations, such as the Accepting Houses Committee and London Discount Market Association, but compared to industrial and trade associations these were slow to develop and, like them, were concerned with self-regulation, implementation of official requirements, and technical issues of direct concern to their members, not matters of general economic policy. Some, including the Accepting Houses Committee, were also weak and for long periods practically ‘moribund’. Only during the 1970s, in response to increased government intrusion in the City, did pressure groups emerge or older associations become lobbying bodies.³⁰ Until then such activity had seemed unnecessary, because the leading banks regarded the Bank of England as its representative and channel of communication in dealings with the government.

²⁸ *The Times*, 15 May 1909, and see Kynaston, *City of London*, II, pp. 494–6, and below, pp. 121–2, 140.

²⁹ M. Daunton, *Just Taxes. The Politics of Taxation in Britain, 1914–1979* (Cambridge, 2002), p. 77. For another example, of coordinated letters from leading bankers during the 1931 crisis, see Williamson, *National Crisis*, pp. 282, 293.

³⁰ Cassis, *City Bankers*, pp. 271–84; Moran, ‘Finance capital and pressure-group politics’, pp. 385–6, 389–93, 397–9. In a similar shift, in 1979 the Stock Exchange joined the Confederation of British Industries: Michie, *London Stock Exchange*, pp. 486–7.

The Bank of England

For some historians the Bank of England is part of the City, for others an instrument of the government. This reflects both an ambiguity which was always inherent in its various functions, and its changing relationship with the government during the century. In some respects the Bank obviously did act on behalf of 'the City', meaning those sectors of the City which it considered especially important at particular times. As its responsibilities included the stability of the financial system, it helped to reorganise markets disrupted by war or depression, and to rescue ailing banks and finance houses; indeed until the 1980s it tacitly guaranteed the solvency of all the City's leading banks. Its expanding supervision of the banking system and later other City markets and firms became a means of protecting them from government interference. As the City's contact with the Treasury and the elected government, it upheld or advocated policies which it believed would benefit the financial system, and protested against government measures which it considered damaging to that system or its particular parts – on occasion placing severe pressure on ministers by insisting that preservation of financial confidence should take priority over all other policies. Sometimes, as over credit restriction in the 1950s, it even obstructed government policies.³¹ For all these purposes, as far and as long as possible the Bank distanced, even insulated, itself from government and defended its independence as an institution and its control of monetary policy. These originally seemed to be guaranteed by its delegated powers under the gold standard, and its being in private ownership. Even after the final departure from the gold standard in 1931 transferred ultimate monetary authority to the Treasury and even after the Bank was nationalised in 1946, it still asserted its operational autonomy and right to give independent advice, even though this could contradict the government's electoral or other public commitments.³² The Bank

³¹ J. Fforde, *The Bank of England and Public Policy 1941–1958* (Cambridge, 1992), ch. 10; A. Ringe and N. Rollings, 'Domesticating the "market animal"? The Treasury and the Bank of England 1955–60', in R. A. W. Rhodes (ed.), *Transforming British Government, I, Changing Institutions* (2000), pp. 123–7.

³² For excellent studies of these various aspects, see D. Kynaston, 'The Bank of England and the government' and R. Roberts, 'The Bank of England and the City', in R. Roberts and D. Kynaston (eds.), *The Bank of England. Money, Power and Influence, 1694–1994* (Oxford, 1995), pp. 19–55, 152–184; A. Cairncross, 'The Bank of England: relationships with the government, the civil service and Parliament', in G. Toniolo (ed.), *Central Banks' Independence in Historical Perspective* (Berlin, 1988), pp. 39–72; M. Collins and M. Baker, 'Bank of England autonomy: a perspective', in C.-L. Holtfrerich, J. Reis and G. Toniolo (eds.), *The Emergence of Central Banking from 1918 to the Present* (Aldershot, 1999), pp. 13–33; M. Moran, 'Monetary policy and the machinery of government', *Public Administration* 59 (1981), 47–61.

was notably successful in ensuring that the nationalisation act preserved its position as the intermediary – or barrier – between government and the banking system, denying the Treasury powers of direction over the clearing banks.³³

Nevertheless the Bank did not regard itself as merely the representative or voice of ‘the City’. As its deputy Governor told the Macmillan Committee in 1929, it considered its main duty to be ‘to conduct its operations in the interests of the community as a whole . . . free from the control of particular groups or interests’. While such statements were chiefly intended to justify the Bank’s political independence, they also implied a position of independence within the City and a readiness, where judged appropriate, to direct, control and discipline the activities of its firms and markets.³⁴ In the 1930s and 1940s this could involve pressure on merchant and clearing banks to assist depressed industries or small industrial companies, against the banks’ own sense of appropriate or sound banking business.³⁵ On a much larger scale, under the pressures of war, depression and government economic management the Bank’s responsibilities as banker to the government and guardian of the currency and the financial system obliged it to play a large part in shaping the City’s financial structures and activities. By its own operations or by ‘moral suasion’ it organised or regulated the money markets and capital issues to suit the government’s borrowing requirements and the funding of its short-term debt. Together with the Treasury it imposed exchange controls and embargos or restrictions on overseas investment in order to stabilise the currency and the exchange rate.³⁶ From the 1940s it issued ‘requests’ – always treated as instructions – to clearing banks and other financial houses for restraint in their advances: its objections were not to the principle of credit restriction, but to Treasury views on method and

³³ S. Howson, *British Monetary Policy 1945–51* (Oxford, 1993), pp. 110–17; Fforde, *Bank of England*, pp. 10–13.

