

# ***The United Kingdom's financial system during the twentieth century: Growth, stability and crisis.<sup>1</sup>***

**Philip L. Cottrell**

University of Leicester

Spatially, the United Kingdom's commercial banking system comprises three components: English and Welsh; Irish; and Scottish. This has arisen from the three 'provinces'<sup>2</sup> distinct legal systems, together with the particular evolution of banking within each from the late seventeenth century.<sup>3</sup> Subsequent developments over more than three centuries diminished geographical division, although not totally. Furthermore, the system has been characterised historically by functional specialisation in a Smithian manner, so that 'universal' or 'mixed' banking was not a significant characteristic until the last quarter of the twentieth century.<sup>3</sup>

Before 1979 there was no definition under United Kingdom statutory law of either a 'bank' or what constituted 'banking'.<sup>4</sup> Nonetheless, during the opening decades of the twentieth century, it

<sup>1</sup> I am grateful to my colleague Dr. B. Attard for comments upon an earlier draft. I also wish to acknowledge the implicit assistance of Professor Y. Cassis, E. Green and Dr. L. Newton, arising from numerous mutual conversations devoted to this topic held over many years.

<sup>2</sup> See S. G. Checkland, *Scottish banking. A history, 1765-1973*, (Glasgow/London 1975); M. Collins, *Money and banking in the UK: a history*, (London 1988); and P. Ollerenshaw, *Banking in nineteenth-century Ireland*, (Manchester 1987).

<sup>3</sup> See R. J. Truptil, *British banks and the London money market*, (London 1936); T. Balogh, *Studies in financial organization*, (Cambridge 1947); E. Nevin and E. W. Davis, *The London clearing banks*, (London 1970); D. K. Sheppard, *The growth and role of U. K. financial institutions, 1880-1962*, (London 1971); and M. Collins, 'English bank development within a European context, 1870-1939', *Economic History Review*, 51 (1998).

<sup>4</sup> Eliz. II, c.37, Banking Act, 1979.

was well recognised within the specialist press, and by parliamentary inquiries, that the hallmark of banking was taking deposits from the general public.<sup>5</sup> This understanding was derived from the industry having substantially comprised retail deposit banking since the mid-nineteenth century. It resulted from Britain's early industrialisation and was displayed in British society's advanced employment of cheques for making payments. Consequently, although nation-wide, branching joint-stock banks emerged within France somewhat before England, in 1913 bank deposits comprised about 85 per cent of the money stock in England and Wales as opposed to only 44 per cent in France (1910).<sup>6</sup>

The early cementing of British commercial banks' functional specialisation (but with some important differences between institutions located within each of the three 'provinces') was accompanied by the development of other dedicated financial intermediaries – accepting houses, building societies, discount houses, investment trusts, stockbrokers etc.<sup>7</sup> By 1914, these specialised institutions each had a professional or 'trade' association, further indicating their distinctness. The system's components were brought together by interactions within the various money, credit and capital markets, largely located within the 'square mile' of the City of London.<sup>8</sup> Functional boundaries between institutional groupings and markets began to break down from the late nineteenth century. However,

<sup>5</sup> D. Ziegler, 'The origins of the "Macmillan gap": comparing Britain and Germany in the early twentieth century', in P. L. Cottrell, A. Teichova and T. Yuzawa (eds), *Finance in the age of the corporate economy*, (Aldershot/Brookfield VT, 1997), p.184.

<sup>6</sup> R. Cameron, 'England, 1750-1844', p. 42; and *idem*, 'France, 1800-1870', p. 116, both in R. Cameron *et al.*, *Banking in the early stages of industrialization*, (New York/London 1967).

<sup>7</sup> See S. Chapman, *The rise of merchant banking* (London, 1984); G. A. Fletcher, *The discount houses in London*, (London 1976); W. M. Scammell, *The London discount market*, (New York 1968); R. C. Michie, *The London Stock Exchange. A History*, (Oxford 1999); and Y. Cassis, 'The emergence of a new financial institution: investment trusts in Britain, 1870-1939' in J. J. van Helten and Y. Cassis (eds), *Capitalism in a mature economy: financial institutions, capital exports and British industry, 1870-1914*, (Aldershot 1990).

<sup>8</sup> R. Michie, *The City of London: Continuity and change 1850-1990*, (London 1992); and D. Kynaston, *The City of London, I, A world of its own*, (London 1994); II, *Golden years 1890-1914*, (London 1995); and III, *Illusions of gold 1914-1945*, (London 1999).

they were not to crumble significantly until the 1970s, under the impacts of a renewed vigour in international finance, marked by the Euro-markets' dramatic rise, and domestic de-regulation from 1971 that culminated 15 years later in the City's 'Big Bang'.<sup>9</sup>

The major theme within the development of the United Kingdom's financial system over the twentieth century has been the relative displacement of the joint-stock banks, both nationally and internationally, from the dominant position that these institutions attained during the early 1920s. This will be used as the central thread in the following review of a century of change that focuses upon growth, stability and crisis. Growth occurred through this period, accompanied by stability until the early 1970s, from when the system experienced dramatic transformation as a result of both liberalisation through de-regulation and the further development of London as one of the world's leading international financial centres. Furthermore, this marked change in the system's nature from the last quarter of the twentieth century has also gone along with a series of crises, domestic and international, that have raised questions over central bank supervision.

## I

A feature of the dynamic rise of deposit banking within the United Kingdom was the emergence of price fixing, which had its roots in the practices developed by London joint-stock banks during the third quarter of the nineteenth century. By the mid-1870s, it was normal metropolitan business to give one per cent under Bank rate on term deposits (although provincial tariffs continued to vary significantly, according to local conditions and established business customs).<sup>10</sup> The continuing lack of price competition arose from newly founded

<sup>9</sup> See W. Kay, *Big bang; an investor's guide to the changed City*, (London 1986); S. MacLachlan (ed), *Life after big bang*, (London 1987); and W. A. Thomas, *The big bang*, (Oxford 1986).

<sup>10</sup> British Parliamentary Papers, 1875, Select Committee on Banks of Issue, evidence of R. B. Wade, qq. 1917-21.

banks' inability to become effectively established, despite apparent ease of entry into, and exit from, the industry. None of the 98 banks established in England and Wales between 1875 and 1920 managed to acquire a significant market share (as measured by the proportion of deposits to either total deposits or the sub-aggregate of the particular geographical banking 'group' within which the new entrant conducted business (i.e., London, or London and provincial or solely provincial)).<sup>11</sup> Deposit banking did not constitute a contestable market primarily because of new institutions' inability to obtain membership of the London Clearing House.<sup>12</sup> This had been formed during the late eighteenth century and early joint-stock banks only managed to gain entry in 1854. Thereafter, the Clearing House proved to be an exclusive club, constituting the crux for the further development of both the industry's oligopolistic structure and collusive practices.

The need to become a full member of the London Clearing House was also one of the factors that propelled bank amalgamations, a marked feature from the 1880s.<sup>13</sup> Lloyds, a Birmingham-based institution, acquired a metropolitan bank with Clearing membership during the 1880s, followed by Midland, a local competitor, in 1890. Thereafter, 'London and provincial banks', such as Lloyds and Midland, attained a centrality within English and Welsh deposit banking, their collective share of total deposits rising from 30.1 per cent in 1891 to 84.8 per cent in 1921.

Such banks' bridging of the provinces and the metropolis also spread London price-fixing practices as their senior managers, as with Holden at Midland, pursued strategic policies of competition based primarily upon size.<sup>14</sup> Since the establishment of branches was

<sup>11</sup> F. Capie, 'Structure and performance in British banking 1870-1913', in P. L. Cottrell and D. E. Moggridge (eds), *Money and power*, (Basingstoke/London 1988), pp. 96-100.

<sup>12</sup> F. Capie, 'The evolving regulatory framework in British banking', in M. Chick (ed.), *Government, industries and markets*, (Aldershot 1990).

<sup>13</sup> F. Capie and G. Rodrik-Bali, 'Concentration in British banking 1870-1929', *Business History*, 14 (1982); R. S. Grossman, 'Rearranging deckchairs on the Titanic: English banking concentration and efficiency, 1870-1914', *European Review of Economic History*, 3 (1999); and J. Sykes, *The amalgamation movement in English banking, 1825-1924*, (London 1926).