³⁴ See P. Williamson, ‘Financiers, the gold standard and British politics, 1925–1931’, in J. Turner (ed.), *Businessmen and Politics. Studies of Business Activity in British Politics 1900–1945* (1984), p. 109. For an account of this period with different emphases, see Boyce, chapter 11 below.

³⁵ R. S. Sayers, *The Bank of England 1891–1944*, 3 vols. (1976), I, ch. 14; W. R. Garside and J. I. Greaves, ‘The Bank of England and industrial intervention in interwar Britain’, *Financial History Review* 3 (1996), 74–9; R. Coopey and D. Clarke, *3i: Fifty Years Investing in Industry* (Oxford, 1995), pp. 16–23. Among the Bank’s reasons was a desire to pre-empt government intervention in industry as well as in banking: defence of private enterprise extended beyond the City to manufacturing companies.

³⁶ Roberts, ‘The Bank of England and the City’, 160–76, 178–81; Sayers, *Bank of England*, I, chs. 9, 13, and II, ch. 19; S. Howson, *Domestic Monetary Management in Britain 1919–38* (Cambridge, 1975); J. Atkin, ‘Official regulation of British overseas investment 1914–1931’, *EcHR* 23 (1970), 324–35; D. Moggridge, *British Monetary Policy 1924–1931. The Norman Conquest of \$4.86* (Cambridge, 1972), chs. 7–9.

degree. While these interventions were presented as being in the City's general interest as well as the national interest, they nevertheless curtailed, redirected, or cushioned the business of particular markets and individual firms. They were also the main reason for the growth of organisation among City firms. These associations were encouraged or initiated by the Bank in order to facilitate the implementation of controls, regulations and 'requests'.

In significant respects the discount houses and leading banks became 'unpaid agents of the state', indeed were 'incorporated into public policy making'.³⁷ Of course the relationship was far from operating in one direction only. In order to ensure the banks' co-operation, the Bank conferred privileges on them, accepted their systems of self-regulation and restrictive practices, and had to be solicitous about their interests. Yet even this tended to tie the banks to the Bank of England, as they became dependent on its assistance in preserving their cartels against unregulated competitors. As the historian of the Bank during the 1950s commented, a wider effect was that 'civil servants and ministers came to regard the banking system as a creature to be manipulated through the Bank in the interests of short-term macro-economic policies. Despite occasional public and private protests the banking system became used to accepting such manipulation, with damage to their own efficiency and to the services provided to its customers.'³⁸ The Stock Exchange underwent a similar process. From 1914 onwards its business was impaired by Treasury as well as Bank of England restrictions, but it learned to exploit these to strengthen itself against competitors and became so accustomed to exercising quasi-official responsibilities that it seemed almost 'an arm of the state'.³⁹

Although the Bank had responsibilities towards the government, plainly it was not *just* the instrument of government any more than it was simply the representative of City bankers. From Montagu Norman's early governorship during the 1920s it had its own opinions not just on banking matters but also on wider domestic and international economic issues. Moreover, as the leading financial institutions and associations communicated with the government through the Bank, their concerns were liable to be filtered through its own perceptions and objectives. In practice, within government 'City influence' chiefly amounted to the views and interpretations of the Bank of England. These were expressed forcefully

³⁷ Moran, 'Finance capital and pressure-group politics', 383, 387-8, 393-9; B. Griffiths, 'The development of restrictive practices in the U.K. monetary system', *Manchester School* 41 (1973), 3-18.

³⁸ Fforde, *Bank of England*, p. 782.

³⁹ Michie, *London Stock Exchange*, esp. pp. 182-96, 291-4, 324-5, 330, 365-7, 425-7, 545, 594, 637.

and tenaciously, and carried weight with Treasury officials. Nevertheless after 1914 the Bank was always acutely aware of where the real power lay. Even during the 1920s, a supposed peak of its influence, it accepted that its monetary measures should take account of political considerations, so – contrary to gold standard ‘rules’ – it managed the exchange rate in order to minimise controversial bank rate increases.⁴⁰ Insulation from direct government intervention, though a form of power in terms of banking affairs, from the 1940s probably became a weakness in relation to economic policy, in that the Bank was detached from the processes of demand management.⁴¹ From its perspective, assertions of independence, even including its efforts to have the gold standard restored in 1925, were less demonstrations of strength than defensive or rearguard actions against the expansion of government and against political pressures for policies it regarded as harmful. After 1931 its sphere of independence contracted by stages, as the government’s efforts to stabilise and then, from the 1940s, to manage the economy intensified. Not until 1970, however, did a Bank of England Governor state that ‘the Bank is an arm of Government in the City’ – though even then O’Brien insisted on its special advisory role and his successor, Richardson, spoke of it as having ‘independence within government’.⁴² Plainly enough, the keys to explaining the Bank’s relative (but until the 1990s, declining) autonomy and to assessing the extent of ‘City influence’ lie in the attitudes and actions of the Treasury and the elected government.

The Treasury

Even more than the Bank of England, the Treasury manifestly had its own distinctive concerns. For Ingham, this remains compatible with the City’s power because the Treasury’s institutional interests within the state bureaucracy caused it to align itself with the Bank and the wider City. Certainly the Treasury’s claims to be the chief department of government were reinforced by its connection with the Bank as the main channel for banking–government communications, and by their joint responsibility for monetary policy. It was a relationship which Treasury officials jealously guarded, on occasion co-operating with the Bank to exclude participation by other departments.⁴³ Negatively, though, Ingham’s point has

⁴⁰ Moggridge, *British Monetary Policy*, chs. 7–9; Kynaston, ‘The Bank of England and the government’, pp. 27–8.

⁴¹ M. Moran, *The Politics of Banking. The Strange Case of Competition and Credit Control* (1984), p. 24; Moran, ‘Power, policy’, pp. 54–5.

⁴² Kynaston, ‘The Bank of England and the government’, pp. 51–2; Moran, ‘Monetary policy’, p. 49.

⁴³ A good example, directed against the Board of Trade, is noted in George Peden’s chapter below, p. 131.

an underexplored implication. Government relations with the City were not confined just to the Treasury, and investigation of other departments or government agencies with interests and responsibilities in commercial and financial affairs might complicate verdicts on the directions of City-government 'influence'. For example, the Foreign Office had assistance before 1914 from merchant bankers ready to lubricate its diplomatic objectives with loans, and in the 1920s from the Bank of England's 'financial diplomacy' in its efforts to advance European re-stabilisation.⁴⁴ Between the wars the Colonial and Dominions Office resisted Treasury and Bank efforts to ration imperial capital issues.⁴⁵ From the 1960s investigations emanating from the Board of Trade and Department of Trade and Industry forced the end of restrictive practices among clearing banks and in the Stock Exchange.

It is also true that the Treasury's responsibility for public finances necessarily made it attentive to the City's financial markets. Government debt had to be made attractive to investing institutions, and these wanted to be sure of government efforts to maintain 'sound finance' and to resist inflation. But this did not mean that the government's position was weak or dependent: the money markets and the banks needed the gilt-edged securities and Treasury bills, as these formed the fundamental assets and instruments for many of their activities. Nor did the Treasury require Bank or City pressure in order to balance the budget, restrain public expenditure, and check excessive public borrowing, because these were precisely its own functions. As George Peden has commented, 'the Treasury had its own reasons for pursuing policies of "sound finance" even when these met the approval of the City'.⁴⁶ It had its own reasons too for supporting sound money and open markets, because aside from their supposed economic benefits it regarded these as supplying the economic disciplines which reinforced its control of public finances. So, for example, the decisions from December 1919 to impose deflation and return to the gold standard were taken primarily on Treasury advice, reacting as much to chronic domestic budget and debt management problems as to Bank of England concerns with the City's international position.⁴⁷ Any wider 'City influence' was superfluous. Although Treasury officials and Chancellors of the Exchequer readily admitted their (surely inevitable)

⁴⁴ P. Thane, 'Financiers and the British state. The case of Sir Ernest Cassel', *Business History* 28 (1986), 80–99; Sayers, *Bank of England*, I, chs. 8, 15; but for later tensions see Neil Forbes's chapter 12 below.

⁴⁵ See Bernard Attard's chapter 10 below.

⁴⁶ G. C. Peden, *The Treasury and Public Policy, 1906–1959* (Oxford, 2000), pp. 12, 518; and see also his chapter 6 below.

⁴⁷ Howson, *Domestic Monetary Management*, pp. 12–23, 25–9, 33–43; Peden, *Treasury*, pp. 140–58.

reliance on the Bank's expertise in the financial markets,⁴⁸ such statements should not be mistaken for subservience towards the Bank, still less the wider City, on broader financial and economic issues. Although it was not until the late 1940s that the Treasury developed from a public finance department into an economic ministry, George Peden, Susan Howson, Roger Middleton and Peter Clarke have shown that during the interwar years its officials were already generating their own sophisticated economic understandings, which included the bearing of monetary conditions on the broader economy.⁴⁹ There seemed good reasons for regarding international financial stability and the international use of sterling as beneficial for the British economy; for considering the City's overseas earnings and its contributions to the balance of payments and to the demand for British manufactured exports as valuable for general economic well-being; and, after the Second World War, for preserving the Sterling Area and being worried about the potential damage of the sterling liabilities and an adverse balance of payments. There seemed good reasons too for defending sterling and the credit of British banks against international financial panics or speculation, even if this meant asking for assistance from foreign central banks or the International Monetary Fund – and as already noted, Treasury reactions to such crises should not be equated in any simple way with responses to 'City interests'.⁵⁰ In themselves these Treasury attitudes do not require explanation by general notions of Bank of England or City 'dominance' over policy, though this is not to deny that their influence was significant in particular Treasury responses.

Yet the Treasury always had to attend to far more than just Bank advice and any further City interests. Examination of particular episodes suggests not only that where it agreed with them it did so for its own purposes, but also that it was perfectly capable of rejecting their views or taking a different approach. It was 'quite unmoved' by the City protest over the 1909 increases in direct taxation, and despite the imposing figures behind the 1920 City plan for the floating debt – a remarkable (indeed ironic) proposal for a temporary addition to the already war-inflated rates of

⁴⁸ E.g. Kynaston, 'The Bank of England and the government', pp. 34–5.