<sup>14</sup> See, in general, Y. Cassis, 'Management and strategy in the English joint-stock banks, 1890-1914', *Business History*, 27 (1985).

expensive, amalgamation became the preferred route to achieve this goal. Furthermore, other bank managements responded to the merger initiatives of Lloyds and Midland. Possibly, a critical point came in 1909, when London & Westminster fused with London & County, to produce a network of more than 100 branches so placing it on a par with those of Barclays, Lloyds, National Provincial and Midland. This, in turn, brought about counter moves – in 1914 Lloyds' acquisition of Wilts. & Dorset Bank, and Midland's take-over of Metropolitan Bank to establish the United Kingdom's then largest bank.<sup>15</sup>

Prolonged and exhausting war from August 1914 may have been a factor in maintaining the thrust of the amalgamation movement since bank managements continued to compete on the basis of physical and financial size rather than price. As official requirements designed to save increasingly scarce labour both halted branch expansion and caused bank office closures,<sup>16</sup> the only recourse left was to mount major mergers. In February 1918, National Provincial acquired Union of London & Smith's Bank while London, County & Westminster fused with Parr's. These take-overs, involving already substantial institutions and creating even greater ones, provoked very considerable public disquiet over the likelihood of a 'money' or 'bankers trust'. However, the resulting official inquiry - the Colwyn Committee - received little evidence opposing major bank mergers and, since the government had not impeded those of February 1918, the committee allowed others to proceed. As a result, during the summer of 1918, Lloyds acquired Capital & Counties, and Barclays took over London, Provincial & South Western Bank. At the same time, Midland fused with London Joint Stock Bank, which created an institution with 1,300 offices and deposits of £350m. – the world's then largest bank.<sup>17</sup> The 'Big Five' so formed during the first half of 1918 acquired what were to be their respective household names – Barclays, Lloyds, Midland,

<sup>15</sup> P. L. Cottrell, 'The domestic commercial banks and the City of London, 1870-1939', in Y. Cassis (ed), *Finance and financiers in European History, 1880-1960*, (Cambridge/Paris 1992), pp. 46-9.

<sup>16</sup> T. E. Gregory, *The Westminster Bank through a century*, (London 1936), II, p.121.

<sup>17</sup> R. Sayers, *The Bank of England 1891-1944*, I, (Cambridge 1976), pp. 235-43.

National Provincial and Westminster – in 1923/4, when they took on less cumbersome legal titles than those which had arisen during the climax of the amalgamation movement.

Bank mergers from summer 1918 were not restricted by promised post-war legislation but, rather, by private individual assurances from the senior managements of the 'Big Five', underpinned by an undertaking from Walter Leaf as chairman of the Committee of the London Clearing Banks. These were reinforced in 1924 by a code for bank amalgamations drawn up by a hostile Governor Montagu Norman in conjunction with the Chancellor of the Exchequer. Norman deployed it to stymie the further expansion plans of Barclays and Lloyds within England and Wales.<sup>18</sup> The Governor also attempted to solve the difficulties of remaining independent Lancashire banks through encouraging local mergers (Bank of Liverpool & Martins with Lancashire & Yorkshire in 1927, and Manchester & County with District Bank in 1935). However, Norman was unable to create a 'Big Sixth' to engender greater competition within the industry as a whole.<sup>19</sup> Rather, its organisational structure then persisted until 1967, and its collusive nature until 1971.<sup>20</sup>

The 'Big Five's' domination of English and Welsh deposit banking from 1918 was accompanied by their respective senior managements' mounting policies of nation-wide expansion and international growth. Extensions of the 'Big Five' into Ireland and Scotland were planned during the First World War but came up against, first, legal difficulties and, then, official intervention. Only Westminster was able to undertake an English-style acquisition – taking over Ulster Bank in 1917.<sup>21</sup> Midland's management found a solution to the problems that

<sup>18</sup> A. W. Tuke and R. J. H. Gillman, *Barclays Bank Limited 1926-1969*, (London 1972), p.16; and R. Winton, *Lloyds Bank 1918-1969*, (Oxford 1982), p. 25.

<sup>19</sup> Anon, *William Deacon's 1771-1970* (Manchester, 1970), pp. 157-60; G. Chandler, *Four centuries of banking*, I, *The grasshopper and the liver bird. Liverpool and London*, (London 1964), pp. 443-74; *idem*, *Four centuries of banking*, II, *The northern constituent banks* (London 1968), pp. 580-88; and Sayers, *Bank of England*, I.

<sup>20</sup> G. Jones, 'Competition and competitiveness in British banking 1918-1971', in G. Jones and M.W. Kirby (eds), *Competitiveness and the state*. (Manchester 1991).

<sup>21</sup> Gregory, *Westminster Bank*, II, pp. 14-22.

had arisen through forming capital relationships by affiliation - equity connections that gave acquired banks significant independence. Affiliates continued to conduct business under their former names, so maintaining local customer loyalties, and in Scotland retained their rights to issue bank notes. Midland's management first applied affiliation in 1917/18 to establish a connection with Belfast Bank.<sup>22</sup> It was further utilised by Midland for its relationships with Clydesdale Bank (1918) and North of Scotland Bank (1929).<sup>23</sup> Lloyds also adopted affiliation in 1918 with regard to National Bank of Scotland, and Barclays a year later for British Linen Bank.<sup>24</sup>

The post-war spread of the 'Big Five's' influence throughout the British Isles was only halted by political disruption. The creation of Eire resulted in the senior managements of both Midland and Westminster deciding to restrict their Irish affiliates' businesses to Northern Ireland. The one immediate market counter to the nationwide growth of the 'Big Five' was made by Royal Bank of Scotland. In 1924 this major Scottish bank acquired Drummonds, a small, private London house, and, subsequently, but with the support of the Bank of England, two English clearing banks - Williams Deacon's (1930), and Glyn, Mills & Co. (1939).

The national growth of the 'Big Five' went hand in hand with their further involvement with international finance. During the Edwardian period each of their progenitors had become substantially involved in the direct provision of acceptance credits and the supply of foreign exchange. Other international dealings were undertaken in conjunction with overseas correspondents.<sup>25</sup> For instance, Midland opened a Foreign Banking Department in 1902, which had 132 overseas correspondence links during the 1910s. A new departure

<sup>22</sup> See N. Simpson, *Belfast Bank 1827-1970*, (Belfast 1975).

<sup>23</sup> A. R. Holmes and E. Green, *Midland. 150 years of banking business*, (London 1986), pp. 157-61. See also J. M. Reid, *The history of the Clydesdale Bank*, (np., 1938); and C. W. Munn, *The Clydesdale Bank. The first 150 years*, (Glasgow/London 1988).

<sup>24</sup> Tuke and Gillman, *Barclays*, p. 16; and Winton, *Lloyds*, p. 3.

<sup>25</sup> See S. Battilossi, 'Financial innovation and the golden ages of international banking: 1890-1931 and 1958-81', *Financial History Review*, 7 (2000).

was Lloyds' acquisition of Armstrong & Co., Paris and Le Havre, shortly before the outbreak of the First World War. This was further developed, through a joint venture with National Provincial, to give by 1919 offices in Belgium, Germany and Switzerland. Comparably, Lloyds in association with Westminster formed Banco Italo-Britannica to operate within Italy.<sup>26</sup> Barclays' management also developed a European network, beginning in France, then in Germany, and coupled this with opening in Algeria in 1920. The expansion of four of the 'Big Five' into Europe (the exception was Midland) was officially encouraged to enable the British financial system to compete more effectively with the German.<sup>27</sup> Even when conditions markedly changed, Barclays continued with this strategy by acquiring an interest in a Belgian bank and opening in Italy during the later 1920s.<sup>28</sup>

The senior managements of both Barclays and Lloyds not only executed European banking strategies but also had major global ambitions. In the case of Lloyds, it has subsequently been acknowledged that these lacked a rationale. They led to investments in British overseas banks operating in Latin America, rationalised in 1923 by the formation of Bank of London & South America (BoLSA). Alongside these stakes, others were taken in 1919 - in British Bank of West Africa and National Bank of New Zealand. Lloyds' Indian branch network was acquired differently - a result of its rescue, at Bank of England behest, of Cox & Kings, army agents.<sup>29</sup> The creation of Barclays Bank (Dominion, Colonial & Overseas) in 1925 had its origins in Barclays' pre-war equity interest in Colonial Bank. This was utilised by the bank's chairman, Goodenough, as the basis for establishing a 'British Empire Bank' during the immediate post-war period. It was a personal mission but also a consequence of the post-1918 official,

<sup>26</sup> G. Jones, 'Lombard Street on the Riviera. The British clearing banks and Europe 1900-1960', *Business History*, 24 (1982); and Winton, *Lloyds*, pp. 57-8.

<sup>27</sup> G. Jones, *British multinational banking 1830-1990*, (Oxford 1993), ch. 5.

<sup>28</sup> Tuke and Gillman, *Barclays*, pp. 56-8, 71.

<sup>29</sup> Winton, *Lloyds*, pp. 28, 34, 122-7; and Sayers, *Bank of England*, I, p. 241. See also Fry, *Bankers in West Africa*, (London 1976), pp. 94-7; and D. M. Joslin, *A century of banking in Latin America*, (London 1963), pp. 236-44.

informal barriers to further domestic expansion through merger. The project was accomplished by the acquisition of interests in National Bank of South Africa and Anglo-Egyptian Bank. DCO's global range was further extended by the creation of Barclays Bank (Canada) in 1929.<sup>30</sup>

The moves of four of the 'Big Five' into Europe and the world expansion of both Barclays and Lloyds proved to be precocious. The European ventures were unsuccessful, whereas the profitability of banking beyond the industrialised world during the 1920s was adversely affected by the hesitant growth of international trade and the fall in primary-product prices. Furthermore, these extensions were forcibly opposed by Governor Montagu Norman, who remained anxious over both their consequences for the overall stability of the 'Big Five', and the difficulties that the British government might face if forced to intervene and rescue one of these institutions. Such concerns gained some substance when Banca Italo-Britannica collapsed during the late 1920s as a result of fraud.<sup>31</sup> Nonetheless, the Governor was unable to obtain government support for his opposition. Consequently, from October 1925 he was only able to indicate it through a private campaign of discrimination against Lloyds' and Barclays' overseas subsidiaries on the London market, maintained until his retirement from the Bank of England.<sup>32</sup>

## II

Informally barred from undertaking further mergers on the domestic market, the 'Big Five' continued to compete amongst themselves and with other financial institutions on the basis of size.<sup>33</sup>

<sup>30</sup> Take and Gillman, *Barclays*, p. 74. See also J. Crossley and J. Blandford, *The DCO story: Barclays Bank (Dominion Colonial and Overseas) 1925-1971*, (London 1975); and K. E. A. Montieth, 'Competition between Barclays Bank (DCO) and the Canadian banks in the West Indies, 1926-45', *Financial History Review*, 7 (2000).

<sup>31</sup> Sayers, *Bank of England*, 1, pp. 260-2.

<sup>32</sup> *Ibid.*, pp. 243-8.

<sup>33</sup> See, in general, F. Capie, 'Commercial banking in Britain between the wars', in C. H. Feinstein (ed.), *Banking, currency and finance in Europe between the wars*, (New York 1995).

As a result, the number of bank offices within the United Kingdom rose from 7,560 in 1912 to 11,738 in 1929.<sup>34</sup> National Provincial was in the van but only to the extent of increasing its network to 1,308 offices while Westminster was a laggard, with merely 50 new branches to raise their total number to 1,050 at the close of the 1920s. The two largest 'branchers' in 1929 were Barclays and Midland, with domestic networks of 2,042 and 2,044 offices respectively.<sup>35</sup> This expansion was not continuous, largely occurring during the immediate post-war years and over the weak cyclical upswing of the latter 1920s and, in the case of Midland, focused primarily upon the prosperous Home Counties. As before 1914, establishing new branches was expensive which depressed profits, while few economies were gained from network rationalisation in the wake of the major mergers of 1918.<sup>36</sup>

Despite a generally deflationary monetary policy, domestic branch expansion achieved the goal of further increasing the volume of deposits. They grew overall at a nominal rate of 0.9 per cent per annum and at a real rate of two per cent, 1923/5-1928/30, which was a sea-change compared to immediate pre-war experience.<sup>37</sup> Nonetheless, renewed growth proved costly for bank shareholders despite the formalisation of price fixing through the Committee of London Clearing Banks. This stipulated in August 1919 that interest paid on metropolitan term deposits would be at two per cent under Bank rate whereas the norm for 'country deposits' was a fixed rate of 2.5 per cent. Within this framework, Lloyds and Midland in particular attempted through various stratagems to attract savings accounts and small depositors, so competing with building societies, Post Office Savings Bank and trustee savings banks.<sup>38</sup> However, the main source of deposit growth was costly new branches, and the slight decline in Westminster's share of total deposits during the 1920s may be attributed

<sup>34</sup> Collins, *Money and banking*, Table 7.3, p. 208.

<sup>35</sup> Holmes and Green, *Midland*, p. 169.

<sup>36</sup> *Ibid.*, p. 170; and Winton, *Lloyds*, p. 26.

<sup>37</sup> Collins, *Money and banking*, pp. 203-5.

<sup>38</sup> *Ibid.*, p. 216.

to its management's reluctance to participate fully in the decade's foray of branch expansion.<sup>39</sup>

The finance of the First World War caused a major change in the way that bank deposits were mobilised. First, the commercial banks, along with other financial intermediaries, became prime holders of a vastly increased issue of Treasury bills, and this was especially the case during the latter part of the 1920s. These substantial liquid holdings of unfunded debt were accompanied by major investments in government long-term securities that, with post-war funding operations, further increased, being in aggregate equivalent to 23 per cent of total deposits in 1923. As the problem of the war-induced expansion of the National Debt was progressively addressed, the banks' holdings of government stocks declined and, by 1929, collectively amounted to 14 per cent of total deposits.<sup>40</sup>

During the war, aggregate bank advances had fallen from a normal, peacetime level of 50-60 per cent of total deposits to 32 per cent by 1919.<sup>41</sup> At the Armistice, the banks were highly liquid and, with the onset of the restocking boom during spring 1919, received a substantial renewal of demand for advances – loans and overdrafts. Initially, their managements reacted by attempting to fulfil every request to the extent that one Lloyds director commented that his bank 'ladled out money', resulting in its advances increasing by £55m. over 1919.<sup>42</sup> However, the character of the upswing caused increasing concern, resulting, for instance, in Midland and its Scottish subsidiary, Clydesdale, agreeing to discourage 'all large advances for Stock Exchange or speculative purposes'.<sup>43</sup> Bankers' growing caution was reinforced in March 1920 by a request from the Chancellor for co-operation in inducing a gradual deflation, the first official direction regarding bank lending.<sup>44</sup>

<sup>39</sup> Holmes and Green, *Midland*, p. 167; and Winton, *Lloyds*, pp. 32, 34. A similar price cartel operated in Scotland; see Checkland, *Scottish banking*, pp. 569-70.

<sup>40</sup> Collins, *Money and banking*, pp. 244-6, 247-8.

<sup>41</sup> *Ibid.*, p. 252.

<sup>42</sup> Winton, *Lloyds*, p. 31.

<sup>43</sup> Holmes and Green, *Midland*, p. 161.

<sup>44</sup> Winton, *Lloyds*, p. 31.

The post-war bubble collapsed during summer 1920, the ensuing sharp downswing aggravated by the authorities' full introduction of a stringent monetary policy. As a consequence, banks incurred significant bad debts that remained on their books until the mid-1920s. The worst affected were north-western institutions, arising from the cotton industry's post-war overcapitalisation coupled with its declining international prospects. Their consequent problems led to further regional bank amalgamations in which Montagu Norman played a hand, and pressure from bankers for the execution of rationalisation schemes within the cotton industry.<sup>45</sup>

Bank advances recovered from 1924 as the economy enjoyed a further upswing and, by 1929, Midland had extended £210m. and Lloyds £204m. Industrial lending comprised about half, as with each of the 'Big Five'. It was granted on formulaic terms – usually at a minimum cost of five per cent, rising above that with a margin of one or two per cent over Bank rate – in marked contrast to the fixed rate of five per cent that had been the pre-1918 norm amongst provincial banks.<sup>46</sup> Some funds were extended to support industrial rationalisation schemes, including unwittingly Hatry's fraudulent ventures. During the latter 1920s, greater provisions had once more to be made for bad debts, in the case of Midland particularly for cotton

<sup>45</sup> See J. H. Bamberg, *The government, banks and the Lancashire cotton industry 1918-1939*, unpublished Ph.D. thesis (University of Cambridge, 1984); *idem*, 'The rationalization of the British cotton industry in the inter-war years', *Textile History*, 19 (1988); and M. W. Kirby, 'The Lancashire cotton industry in the interwar years. A study in organisation change', *Business History*, 16 (1974).

<sup>46</sup> On possible changes to assessing requests for accommodation arising from the amalgamation movement, see M. Collins, *Banks and industrial finance in Britain, 1800-1939* (London 1991); J. Wale, 'What help have the banks given British industry? Some evidence on bank lending in the Midlands in the late nineteenth century', *Accounting, Business and Financial History*, 4 (1994); F. Capie and M. Collins, 'Industrial lending by English commercial banks, 1860s-1914: why did banks refuse loans?', *Business History*, 38 (1996); *idem*, 'Banks, industry and finance, 1880-1914', *Business History*, 41 (1999); and L. Newton, 'Trust and virtue in English banking: the assessment of borrowers by bank managements at the turn of the nineteenth century', *Financial History Review*, 7 (2000). See also in general: A. T. K. Grant, *A study of the capital market in post-war Britain*, (London 1937); F. Lavington, *The English capital market*, (London 1921); L. Hannah, *The rise of the corporate economy*, (London 1976); and W. A. Thomas, *The finance of British industry, 1918-1976*, (London 1978).

customers and South Wales coal and steel concerns. This bank's senior management reacted by introducing further and greater central control over the provision of advances, coupled with increased accounting checks.<sup>47</sup>

Banking became politicised with the emergence of severe structural problems within the economy, as displayed by persistent long-term unemployment from 1921. The debate became more heated with the high interest-rate regime necessitated by sterling's return to its pre-war gold parity. Over the 1920s, it was increasingly maintained that 'finance' was failing the economy despite the priority it had received and continued to have.<sup>48</sup> There was a growing demand that the 'Big Five' should more positively support 'rationalisation', which came to be seen as a panacea for all of the economy's problems. This controversy came to head with the minority Labour administration of 1929, which appointed the Committee on Finance and Industry (Macmillan Committee). It was given a remit that included reviewing possibilities allowing financial institutions 'to promote the development of trade and commerce and the employment of labour'.<sup>49</sup>

Fearing that the Labour government might respond with nationalisation, Governor Norman attempted to forestall the Macmillan Committee's possible strictures through establishing two bodies for financing rationalisation – Securities Management Trust (SMT) (1929), and Bankers Industrial Development Corporation (BIDCo) (1930). Here he also drew upon the Bank of England's

<sup>47</sup> Holmes and Green, *Midland*, pp. 174, 179, 190; and Winton, *Lloyds*, pp. 44, 61, 64, 76. For relations with particular companies, see R. Church, *Herbert Austin. The British motor car industry to 1941*. (Aldershot 1979); J. Foreman-Peck, 'Exit, voice and loyalty as responses to decline: The Rover Company in the inter-war years', *Business History*, 23 (1981); and J. D. Scott, *Vickers*, (London 1962).