⁴⁹ Peden, *Treasury*; Howson, *Domestic Monetary Management*; R. Middleton, *Towards the Managed Economy* (1985), esp. chs. 3, 5, 8; P. Clarke, 'The Treasury's analytical model of the British economy between the wars', in M. Furner and B. Supple (eds.), *The State and Economic Knowledge* (Cambridge, 1990), pp. 171–207.

⁵⁰ The point is well made for the mid 1960s in R. Stones, 'Government–finance relations in Britain 1964–7: a tale of three cities', *Economy and Society* 19 (1990), 36–41, 52, but it applies also to other sterling crises from 1931 to 1992; and see the distinction made in Roberts and Kynaston, *City State*, p. 17, between City firms and international financial markets.

income tax and super-tax – it dismissed it as politically impossible.⁵¹ Once Treasury officials took overall charge of monetary policy after the 1931 crisis they ignored the Bank's wish to return once again to the gold standard, and ensured that exchange rates and interest rates were stabilised at levels which assisted industrial recovery.⁵² While sympathetic towards the Bank's efforts to restore market disciplines from the late 1940s, over the following decades they could not accept its views on the extent to which the balance-of-payments and inflation problems should be met by public sector cuts and incomes policies. Indeed, for much of the century the levels of public expenditure and taxation were a recurrent source of difference between them. Here the Treasury was itself usually fighting rearguard actions, under Conservative governments as well as Liberal and Labour – applying what brakes it could, but unable to arrest the long-term trend towards increased spending and an expanding public sector. It was not just that the Treasury could never wholly resist unwelcome pressures from the spending departments. Nor was it just that as part of the government it could not ignore interests other than those of the 'City' – those of industry, labour, welfare recipients, and taxpayers.⁵³ The Treasury also had its own views on what constituted the best interests of the government and the nation, perceptions which were independent of particular economic interests because its responsibilities were not just economic or financial: it had also to help preserve the political stability, military security and diplomatic weight of the state. Most obviously of all, the Treasury was not a free agent.

Government and policy

The strongest claims for the City's influence on government have come from economic, social or Marxist studies. For political historians these claims have surprising features. One is their socio-economic reductionism, the narrowing of explanation to economic interests, financial elites or 'gentlemanly capitalists' – this at a time when even social history and studies of popular movements and elections were abandoning or considerably qualifying notions of economic or social 'determination'. Although the concept of a City–Bank–Treasury nexus does emphasise an independent role of sorts for the Treasury, it practically ignores the most public aspect of the state: the elected governments which, after all, had final responsibility for financial and economic policies. Still less does it

⁵¹ Peden, *Treasury*, p. 45; Daunton, *Just Taxes*, pp. 77–8.

⁵² Howson, *Domestic Monetary Management*, pp. 80–95.

⁵³ In addition to the studies in note 49, see for a more recent period C. Thain, 'The Treasury and Britain's decline', *Political Studies* 32 (1984), 581–95.

encourage consideration of the further elements in the political system to which Cabinet ministers had to attend: their own political parties, the rival parties, parliament and the electorate. Politicians are very largely disregarded, as if they were puppets manipulated by the Treasury or by financial or producer interests. This effect is reinforced by the tendency of histories of policy to be based overwhelmingly on the records of officials held in the Public Record Office, perhaps supplemented by some general political histories and ministerial biographies, but failing to engage adequately or at all with the private papers and speeches of senior politicians and with the specialist literature on party and electoral politics. Two crucial dimensions of policy, those of party-political strategies and broader 'political-cultural' assumptions, can be entirely missed. While permanent officials manifestly could exert a considerable influence over transitory and less expert ministers, it must always be recalled that their function was to serve those ministers and, ultimately, to supply advice tailored to their concerns. As an economist with much experience as a government adviser has emphasised, policy is 'inherently political' and has to be politically acceptable.⁵⁴

'Bringing the state back in'⁵⁵ to the analysis – accepting that elected governments and party-political competition are autonomous, and can themselves shape economic interests, ideas and structures – has large implications for understanding government–City interactions. Politics generated its own preoccupations and imperatives, and it should not be assumed that senior politicians identified themselves with, or responded to the promptings of, a particular economic interest. For them the national interest involved not just economic assumptions but sets of political, social, moral and international concerns, while the party-political struggle turned on efforts to combine support from numerous different social groups and diverse bodies of opinion. No party, not even the Labour party, could succeed by seeming to favour one 'economic interest' alone.

Considered in these terms, the concentration on 'economic policy' in discussions of City influence can be narrow and one-dimensional. It gives insufficient attention to other types of policy decision which placed pressure on economic policy and affected the context within which the City had to operate. It is salutary to take a long perspective: much of what leading City elements in the 1900s wished to defend was lost during the

⁵⁴ A. Cairncross, *Economic Ideas and Government Policy. Contributions to Economic History* (1996), p. 255. As Peden, *Treasury*, p. 160, notes, from PRO evidence alone it is difficult to know whether or not Treasury officials were 'writing to order'.