<sup>48</sup> For a wide and penetrating review of this general question, see D. M. Ross, 'Commercial banking in a market-oriented financial system: Britain between the wars', *Economic History Review*, 49, (1996).

<sup>49</sup> S. E. Thomas, *British banks and the finance of industry*, (London 1931); M. Best and J. Humphries, 'The City and industrial decline', in B. Elbaum and W. Iazonik (eds), *The decline of the British economy*, (London 1986); and Collins, *Money and banking*, pp. 255-7.

recent experience with some of its own private customers, such as Armstrongs, the naval shipbuilder, and efforts to establish the Agricultural Mortgage Corporation (AMC) from 1926 that only gained success during the early 1930s. AMC was financed by the Bank and four of the 'Big Five', while BIDCo's resources were supplied from across the City. Initially a five-year venture, BIDCo worked in tandem with SMT but their managements' role came to be largely the supply of advice as opposed to funds for other rationalisation programmes beyond those for cotton and shipbuilding. Further industrial restructuring initiatives had to be resourced privately because the severe depression from 1929 militated against the success of public calls for capital, whatever the standing of the banks and houses that might issue the prospectuses.<sup>50</sup> A further forestalling measure taken by Norman was to acquire £0.25m. of United Dominion Trust shares, which it was thought would augment credit facilities available to business.<sup>51</sup>

Rationalisation, together with balancing the interests of a bank against commitments to customers, resulted in bank managements undertaking a sequence of major rescue operations during the 1930s under Bank of England leadership. A consortium liquidated the Royal Mail shipping group and salvaged related shipbuilding interests – Harland & Wolff, Belfast. Lloyds together with National Bank of Scotland and Royal Bank of Scotland restructured the Beardmore engineering concern. Similarly, Lloyds enabled Stewarts & Lloyds to reconfigure steel production and its product range.<sup>52</sup>

<sup>50</sup> Sayers, *Bank of England*, I, pp. 324-7; and *ibid*, II, pp. 546-51, 558.

<sup>51</sup> S. Bowden and M. Collins, 'The Bank of England, industrial regeneration and hire purchase between the wars', *Economic History Review*, 45 (1992); and Collins, *Money and banking*, pp. 217-18.

<sup>52</sup> Holmes and Green, *Midland*, p. 185; E. Green and M. Moss, *A business of national importance*, (London 1982); W. R. Garside and J. L. Greaves, 'The Bank of England and industrial intervention in interwar Britain', *Financial History Review*, 3 (1996); A. Slaven, 'Self-liquidation: The National Shipbuilders' Security Ltd. and British shipbuilding in the 1930s', in S. Palmer and D. Williams (eds), *Chartered and uncharted waters*, (London 1981); and J. R. Hume and M. S. Moss, *Beardmore: the history of a Scottish industrial giant*, (London 1979).

### III

Within the United Kingdom financial sector, the main impact of the Great Depression was felt by institutions with businesses strongly related to international trade and finance. The support of global trade by sterling acceptances declined further from 1929 with the dramatic fall in world commerce. This was followed by the crisis caused by the collapse of banks in Germany and eastern Europe over spring and summer 1931 that severely called into question £54m. of London acceptances. The problem was resolved by the subsequent conclusion of Stillstand agreements, but their provisions affected the position of a number of London discount houses and merchant banks during the first half of the 1930s.<sup>53</sup>

The discount houses were also adversely affected by the consequences of the 'cheap money' policy introduced by the British authorities in 1932.<sup>54</sup> By 1933 they could no longer employ remuneratively 'money at call' taken from the clearing banks, which since 1929 had been supplied at one per cent below Bank rate. Norman stepped in to sustain the discount houses on the grounds that the money market enabled the Bank to undertake required sales of Treasury bills while also constituting the most appropriate mechanism for influencing short-term interest rates and liquidity within the system. The Governor's intervention led to the clearing banks supplying the discount houses with cheaper liquid funds, and moderated competition between them and the discount houses over the take-up of new Treasury bills. Collusion amongst this market's principals was taken further in 1935, when, with Bank of England agreement, the discount houses formalised their syndicate for the weekly tender for Treasury bills. This involved a minimum price along with quota distribution of the take-up amongst the houses.<sup>55</sup>

<sup>53</sup> See K. Burke, *Morgan Grenfell 1838-1988*, (Oxford 1989), pp. 146-56; R. Roberts, *Schroders*, (Basingstoke/London 1992), ch. 9; and J. Wake, *Kleinwort Benson*, (Oxford 1997), pp. 242-9.

<sup>54</sup> For one house's experience, see R. Sayers, *Gillets in the London money market, 1867-1967*, (Oxford 1968), ch. 5.

<sup>55</sup> Sayers, *Bank of England*, II, pp. 536-43; and Collins, *Money and banking*, pp. 219-20.

The merchant banks' international business was further constrained during the 1930s by official barriers in the way of the export of capital.<sup>56</sup> Furthermore, continuing adverse world conditions also encouraged a move to domestic opportunities, already taken by some houses from the mid-1920s. Higginson, Lazards and Morgan Grenfell in particular had become involved with electrical companies, whereas Barings, Hambros, Rothschilds and Schrodgers had taken on more home business in general. In the climate engendered by the Macmillan Report (1931), Norman further encouraged this reorientation. Nonetheless, the merchant banks remained primarily concerned with undertaking relatively large new capital issues - the minimum size that their managements would consider during the 1930s being £0.1m.<sup>57</sup>

The major marks produced by the Great Depression upon the balance sheets of the 'Big Five' were a rise in bad and doubtful debts and a substantial fall in the volume of advances.<sup>58</sup> This reduced profitability, and reductions in dividends to shareholders that had begun during the late 1920s continued. Furthermore, bank chairmen found that they had to repeat such disappointing announcements even at annual general meetings held during the mid-1930s when the economy had begun not only to recover but expand.<sup>59</sup> This led to cost-reduction drives of which the clearest public sign was fewer new branch openings. Between 1929 and 1937 the number of bank offices within the United Kingdom increased by 539 to 12,277. The greatest growth occurred in Scotland - a rise of 256 - to raise the ratio of offices per 10,000 population from 3.4 to 3.81, whereas the overall ratio for the United Kingdom only rose from 2.57 to 2.6.<sup>60</sup> Indeed, amongst

<sup>56</sup> See J. Aitken, 'Official regulation of overseas investment, 1914-1931', *Economic History Review*, 23 (1970).

<sup>57</sup> S. Tolliday, *Business, banking and politics. The case of British steel 1918-1939*, (Cambridge MA/London, 1997), p. 184; Chapman, *The rise of merchant banking*; and Sayers, *Bank of England*, II, pp. 503-12. See also S. Diaper, 'Merchant banking in the interwar period. The case of Kleinwort Sons & Co.', *Business History*, 28 (1988).

<sup>58</sup> See for instance, Winton, *Lloyds*, pp. 63-4.

<sup>59</sup> Capie, 'British banking'; and Holmes and Green, *Midland*, p. 189.

<sup>60</sup> Collins, *Money and banking*, pp. 206-7.

the 'Big Five', there was greater co-operation over branch closures, which allowed Lloyds to shut 74.<sup>61</sup> The stabilisation of networks, at least within England and Wales, went along with increased mechanisation that directly reduced labour costs since American accounting machines were operated by female staff rather than higher-paid male ledger clerks.<sup>62</sup> Furthermore, fewer staff were recruited, a measure that was to generate problematic shortages in the ranks of middle and senior management during the 1950s and 1960s.<sup>63</sup>

Whereas expensive branch openings had augmented deposits during the 1920s, other factors - a somewhat higher underlying rate of economic growth and an expansionary monetary policy - propelled deposit growth during the 1930s. Total deposits increased nominally at 2.8 per cent per annum and at a real rate of 3.3 per cent, 1928/30-1936/8. Amongst the 'Big Five', Barclays made gains, with its share of total deposits rising from 18.9 to 19.5 per cent, 1929/30-1938/9, and its proportion of aggregate advances increasing from 18 to 21 per cent over the same period.<sup>64</sup>

However, faster deposit growth only aggravated a growing dilemma for senior bankers - the continuing lack of a growth in demand for advances, especially from industrial customers.<sup>65</sup> This was made plain to the public by the Macmillan Committee's recommendation that advances be classified, followed by the banks from 1932, but only to indicate particularly the significant fall in their industrial lending. It became a feature of the banks' balance sheets during the mid-1930s, fuelling further criticism that the 'Big Five' were failing to respond to the persistent problem of regional structural unemployment. The

<sup>61</sup> Winton, *Lloyds*, pp. 67-71.

<sup>62</sup> *Ibid.*, p. 89; Holmes and Green, *Midland*, p. 193; and P. Wardley, 'The commercial banking industry and its part in the emergence and consolidation of the corporate economy in Britain before 1940', *Journal of Industrial History*, 3 (2000), pp.83-9.