⁵⁵ P. Evans, D. Rueschemeyer and T. Skocpol (eds.), *Bringing the State Back In* (Cambridge, 1985).

next seventy years. These 'defeats' – on free trade, sterling's international status, taxation, Bank of England independence – were the outcome not just of inexorable forces of global economic change, but of government decisions and political debate. Above all there was war. The activities and prosperity of much of the City from the 1850s depended on a stable international economy: it needed peace, indeed from the 1890s some leading bankers made efforts to reduce Anglo-German tensions.⁵⁶ In contrast to the government's eighteenth-century wars which stimulated the City's development, those of the twentieth century were hugely damaging to the City. After 1945 both Labour and Conservative governments retained great-power aspirations, which gave them their own reasons for continuing to attach importance to the international strength of sterling. In 1964 it was very much the Labour leadership's decision to resist devaluation.⁵⁷ Yet from the late 1950s there were growing Treasury and Bank doubts about the financial costs of post-imperial power politics and the viability of the sterling exchange rate, while a new financial 'City' was emerging which dealt in currencies other than sterling, and had little interest in its fate. In domestic policies the priority that governments gave to social and political objectives, especially following the impact of the two world wars, expansions of the electorate in 1918 and 1928 and emergence of the Labour party, had similarly transforming effects. The increased provision of social services and from 1945 the commitments to full employment, demand management and nationalisation had major implications for 'sound finance' and the operations of the financial system. Yet in these policy fundamentals the Bank of England had no influence. As government grew hugely in size, scope and impact on the economy, and as political faith in the efficacy of the market declined or was qualified (until the 1970s), so the significance attached to Bank of England advice and 'City' views on matters beyond the financial markets declined considerably. Just as the nature of the City changed during the century so, still more obviously, did that of government: verdicts about policy influence over the long term are doubly hazardous.

The sources of and constraints upon economic policy have been complex, with party commitments and political manoeuvres being as important as official advice, competing economic ideas and pressure from economic interest groups. Nor have these elements been discrete: what economic groups perceive as their 'interest' could be shaped by past or potential government action; City bankers could be influenced

⁵⁶ P. Thane and J. Harris, 'British and European bankers 1880–1914: an "aristocratic bourgeoisie"?' in P. Thane, G. Crossick and R. Floud (eds.), *The Power of the Past* (1984), p. 223.

⁵⁷ A. Cairncross and B. Eichengreen, *Sterling in Decline* (1983), pp. 160–93.

more by their party allegiance than conventional views about their economic interests.⁵⁸ The concept of 'economic policy' itself can be one-dimensional, if it is treated as unitary rather than as a set of policies. Given the party-political concerns of ministers and the pressures upon them, these policies rarely had perfect economic coherence: their primary rationale was political, not economic. As Rob Stones has argued, overall policy was 'the result of a fractured and fragile set of processes', with specific policies pointing in different, even contradictory, directions as ministers attempted to achieve several objectives and to placate numerous groups at once, with the effect that the government was placed in several different relationships with any particular group such as the City bankers. His example is the Labour government in 1964–7 taking measures to preserve confidence in sterling, while simultaneously pursuing its own objective of domestic growth through credit and taxation policies which the Bank of England and City financiers intensely disliked.⁵⁹ Other cases can readily be found. During the early 1930s a display of strict budgetary orthodoxy helped sustain financial confidence at a time when cheap money, managed exchange rates and tariffs were being introduced. Assessment of the presence or degree of Bank or 'City' influence may depend on the selection of the policy or policies being examined.

Of course some, perhaps many, senior politicians took no interest in and were ignorant of banking and monetary issues, leaving themselves at the mercy of Treasury and Bank advice. Notoriously, Lord Passfield (Sidney Webb) as a former member of the 1931 Labour Cabinet declared after the suspension of the gold standard that 'nobody even told *us* we could do that'.⁶⁰ But too much should not be concluded from such examples. As Anthony Howe, Ewen Green and Jim Tomlinson show,⁶¹ each party had politicians who were certainly not intimidated or much impressed by Bank or even Treasury views. In contrast to the Labour ministers during the 1931 crisis, Conservative ministers in the new National Coalition government were so self-assured in their own assessments of financial confidence and so intent on their party objectives that they ignored the Bank's direst warnings, until the Bank eventually concluded that further defence

⁵⁸ Good instances of economic histories of policy which address its complexities, including the political dimensions, are J. Tomlinson, *Public Policy and the Economy since 1900* (Oxford, 1991), and R. Middleton, *Government versus the Market. The Growth of the Public Sector, Economic Management and British Economic Performance c. 1890–1979* (Cheltenham, 1996).

⁵⁹ Stones, 'Government–finance relations in Britain', 33 and *passim*.

⁶⁰ As originally noted in Dalton diary, 12 Jan. 1932, quoted in Williamson, *National Crisis*, p. 14. Matters had, however, been considerably more complicated than this artless statement implies: see Williamson, *National Crisis*, ch. 9.

⁶¹ Chapters 7–9 below.

of sterling was futile.⁶² A common politician's view of 'City opinion' was that it was hopelessly irrational, fickle, self-interested, politically unrealistic, and anyway likely to be divided.⁶³ One striking suggestion about City influence, that it could be decisive in the choice of Chancellors of the Exchequer, should be treated with scepticism: party and personal considerations were always more important.⁶⁴ Nevertheless, it may seem remarkable that governments for long left the Bank of England and the financial City with substantial independence and that, with the exception of the Labour party from 1931 to 1945, the political parties did not make them subjects for political campaigns or election manifestos. Part of the explanation was the political promise, pressure or constraint of other, apparently more pressing, issues. Of greater importance were the successive forms of 'governing' political economy.

The politics of political economy

In the commonly Marxist or *marxisant* accounts of City 'hegemony' over economic policy, the British state is assumed to have been a committee for organising the affairs of the dominant socio-economic elite or alliance. There is, however, a different understanding of the state which better explains the nature of government and policy over the last two centuries. By directing attention to the *political* aspects of the 'orthodox' economic doctrines inherited from the nineteenth century, this also explains the unusual position of the Bank of England and 'the City' without making excessive claims about their power.

The purpose of the major financial and commercial reforms from the late 1810s to the 1850s was not simply economic. Faced with severe social unrest and radical protest, the chief preoccupations of successive governments were political stabilisation, integration and legitimation.⁶⁵

⁶² Williamson, *National Crisis*, pp. 328–30, 410–16.

⁶³ E.g. Thane, 'Financiers and the British state', pp. 89, 95; Kynaston, *City of London*, III, pp. 5, 62, 110; Daunt, 'How to pay for the war', pp. 905–8.

⁶⁴ Cf. Boyce, *British Capitalism at the Crossroads*, pp. 21, 72–3, 380n.64, and Peden, *Treasury*, pp. 12, 193, 430. There are difficulties with the evidence adduced for the cases usually cited. That for the 1919 appointment consists of speculation by the Chancellor, Austen Chamberlain, not an explanation from the Prime Minister, Lloyd George. Baldwin as Prime Minister in 1923 and 1924 did mention City opinion, but only as one factor and only in the context of trying to persuade a reluctant Neville Chamberlain to accept the chancellorship, statements unlikely to have revealed the main reasons for his choice. Horne, supposedly disliked in the City for his 1921–2 chancellorship, had nevertheless been Baldwin's first choice in 1923, and his refusal then (and changed party circumstances) meant that there was no question of his being offered the post in 1924. The evidence for Lyttelton in 1951 is retrospective and ambiguous.

⁶⁵ For this paragraph and the next, see P. Harling and P. Mandler, 'From "fiscal-military" state to laissez-faire state', *Journal of British Studies* 32 (1993), 44–70; B. Hilton, *Corn*,

Senior politicians of all parties, sharing an autonomous ethos of 'good government', sought to defend authority, hierarchy and property in general, more than the interests of any specific economic group or section of the propertied classes. Indeed, in order to disarm radical criticism and restore confidence in established institutions, the agreed principle was that government had to be seen to be free from dependence upon, obligation towards and pressure from particular interests – including the Bank of England and the City. Accordingly, as far as possible the state ceased to be a participant in economic activities. With the gold standard, the Bank Charter Act, free trade and balanced budgets, governments created a framework for free markets, an automatic mechanism for economic adjustments and 'rules' for public finance. This was the political essence of Victorian *laissez-faire*, later extended to that other highly sensitive area, industrial relations. A minimal, non-interventionist state that was – or was successfully presented as – impartial towards competing interests would also be a strong state, able within conventional political limits to pursue its own purposes and meeting little resistance in financing its activities.

These reforms were carried against opposition from the Bank of England and City commercial interests, some of which were severely hit by the loss of 'mercantilist' and tariff legislation. On the other hand, the reforms assisted a new breed of merchants and financiers able to exploit the great expansion of the international and British economies from the 1850s to 1914. Government had not just exerted its supremacy over the City; however unintentionally, it had also taken a large part in reconstructing its economic activities. Although in the event new City interests were beneficiaries of the reforms, it does not follow that the gold standard, free trade and 'sound' public finance became their special ideological property.⁶⁶ These doctrines and the associated concept of a 'disinterested' state continued to serve the purposes of the political parties and government officials, by excluding from 'politics' a range of actions which might destabilise not just the financial and economic system, but also each party's political position and even the political system itself. These doctrines also became embedded in general political culture, because notwithstanding some challenges from the 1880s they were on balance

Cash, *Cash, Commerce* (Oxford, 1977), esp. chs. 2, 8, and conclusion; Howe, *Free Trade and Liberal England*, pp. 13–23, 55–64; R. McKibbin, *The Ideologies of Class. Social Relations in Britain 1880–1950* (Oxford, 1990), pp. 26–32, 38; P. Thane, 'Government and society in England and Wales, 1750–1914', in F. M. L. Thompson (ed.), *The Cambridge Social History of Britain 1750–1950*, 3 vols. (Cambridge, 1990), III, esp. pp. 26–33; Daunton, 'Home and colonial', pp. 351–6, and Daunton, *Trusting Leviathan. The Politics of Taxation in Britain 1799–1914* (Cambridge, 2001), pp. 26–7, 378, 388.

⁶⁶ Cf. Ingham, *Capitalism Divided*, pp. 112, 130–1; Cain and Hopkins, *British Imperialism*, I, p. 83.

perceived as being to the economic and political advantage of all significant groups, including the working population, which was especially loyal to free trade as a guarantee of low living costs.