<sup>63</sup> Winton, *Lloyds*, pp. 67-71.

<sup>64</sup> Collins, *Money and banking*, pp. 204-5; and Holmes and Green, *Midland*, p. 196.

<sup>65</sup> Aspects of bank-customer relations are considered in D. Ross, 'Information, collateral and British bank lending in the 1930s', in Y. Cassis, G. Feldman and U. Olsson (eds), *The evolution of financial institutions and markets in twentieth-century Europe*. (Aldershot 1995).

government reacted through a Bank of England investigation of the banks' practice of a minimum charge for supplying accommodation, made highly significant by the 'cheap money' regime as it had not followed Bank rate down to two per cent. The Bank inquiry resulted in the abandonment of the 'floor' cost for bank borrowing of five per cent. Norman attempted to capitalise on the situation through also seeking the banks to establish specific institutions for meeting the particular needs of small and medium-size borrowers. This was to fill a 'gap' in the spectrum of financial facilities identified in the Macmillan Report. Lloyds and Midland, along with Prudential Assurance, responded by participating in the creation of Charterhouse Industrial Development (1934). Otherwise, the 'Big Five' joined in financing Special Areas Reconstruction Association (SARA), which assisted to some degree new firms located in unemployment black spots.<sup>66</sup>

Increasing bank liquidity was a feature of Europe during the 1930s, being marked not only in the United Kingdom but also in economies as different as those of Nazi Germany and Sweden. In Britain it was due to a number of diverse reasons. There was greater competition for borrowing customers, coming not only from the merchant banks but also insurance companies. Yet, it would also appear that the demand for finance was generally being fulfilled through the various markets for credit and capital to the extent that the 'Macmillan Gap' was a misnomer. Along with Charterhouse, a number of other 'Macmillan' institutions were established by diverse parents – Credit for Industry, New Trading Company and Leadenhall Securities – but their managements received few acceptable proposals from medium-sized undertakings.<sup>67</sup>

<sup>66</sup> Sayers, *Bank of England*, II, pp. 557-9; and C. F. Heim, 'Limits to intervention: the Bank of England and industrial diversification in the depressed areas', *Economic History Review*, 37 (1984).

<sup>67</sup> R. Frost, 'The Macmillan Gap 1931-1953', *Oxford Economic Papers*, 6 (1954); Lord Piercy, 'The Macmillan Gap and the shortage of risk capital', *Journal of the Royal Statistical Society* (1955); Holmes and Green, *Midland*, pp. 179-83; L. Dennett, *Charterhouse Group 1925-1979*, (London 1979); E. Rosenbaum and A. J. Sherman, *M. M. Warburg & Co., 1798-1938*, (London 1979); J. Kinross, *Fifty years in the City: Financing small business*, (London 1982); and R. Coopey and D. Clarke, *3i: Fifty years of investing in industry*, (Oxford 1995).

In the case of the 'Big Five', industrial advances during the 1930s were also affected by factors arising from the authorities' 'cheap money' regime.<sup>68</sup> Bond prices rose with the marked fall in interest rates from 1932 and, thereafter, managements of many industrial firms financed their enterprises by selling reserve holdings of government stocks to reap substantial capital gains. These securities were largely acquired by the banks through the market and so, thereby, they indirectly financed manufacturing. Indeed, the marked feature of bank balance sheets was not the modest rise of industrial advances from 1934 but increased investment holdings.<sup>69</sup> This had a further consequence because the market price of government stocks fell significantly over the later 1930s. The inception of this trend faced the banks with the prospect of significant capital losses, should their managements be forced suddenly to realise their holdings. Consequently, as the decade progressed the banks became increasingly threatened by a form of illiquidity, arising from their asset structures, as opposed to general liquidity.<sup>70</sup>

The clearing banks' further, greater acquisition of government stocks was a continuation of their traditional business.<sup>71</sup> It was also a sign of senior bank managements' marked reluctance to develop new areas of business, as underlined by the substantial expansion of the building society movement during the inter-war period. Benefiting from tax advantages and a 'sticky' interest-rate structure for deposits, these specialised mutual associations enjoyed a very rapid growth of

<sup>68</sup> See in general S. Howson, 'Cheap money and debt management in Britain, 1932-51', in Cottrell and Moggridge, *Money and Power*.

<sup>69</sup> D. M. Ross, 'Bank advances and industrial production in the United Kingdom during the inter-war years: a red herring?', in P. L. Cottrell, H. Lindgren and A. Teichova (eds), *European industry and banking between the wars*, (Leicester 1992); *idem*, 'The "Macmillan gap" and the British credit market in the 1930s', in Cottrell *et al.*, *Finance in the age of the corporate economy*; *idem*, 'The clearing banks and industry - new perspectives on the inter-war years', in Van Helten and Cassis, *Capitalism in a mature economy*; and *idem*, 'The clearing banks and the finance of British industry, 1930-1959', *Business and Economic History* (1991).

<sup>70</sup> Collins, *Money and banking*, pp. 249-50; and E. J. Cleary, *The building society movement*, (London 1965).

<sup>71</sup> H. G. Johnson, 'Clearing bank holdings of public debt, 1930-1950', *London and Cambridge Economic Service Bulletin*, 29 (1951).

liabilities, which reached in aggregate £700m. by 1939, equivalent to 23 per cent of total bank deposits (1936/8). Nearly all (90 per cent) were invested in mortgages, thereby financing the growth of private-owner occupation, especially during the 1930s.<sup>72</sup> Mortgages were nominally far more illiquid than government stocks, but the banks took mortgages as collateral for advances while the standing of their enlarged holdings of government securities became increasingly questionable as the 1930s unfolded.

#### IV

The worsening political situation within Europe led the banks individually to prepare for the likely outbreak of war, discussions that were joined by the Bank of England in May 1938. It became clear that finance would be subject to stringent official controls and, following the cessation of inter-bank competition in spring 1939, these were progressively applied. Advances were first affected, followed by the authorities requiring co-operation over interest rates (with the 'cheap money' policy maintained) and exchange control, while stipulating priorities for lending. Consequently, from September 1939 the banks predominantly fulfilled the function of financing a state engaged in a war that rapidly became total war by taking up and holding especially Treasury bills and Treasury deposit receipts. The banks' direct and indirect holdings of state liabilities in relation to their deposits rose from 56 per cent in autumn 1939 to 82 per cent by 1945.<sup>73</sup> As a result, the trend of falling aggregate advances in relation to total deposits that had begun in 1929 continued – declining to 16 per cent by 1945 – despite individual bank managements attempting to halt it.<sup>74</sup>

As during the First World War, national labour priorities led to a loss of staff and branch closures, particularly from autumn 1942. Guided by the experience of the 1930s and the war, the banks began planning for

<sup>72</sup> Collins, *Money and banking*, pp. 214-15.

<sup>73</sup> *Ibid.*, pp. 423-4.

<sup>74</sup> Tuke and Gillman, *Barclays*, p. 33; and Collins, *Money and banking*, pp. 320-2, 440.

the peace from 1943, although their respective senior managements came to different conclusions over what was required to confront the future. Indeed, the transition from war to peace proved very prolonged through the retention of controls.<sup>75</sup> Further regulation was introduced from 1946 - as indicative requirements to maintain a 'true' cash ratio of eight per cent (in place of 'window dressing'), and, from 1951, a 28-30 per cent liquidity ratio, became ossified into components of central bank control.<sup>76</sup>

Recovery by the early 1950s was not accompanied by the lifting of wartime regulation. Continuing economic difficulties, as displayed by the inception of the so-called 'stop-go' cycle of official demand management coupled with the severe impacts of the Korean War (1950-1) and the Suez affair (1956), led to controls persisting until 1958. Soon after, qualitative and quantitative measures were reintroduced by the authorities to meet a further series of sterling crises, maintained in various guises until a new stance for financial and monetary policy - Competition and Credit Control (CCC) - was taken in September 1971.<sup>77</sup>

The official use of a directed deposit banking sector until the early 1970s to promote exports and capital investment, coupled with regulating credit provision to sustain sterling and maintain full employment, was undertaken in conjunction with a reactivation of monetary policy. The employment of interest-rate changes continued despite the emphasis within the Radcliffe Report (1960) upon overall liquidity.

'Cheap money' and 'cheaper money' policies<sup>78</sup> in peacetime were abandoned on 8 November 1951, when Bank rate was raised from

<sup>75</sup> Holmes and Green, *Midland*, pp. 192-6, 207-8; Winton, *Lloyds*, p. 103; and J. Fforde, *The Bank of England and public policy 1941-1958*. (Cambridge 1992), pp. 370ff.

<sup>76</sup> Tuke and Gillman, *Barclays*, pp. 29-31.

<sup>77</sup> 'Competition and credit control', *Bank of England Quarterly Bulletin*, 11 (1971), pp. 189-93; and Bank of England, *The development and operation of monetary policy, 1960-1983*, (Oxford 1984). See also G. D. N. Worswick and P. Ady (eds), *The British economy 1945-50*. (Oxford 1952); A. Cairncross, *Years of recovery* (London, 1985); G. D. N. Worswick and P. Ady (eds), *The British economy in the 1950s*, (Oxford 1962); J. C. R. Dow (ed.), *The management of the British economy 1945-60*, (Cambridge 1964), and F. T. Blackaby (ed.), *British economic policy 1960-74*, (Cambridge 1978)

<sup>78</sup> Fforde, *Bank of England*, pp. 327ff; and S. Howson, *British monetary policy, 1945-52*. (Oxford 1993).

two to 2.5 per cent.<sup>79</sup> The initiation of monetary policy after a period of total dormancy of nearly two decades was accompanied by indications that corporate distributed dividends were to be subject to a more favourable fiscal regime. The stock market reacted with a rise in equity prices and a fall in bond prices. The banks (along with insurance companies) consequently experienced substantial losses on their longstanding substantial holdings of government securities, burgeoned by their considerable involvement in war finance. In the case of the Bank of Scotland, the value of its investments in gilts fell by £5.2m. over the six weeks following the 1951 change in Bank rate, causing a book loss equivalent to inner reserves. Union Bank's holdings of government securities were so badly affected that its board sought a take-over by Bank of Scotland, completed in summer 1952. South of the border, Yorkshire Penny Bank lost £1m.

Problems arising from the depreciation of gilts persisted, exacerbated by rises in Bank rate to 5.5 per cent (16 February 1956) and to seven per cent (19 September 1957). The latter increase caused the Bank of Scotland's losses on government securities to reach £12.3m., finally forcing a change in policy with regard to the structure of this bank's assets, and British Linen Bank's management also reacted in a similar manner. These particular experiences were common throughout deposit banking, leading to a decline in the banks' overall holdings of state liabilities that had been equivalent to no less than 65 per cent of deposits since 1945. Like all other United Kingdom deposit banks, the losses on investments incurred by Bank of Scotland from November 1951 had to be met from current profits, so affecting dividend distributions to shareholders.<sup>80</sup> However, four of the 'Big Five' (the exception was National Provincial) had reacted earlier by valuing their respective holdings of gilts at cost from 1952, so dispensing with further drawings from hidden reserves.<sup>81</sup>

<sup>79</sup> Fforde, *Bank of England*, pp. 398ff.

<sup>80</sup> R. Saville, *Bank of Scotland. A history 1695-1995*, (Edinburgh 1996), pp. 618-25; and Holmes and Green, *Midland*, p.218. For context, see Fforde, *Bank of England*, pp. 643ff.

<sup>81</sup> Holmes and Green, *Midland*, p. 219; Tuke and Gillman, *Barclays*, pp. 34-5; and Winton, *Lloyds*, p. 163.

With enduring controls over lending coupled with a reactivation of monetary policy, the environment for deposit banking in the mid-twentieth century proved to be very different to the expectations that clearing bankers might have held for the peace during the latter years of the war. Even the re-establishment of branch networks was cramped by building controls, maintained until 1954. Nonetheless, Barclays proved to be the leader in re-establishing a national physical presence, thereby laying the groundwork for domestic dominance during the closing decades of the century.<sup>82</sup>

As post-war austerity receded, the importance of consumer credit became increasingly clear, particularly the provision of hire-purchase facilities for car buying.<sup>83</sup> However, like bank lending, this form of finance was officially controlled by the Board of Trade (as opposed to the Treasury and Bank of England). One Scottish bank, Commercial, was able to move into this area in 1954 by acquiring Scottish Midland Guarantee Trust and, subsequently, establishing Second Scottish Midland Guarantee. The bank's management had had to rebuff Bank of England opposition, while the 'Big Five' were required to provide assurances that they would refrain from involvement in this field. The removal of wartime controls in 1958 was accompanied by the rescinding of this constraint, which immediately led the 'Big Five' to shift into hire-purchase provision. Barclays took a 25 per cent interest in United Dominions Trust, Midland with its Scottish affiliate, Clydesdale, acquired Forward Trust and National Provincial bought North Central Wagon Finance. Furthermore, Lloyds took over Bowmaker and, in conjunction with National Bank of Scotland and Commercial Bank of Scotland, established Lloyds & Scottish Finance out of Olds Discount Co.<sup>84</sup>

<sup>82</sup> Holmes and Green, *Midland*, pp. 221, 222. For a general review of post-1945 developments, see G. Jones, 'Great Britain', in H. Pohl (ed.) with G. Jachmich, *Europäische Bankengeschichte*, (Frankfurt am Main 1993). See also *Committee on the working of the monetary system* [Radcliffe Committee], *Report*, Cmnd. 827 (London, 1960); and *Committee to review the functioning of financial institutions* [Wilson Committee], *Report*, Cmnd. 7937 (London, 1980).

<sup>83</sup> This financial sub-sector was not immune to collusion; see S. Bowden, 'Competition and collusion in the finance sector in the postwar period', *Financial History Review*, 4 (1997).

<sup>84</sup> Holmes and Green, *Midland*, pp. 227-9; Tuke and Gillman, *Barclays*, pp. 46-7; and Winton, *Lloyds*, pp. 162-3.

Direct stakes in hire-purchase companies assisted the 'Big Five' to re-establish positions in the growing market for consumer credit. During the 1960s greater ground was recovered by opening new branches, led once more by Barclays.<sup>85</sup> In 1970, the major banks collectively had 12,500 domestic branches. This old stratagem was coupled with innovations in the provision of personal banking facilities. Drawing from American and Australian experience, Midland introduced personal loans in 1958, accompanied by personal cheque accounts. These proved to be startling moves that Lloyds, for instance, did not follow until 1971.<sup>86</sup> Barclays' 'coup' was the launch of Barclaycard (Visa) in 1966, initially a charge card but soon a credit card with the disbanding of controls over this particular form of personal financial provision.<sup>87</sup> Lloyds, Midland and 'NatWest' joined by Royal Bank of Scotland collectively responded in 1971 by marketing the Access card (Mastercard).<sup>88</sup> By 1973 there were 2.3m. holders of a Barclaycard, and 3.4m. with an Access card.

However, these fresh products were insufficient to keep the deposit banks' overall position abreast of changes in national income, population and inflation. Rather, they limited their losses in market share. Instead, from the 1960s, building society deposits, life assurance products and National Savings (all of which carried fiscal advantages) comprised much of the marked growth in financial assets held by the personal sector.<sup>89</sup> This was, in turn, reflected in the number of building society offices rising from 1,500 in 1955 to 2,500 in 1970, while the leading five societies collectively gained an ever greater dominant position as the movement became more concentrated.

The slow reconfiguration of the deposit banks' business was to some degree masked by the very rapid growth of their advances for a brief period from 1958, when the lifting of controls on lending

<sup>85</sup> Holmes and Green, *Midland*, pp. 222-3, 225, 232-3; and Winton, *Lloyds*, pp.149, 165, 178-80.

<sup>86</sup> Holmes and Green, *Midland*, pp. 224-5; and Winton, *Lloyds*, pp. 161, 164.

<sup>87</sup> Tuke and Gillman, *Barclays*, p. 89.

<sup>88</sup> Holmes and Green, *Midland*, p. 279.

<sup>89</sup> Collins, *Money and banking*, pp. 404-10.

coincided with an economic upswing. Aggregate advances rose by 64 per cent, 1958-60 and, thereby, expanded markedly as a proportion of total bank assets – from 29 to 43 per cent.<sup>90</sup> Conversely, investments declined – from 32 to 20 per cent – with disposals of depreciated gilts to the fore. As a consequence, bank balance sheets began to reassume the shape and structure that they had had during the early 1930s. Although controls were re-imposed in 1961, the switch from investments to advances within overall bank assets continued, if not at the hectic pace that temporary liberalisation had spurred.<sup>91</sup>

Over the 1960s further bank mergers took place. Initially, they constituted a 'tidying-up' of the industry's business structure, with National Provincial's acquisition of District Bank in 1962 to gain a greater presence in the north-west, and Midland's creation of United Northern Banks in 1965.<sup>92</sup> Yet, it remained assumed that major mergers were blocked by the undertakings given in the wake of the creation of the 'Big Five' in 1918. However, in 1967 the Treasury and Bank of England made it known through a Prices and Incomes Board report that there would be no further official control over the structure of retail deposit banking. Indeed, economies might be gained from network rationalisation and passed on to customers through lower bank charges.

Released from longstanding pledges given by their forebears, senior bankers quickly reacted. In January 1968, Westminster and National Provincial began to merge to form 'NatWest', completed two years later. Yet, bankers were not given a completely free hand, with official opposition expressed by the Monopolies Commission preventing the proposed fusion of Barclays with Lloyds and Martins in July 1968. Instead, Barclays acquired Martins through a tender scheme organised by the Bank of England. The emergence of a 'Big

<sup>90</sup> For Lloyds' experience, see Winton, *Lloyds*, p. 162.

<sup>91</sup> Collins, *Money and banking*, pp. 440-1. For the possible persistence of the 'Macmillan gap' see Holmes and Green, *Midland*, p. 227; F. Carnevali, 'Finance in the regions: the case of England after 1945', in Cassis *et al.*, *Evolution of financial institutions*; and D. M. Ross, 'The unsatisfied fringe in Britain, 1930-80s', *Business History*, 38 (1996).

<sup>92</sup> Holmes and Green, *Midland*, pp. 237, 242.