For the period up to 1914 the term 'economic policy' is a misnomer. Governments directed their own finances without supposing this to have economic implications. They devolved monetary supervision as a purely technical issue, under gold standard conventions, to the Bank of England; and they recognised no responsibility for general economic activity, or for industry and banking. Economic life and political life were separate spheres. The Bank and 'the City' had independence from government, not power over its policies. Party politics was concerned with constitutional, denominational and moral issues, and to a lesser extent foreign policy and social reform. This explains why tariff reform, an attempt to change the terms of political debate – and in its inception and defeat it was always a party-political episode, not a competition between industrial and financial sectors⁶⁷ – caused such party and electoral dislocation.

The impact of the First World War placed economic and social issues firmly on the political agenda. Yet these new conditions made the traditional financial constraints on government seem still more essential. The wartime experience of government controls and negotiation with economic interests, the enlarged postwar electorate, and the strength and radicalism of the Labour movement increased the likelihood that party-political competition and pressure from economic groups would subvert public finance and the currency. The postwar inflation, occurring while the financial disciplines remained suspended, gave practical and frightening demonstration of the dangers. For the Bank of England and the Treasury the gold standard, the balanced-budget rule and a new element, the 'Treasury view' inhibiting public investment, now acquired still stronger political purposes. A good indication is the heightened rhetoric: that of Treasury officials when defending the Bank's independence in setting bank rate, of the Bank in insisting on its political neutrality and of the leading government advisor, Bradbury, in famously describing the gold standard as 'knave-proof. It could not be rigged for political or even more unworthy purposes.'⁶⁸ These Bank and Treasury efforts to reinforce political checks were directed not just against the Labour party, but

⁶⁷ Green, 'Gentlemanly capitalism', p. 58, suggests that the tariff reform campaign was a political attempt to *construct* an industrial interest.

⁶⁸ P. J. Grigg, *Prejudice and Judgment* (1948), p. 183, and see Moggridge, *British Monetary Policy*, p. 160; Williamson, 'Financiers', pp. 107–11; R. Middleton, 'The Treasury in the 1930s: political and administrative constraints to acceptance of the "new" economics', *Oxford Economic Papers* 34 (1982), 59–61, 63–4; Peden, *Treasury*, pp. 131–2, 150–1, 158, 196–7.

against politicians of all parties; their complaints began under the Coalition government, and continued under its Conservative successors.⁶⁹

In so far as the Bank and the Treasury succeeded, this was only because the same political and economic logic was accepted – ultimately – by senior government ministers themselves. As monetary and banking issues threatened to become politically as well as economically significant, Chancellors of the Exchequer took more interest in them and were particularly sensitive over increases in bank rate – but only in private. In public they upheld the Bank's independence, just as they accepted the gold standard. They did so because they agreed that the stability of the currency and the banking system were too important to be exposed to party competition; because there were obvious advantages in governments not being responsible for ostensibly unavoidable, yet now usually unpopular, monetary decisions; and because the gold standard strengthened their own hands in imposing budget control. Although Churchill tested his advisers' resolve over the return to gold and later regretted the decision, Keynes's presentation of him as an economic innocent led astray by the financial authorities is misleading: in 1925 he was well versed in, and pre-disposed towards, the orthodox economic doctrines.⁷⁰ When he did seriously challenge a bank rate increase, in February 1929, the Conservative Cabinet overruled him, formally resolving that the government did not control the Bank of England's policy. Labour party politics had always been overwhelmingly focused on industrial and labour issues, and little thought was given to monetary issues: like free trade, 'sound money' was assumed to be a necessary condition for decent living standards among the poor and for the security of the skilled workers' savings and trade unions' funds. While the Labour Chancellor in 1929, Snowden, had doubts about the availability of industrial investment – hence his appointment of the Macmillan Committee – he too accepted the distinction between 'technical' and 'political' spheres, and publicly insisted that the Bank had to be free from political interference.⁷¹ Nevertheless, in practice the Bank's policies were inhibited by political pressures, while the Conservative government was hardly more prepared than the Labour government to limit social expenditure and taxation to the levels favoured by the Bank and the wider City. Senior politicians of both major parties had imprisoned themselves within incompatible policies, adopting the

⁶⁹ E.g. Kynaston, *City of London*, III, pp. 61, 112, 128–9; cf. Ingham, *Capitalism Divided*, p. 173.

⁷⁰ See P. Clarke, 'Churchill's economic ideas 1900–1930', in R. Blake and W. R. Louis (eds.), *Churchill* (Oxford, 1993), pp. 79–95.

⁷¹ Moggridge, *British Monetary Policy*, pp. 161–4; Kynaston, 'The Bank of England and the government', pp. 27–8.

gold standard yet persisting with social reforms, unemployment payments and (notwithstanding the coal and general strikes) industrial conciliation to an extent which precluded the degree of deflation now required to maintain it.

Even after the 1931 departure from gold, the traditional rationale for insulating monetary issues from political pressures remained strong. Past and present Chancellors of the Exchequer in the National government secured a Cabinet decision that 'government control' of the Bank's policy was 'undesirable'. By this was meant control by politicians, so the effect was to leave the final direction of monetary policy with Treasury officials.⁷² This was not enough for the Labour party which, having persuaded itself that it had been the victim of a 'bankers' ramp', now extended socialism to embrace nationalisation of the Bank of England and the clearing banks, and creation of a National Investment Board.⁷³ Nor was it enough for other 'progressive-minded' politicians: in the aftermath of the depression of 1929–32, proposals for government direction of investment were widely canvassed, even by some Conservatives.

That such radical changes in the banking system were not introduced was essentially a consequence of the politicians' acceptance of a new political economy during the 1940s. At first the 1945 Labour government thought that Bank of England nationalisation and continuation of wartime physical controls over finance made further banking nationalisations and a National Investment Board unnecessary. These seemed still less necessary after it switched towards 'Keynesian'-style demand management, which turned attention away from monetary issues towards fiscal policy.⁷⁴ This had a double effect for the Bank of England and the financial City. Because monetary issues had been relatively marginalised, the Bank, tacitly supported by Treasury officials, was able to exploit the 'customary assumptions'⁷⁵ and re-establish elements of its independence from government. Nevertheless within government the Bank's and City's concerns had become just one element in a wider regime of macroeconomic management, and ministers now not only accepted

⁷² Williamson, *National Crisis*, pp. 497–501. In similar style, tariffs and new arrangements for unemployment 'doles' were neutralised by being placed in the hands of 'non-political' agencies.

⁷³ S. Pollard, 'The nationalisation of the banks: the chequered history of a socialist proposal', in D. E. Martin and D. Rubinstein (eds.), *Ideology and the Labour Movement* (1990), pp. 173–80; E. Durbin, *New Jerusalems. The Labour Party and the Economics of Democratic Socialism* (1985), pp. 73–4, 162–8, 204–18; and S. Howson, *British Monetary Policy 1945–51* (Oxford, 1993), pp. 65–73.

⁷⁴ J. Tomlinson, 'Attlee's inheritance and the financial system: whatever happened to the National Investment Board?', *Financial History Review* 1 (1994), 139–55.

⁷⁵ The useful term in Moran, *Politics of Banking*, pp. 9, 22, 24.

responsibility for monetary policy but also had alternative sources of advice on these issues, from the recruitment of professional economists into government service.⁷⁶ Although the politicians had, largely by inadvertence, allowed the Bank to retain the ability to argue its case and act as a buffer between government and the banks, the larger reality was its subordination to the priorities of full employment and the welfare state. This became evident during the 'Robot' episode in 1952. It is significant that the Bank and some Treasury officials seized upon the change from a Labour to a Conservative government to propose what was, in essence, an attempt to impose a new form of the earlier 'automatic' monetary and financial disciplines on government. But it is much more significant that the scheme was rejected by a group of ministers determined to avoid the political risks not just of allowing unemployment to rise, but also of appearing to succumb to 'City' pressure – to what they feared would be presented as 'Montagu Normanism' or 'a bankers' ramp'.⁷⁷

From the mid 1950s to the mid 1970s new pressures – balance of payments deficits, the effort to accelerate growth, persistent inflation – increasingly persuaded Chancellors of the Exchequer that for effective demand management fiscal measures were not nearly enough. Treasury involvement in monetary and banking grew, slowly but inexorably. Despite various spells of resistance, the Bank could not prevent erosion of its operational independence and its ability to deflect government interest in financial institutions.⁷⁸ Thereafter, from the mid 1970s, the perceived failure of 'Keynesian' management and abandonment of full employment as the primary policy objective produced a complex and paradoxical situation for government relations with the Bank and the City. The new Conservative government's encouragement of free markets helped stimulate a boom in the financial sector, but also ended the City's restrictive practices and forced rapid changes in the ownership of many firms. The government's 'monetarist' doctrines reasserted the centrality of monetary policy, but with the effect of further tightening Treasury control over the Bank's conduct of policy.⁷⁹ Yet in the new conditions of volatile international financial markets, such close political control over monetary

⁷⁶ Cairncross, 'Bank of England', pp. 49–51; Collins and Baker, 'Bank of England autonomy', pp. 16–17; and for economic advice, Peden, *Treasury*, pp. 24, 372–4, 437–9.

⁷⁷ J. Bulpitt and P. Burnham, 'Operation Robot and British political economy in the early 1950s: the politics of market strategies', *Contemporary British History* 13/1 (1999), 1–3, 19, 21–3, 26–7; S. Kelly, 'Ministers matter. Gaitskell and Butler at odds over convertibility, 1950–52', *Contemporary British History* 14/4 (2000), 31–42, 45–6, and see Newton's chapter below, pp. 269–72.

⁷⁸ Ringe and Rollings, 'Domesticating the "market animal"', pp. 123–7; Moran, 'Monetary policy', 50–6; Stones, 'Government–finance relations', 42–8.

⁷⁹ Kynaston, 'The Bank of England and the government', pp. 31–2.

policy weakened confidence in the government's ultimate ability to resist inflation. The effect was that its other policies were exposed to disruptions caused by problems with sterling. In these circumstances, acceptance of the Bank of England's independence in monetary policy once again became an attractive political strategy for senior members of both the Conservative and Labour parties. Matters had not really come full circle – conditions had changed too much since the early part of the century to be comparable – but again the motive was less subservience to the City than a determination to restore government credibility and regain greater freedom to pursue other policy objectives.