Four' reawakened old fears that, in October 1968, led to the government establishing a Post Office Giro, although this proved to be an ill-starred venture. Scottish banks followed the lead given south of the border, with Bank of Scotland acquiring British Linen Bank in 1969. Finally, in 1970, Royal Bank of Scotland consolidated its English subsidiaries – Glyn, Mills, National and William Deacon's – as Williams & Glyn's Bank.<sup>93</sup>

In 1970, Barclays was the largest United Kingdom deposit bank and the fourth biggest bank in the world (by assets), holding gross deposits of £3,148m. and having a network of 3,141 branches. In these terms, its nearest domestic competitor was 'NatWest', sixth in the world, possessing 3,400 branches and with deposits of £3,006m. Midland and Lloyds were significantly smaller. However, size was not a perfect guide to the most effective deployment of resources. In 1969, as a result of government pressure, the banks had agreed to declare their 'true' profits by surrendering their exemption from Schedule 8 of the 1948 Companies Act. This revealed that Lloyds was the most profitable amongst the clearers and, for all deposit banks, average attributable earnings per branch were below £10,000.<sup>94</sup>

CCC's disruption of the understandings and cartel agreements between the 'Big Four' rapidly followed these revelations. This long-standing collusion had covered interest paid upon domestic deposits - such as two per cent below Bank rate on seven-day deposits - and domestic lending charges, augmented by a post-war pledge not to poach customers.<sup>95</sup> CCC totally changed the industry's mode of conducting business that had been formally in place for over half a century and which had built upon foundations established during the

<sup>93</sup> Holmes and Green, *Midland*, pp. 242-3; Tuke and Gillman, *Barclays*, pp.16-18; and Winton, *Lloyds*, pp.168, 194-200.

<sup>94</sup> Holmes and Green, *Midland*, pp. 244-5.

<sup>95</sup> Winton, *Lloyds*, p. 147 and L. S. Pressnell, 'Cartels and competition in British banking. A background story', *Banca Nazionale del Lavoro Quarterly Review* (1970). A discussion of some of the consequences can be found in F. Carnevali and L. Hannah, 'The effects of banking cartels and credit rationing on U.K. industrial structure and economic performance since World War Two', in M. D. Bordo and R. Sylla (eds), *Anglo-American financial systems*, (Burr Ridge IL/New York 1995).

1850s. However, CCC also removed many of the official constraints on clearing-bank lending by lifting controls that had increasingly irked the managements of the 'Big Four' because of their discriminatory nature. Instead, they were extended to all banking institutions (although not to building societies) to establish something approaching a 'level playing field' within the financial sector. Nonetheless, until 1981, the clearing banks alone were required to maintain balances at the Bank of England equivalent to 1.5 per cent of eligible assets.

The new environment arising from CCC would seem to have changed the business perspective held for so long by senior clearing bankers. From the early 1970s, the 'Big Four' began to move into areas beyond their traditional business, eschewing specialisation to compete with the building societies, to become greater involved in the provision of consumer credit and to take full advantage of deposits from the wholesale money market.<sup>96</sup> This entrepreneurial spirit was not dampened by continued controls, such the 'corset', applied to restrict the expansion of clearing bank liabilities during the 1970s and 1980s as a counter to inflation. The new business departure was first indicated by a rapid expansion of clearing-bank advances – from £5.9b., 1971, to £13.4b., 1973 - which raised aggregate advances as a proportion of total assets from 53 to 69 per cent.<sup>97</sup>

## V

The conjunction of financial liberalisation through CCC with a business upswing fuelled a property bubble, that led to the secondary bank crisis, 1973-5.<sup>98</sup> It was the most serious shock to the financial system since the 1890 Baring crisis, and the questions that it raised

<sup>96</sup> Collins, *Money and banking*, pp. 415-17.

<sup>97</sup> Ibid, p. 441; and Holmes and Green, *Midland*, pp. 262-4.

<sup>98</sup> See J. Revell, 'A secondary banking system', *Banker*, 118 (1968); *idem*, *Changes in British banking. The growth of a secondary banking system*, Hill, Samuel & Co., Occasional Paper No. 3 (1968); M. Reid, *The secondary banking crisis 1973-75*, (London/Basingstoke 1982); and P. Scott, 'The new alchemy: Veblen's theory of crisis and the 1974 British property and secondary banking crisis', *Journal of Economic Issues*, 30 (1996).

led to the 1979 Banking Act. The situation was first resolved by the Bank of England's 'lifeboat', formed in association with the clearing banks. This grave experience, in conjunction with the 1977 European Community's Directive on credit institutions, necessitated fresh British legislation. Furthermore, the 1973-5 crisis and its aftermath brought more into view the transformation of London's money markets that had occurred since 1951.<sup>99</sup>

One result of the growth of the parallel, wholesale money markets over the previous two decades had been to diminish further the discount houses' role. From the mid-1950s, the market made by the discount houses had returned to deal in those securities – acceptances (international commercial bills) – that had been its traditional forte but these institutions also adjusted to the marked decline in the supply of Treasury bills by holding short-dated government stocks. 'Call money' continued to have reserve status under CCC and, from 1971, was supplied to the houses by all banks (not just the clearers), a position retained in 1981, when other official reserve asset requirements were abolished. Nevertheless, in 1980 the authorities forced the houses to abandon their longstanding, syndicate tender arrangements for new weekly issues of Treasury bills. Yet, the authorities also continued to see advantages in sustaining the discount houses for the effective execution of monetary and credit policy.

The houses had diversified by moving into London's newer markets as each opened – for local authority debt, particularly short-dated bills, the inter-bank market and, then, bankers' certificates of deposit (CDs).<sup>100</sup> The local authority market arose from the official direction of 1955 that British municipalities diminish their reliance upon the Public Works Loan Board and turn, instead, to the commercial market. Their treasurers responded by taking wholesale deposits, followed by issuing large denomination bills, normally

<sup>99</sup> See J. E. Wadsworth (ed.), *The banks and the monetary system in the UK, 1959-1971*, (London 1973).

<sup>100</sup> 'The London discount market: some historical notes', *Bank of England Quarterly Bulletin*, 7 (1967); Fletcher, *Discount Houses*; and Collins, *Money and banking*, pp. 360-5. For one house's experience, see Sayers, *Gilletts*, chs. 7 and 8.

accepted by the Bank of England for rediscount and so held by financial institutions.

The rise of other parallel markets dealing in wholesale funds had begun with the reactivation of monetary policy in 1951. Initially, merchant banks and London offices of overseas banks made them. Coupled with an increasing concentration on British corporate clients,<sup>101</sup> merchant banks began to lend at short-term to local authorities and, with this experience, took wholesale time deposits and CDs, in turn, advancing these funds as CDs and inter-bank loans. The first issue of dollar CDs in London occurred in 1966, followed by sterling CDs in 1968 after the receipt of the necessary official permission. The inter-bank market remained diminutive until the 1970s. It then mushroomed, replacing the traditional money market as the mechanism through which banks adjusted their liquidity. Inter-bank loans proved to be far more flexible than changes made by varying the provision of 'money at call'.

The biggest market to develop was that in Euro-currencies, primarily expatriate dollars. Beginning with dealings in time deposits, the Euro-markets grew and segmented through the growth of related international lending by medium-term loans or bond issues (from 1963).<sup>102</sup> The germ of the Euro-markets – that in non-sterling deposits – expanded from 1958 with the inception of current account convertibility within Europe and the persistent trans-Atlantic interest-rate differential caused by three-decade old American monetary regulations.<sup>103</sup> Long-established international business attracted the market's location to London, while it was fed, first, by the significant outflow of dollars from the United States economy during the 1960s and, then the vast expansion in the volume of 'petro-dollars' arising from the 'oil shocks' of the 1970s. Its development was also

<sup>101</sup> J. Grady and M. Weale, *British banking 1960-1985*, (London 1986), pp. 94-113.

<sup>102</sup> I. M. Kerr, *A history of the Eurobond market. The first 21 years*, (London 1984); and K. Burk (ed.), 'Witness seminar on the origins and early development of the Eurobond market', *Contemporary European History*, 1 (1992).

<sup>103</sup> C. R. Schenk, 'The origins of the Eurodollar market in London: 1955-1963', *Explorations in Economic History*, 35 (1998).

encouraged by the British authorities' benign attitude, with no official controls placed on foreign-currency deposits held in London.<sup>104</sup> The resulting increase attracted further overseas branches of foreign banks to the City, their numbers rising from 75 during the late 1950s to 159 by 1970 and 256 by 1974. American bank offices were in the van, arriving in a rush in 1968 and 1969, to deal in non-sterling funds on the wholesale markets. Their staffs also spread the businesses they undertook, initially to support their compatriot customers' plants and outlets in Europe, then a local, British clientele. The penetration of the domestic corporate market was led by First National City Bank of New York.

London's further internationalisation as a result of the dynamic growth of the Euro-markets had significant repercussions for the business undertaken by British deposit banks. By 1971 American banks had the largest proportion of total deposits held by banks within the United Kingdom but of which only eight per cent were denominated in sterling. Their staffs had introduced concepts such as 'base rate', and very actively and aggressively developed the market for medium-term lending through the provision of 'term loans', syndicated loans and project financing.<sup>105</sup> Consequently, in 1978 overseas banks in London collectively undertook 15 per cent of advances to British residents and supplied 60 per cent of such accommodation provided in currencies other than sterling.

## VI

The growing domestic competition facing British deposit banks from the building societies, dating from the 1930s, was joined during the 1960s by that offered by overseas, especially American, banks.

<sup>104</sup> J. H. Forsyth, 'Financial innovation in Britain' in M. De Cecco (ed.), *Changing money. Financial innovation in developed countries*, (London 1987), pp. 144-9; and G. Burn, 'The state, the City and the Euromarkets', *Review of International Political Economy*, 6 (1999).

<sup>105</sup> J. Kelly, *Banks and borders. The case of American banks in Britain*, (Cambridge MA 1977); and Holmes and Green, *Midland*, p. 274.

The latter became a considerable force not only in London's expanding international markets but also were very serious rivals for domestic corporate custom. Over the 1970s senior managements of the British clearing banks reacted - they had no other choice - while CCC provided a more expansive environment for furthering initiatives.<sup>106</sup>

Midland had already acquired, in 1967, a stake in Samuel Montagu, a merchant bank, although until 1973 this was restricted to a 25 per cent interest by requirements stipulated by the Bank of England. This development was enlarged by the acquisition of Drayton Corporation in 1974.<sup>107</sup> 'NatWest' employed a District Bank subsidiary - County Bank - as its merchant banking arm from 1969, diversifying into foreign securities from 1976. For its part, Barclays operated in the securities market from 1967 until 1975 through its international subsidiaries and then established Barclays Merchant Bank. Lloyds behaved likewise, although only moved into underwriting in 1978.

A somewhat similar pattern can be observed in the case of each of the 'Big Four's' reactions with regard to other new financial products. Midland management's initiatives once more began at the end of the 1960s - the establishment in 1967 of Midland Bank Finance Corporation, a 'secondary' bank to operate in the wholesale deposit market and pursue matched medium-term lending, and in 1968 of Midland Montagu Industrial Finance. Six years later, Midland established a specialist corporate finance division and, within a year, all the major clearers were directly providing medium-term corporate finance in the form of ten-year loans.<sup>108</sup>

At the same time and more tellingly, the proportion of the 'Big Four's' profits earned internationally increased significantly - from 15 per cent during the early 1970s to 33 per cent by 1978. This was a response to the very rapid expansion of international banking, largely driven by the Euro-markets, but the shift in the sources of their earnings was also in part forced by the onset of domestic recession in 1973.

<sup>106</sup> D. Channon, *British banking strategy and the international challenge*, (London 1977); and Jones, *British multinational banks*, pp. 320-35.

<sup>107</sup> Holmes and Green, *Midland*, pp. 238-9, 290-1.

<sup>108</sup> *Ibid.*, pp. 240-1, 277.

As a result of their overseas banking stakes acquired during the early 1920s, both Barclays and Lloyds had an established and very significant presence in international banking, but largely within the developing world. Barclays' global interests were reconstituted in 1971 as Barclays Bank (London & International) which, thereafter, increased the size of its Euro-currency business, coupled with enlarging the scale of retail banking undertaken within industrialised countries.<sup>109</sup> Expansion, particularly in American domestic commercial banking, was coupled with a re-arrangement of its African interests through the establishment of Barclays National Bank in order to meet local political opposition. Somewhat comparably, Lloyds management further developed and consolidated their bank's world interests. The first steps had been taken in 1965 by acquiring outright National Bank of New Zealand, followed in 1968 by a significant minority interest in National & Grindlays.<sup>110</sup> BoLSA, the largest single London dealer in Euro-dollars, was merged with Lloyds' European banking interests in 1971 to form Lloyds & BoLSA International and, within two years, became a wholly owned subsidiary – Lloyds Bank International. 'NatWest's' Western European banking interests were transferred to International Westminster Bank, specifically formed for the purpose in 1971, which subsequently developed a business in Euro-currency deposits. Furthermore, this subsidiary enlarged the scope of 'NatWest' Group's American presence and opened a Bahamas office for 'offshore' business.<sup>111</sup>

Of the 'Big Four', Midland had the greatest ground to recover in order to establish an effective international presence.<sup>112</sup> This was because its management had continued to rely upon correspondence links with foreign banks until the mid-1960s. By then, the inadequacies of this strategy had become only too obvious, resulting in the

<sup>109</sup> Tuke and Gillman, *Barclays*, pp. 83-4, 90-1.

<sup>110</sup> Winton, *Lloyds*, p. 183.

<sup>111</sup> T. Kamikawa, 'British banks in the Euro-markets and industrial finance 1965-1985', in Cottrell *et al.*, *Finance in the age of the corporate economy*, pp. 227-31.

<sup>112</sup> Holmes and Green, *Midland*, ch. 11.

formulation of the two-strand 'grand design' of 1962-3. This involved greater co-operation with European banks coupled with generating new business within the British Commonwealth.

The first strand led to the establishment of the EBIC group in conjunction with Amsterdam-Rotterdam Bank, Banca Commerciale Italiana, Creditanstalt-Bankverein, Crédit Lyonnais, Deutsche Bank, Société Générale (Belgium) and Société Générale (France). It formed related subsidiaries not only in Europe but also in North America and the Far East. Barclays followed this path, too, through involvement in Associated Banks of Europe. The managements of both British clearers saw such 'club' connections as a way of capitalising upon the United Kingdom's projected entry into the EEC. However, they proved unviable over the medium term for business reasons. Co-operating banks in each 'club' opened offices within other member's national territories, especially London due to the emergence and rapid growth of its Euro-markets.<sup>113</sup>

The second strand of Midland's 'grand design' was developed through the establishment of Midland & International Banks (MAIBC) in 1964, undertaken with Commonwealth Bank of Australia, Standard Bank and Toronto-Dominion Bank. It was the first consortium bank, and emulated by others - a further 50 having been established by 1976, mostly located in London. Amongst the 'Big Four', 'NatWest' was involved in the Orion Group, its partners being Chase Manhattan, Royal Bank of Canada and Westdeutsche Landesbank Girozentrale.<sup>114</sup>

Midland's 'grand design' strategy was not wholly successful, and its international dimension was placed on a further, new footing by the inception in 1974 of Midland Bank International Division, followed by the opening of overseas representative offices.<sup>115</sup> However, the 'Big Four' faced significant general difficulties during the 1970s in

<sup>113</sup> D. Ross, 'European banking clubs in the 1960s: a flawed strategy', *Business and Economic History*, 27 (1998).

<sup>114</sup> R. Roberts with C. Arnander, *Take your partners. Orion, the consortium banks and the transformation of the Euromarkets*, (Basingstoke/London 2000).

<sup>115</sup> Holmes and Green, *Midland*, p. 296.

executing their respective international strategies. One arose from continuing British controls over the export of capital, while another lay in the barriers placed by certain countries, such as Hong Kong and Japan, in the way of the local establishment of foreign banks. Nonetheless, the internationalisation of the 'Big Four' continued, not least spurred by economic recession at home from the middle years of the decade. Their managements concentrated upon the acquisition of banks abroad - in Europe but increasingly within the United States, particularly California.

The further movement of the 'Big Four' abroad during the 1970s went in parallel with a continuing flow of overseas banks into the City of London. By 1979, they numbered 330, largely attracted by the explosion in the Euro-markets arising from the recycling of 'petrodollars' but with some of their managements also eyeing the British domestic market as a business target. Furthermore, with respect to domestic banking, in 1979 the building societies had a 47 per cent share of personal sterling - retail - deposits placed with British banks and near-banking institutions.

## **VII**

The lifting of foreign exchange controls in 1979 removed one problem constraining the internationalisation strategies pursued by the 'Big Four'. These continued to unfold, including what was to be Midland's ill-fated majority interest in Crocker National Bank. This was acquired in 1980/1 and made the Midland 'group' the tenth largest bank in the world. At the same time, Japanese (as opposed to American), bank offices in London were increasingly becoming the main force within the City's international banking activities. These banking outlets had been progressively opened since 1952 to become numerous during the 1970s, with their principal business then being syndicated Eurodollar lending. Yet, over the 1980s London offices of Japanese banks became substantially responsible for all the global activities conducted by their respective parent institutions. In mid-1987 28 per cent of Japanese banks' international assets were booked

in London.<sup>116</sup> Consequently, while the 'Big Four' turned increasingly abroad, London enjoyed even greater growth as an international financial centre. Its mainspring during the 1980s was syndicated lending, especially from 1982, and the City's 'international sector' benefited from a general context of an expansionary monetary policy pursued world-wide.

Internationalisation had its perils, made apparent from August 1982, with the inception of the world debt crisis following Mexico's moratorium on repayments. By mid-1985 British banks collectively held \$30b. of unserviced Latin American debt and, as a 'creditor national group', were second only to American banks. Within 18 months, this serious situation forced their senior managements to make substantial provisions, to the extent that both Lloyds and Midland were compelled to declare losses, a situation unheard of since 1945. Midland's predicament was even graver due to extreme difficulties with also its American banking interests that obliged, in 1986, the disposal of Crocker National at a loss of over £1bn. This also caused the transfer of its Scottish and Northern Ireland affiliates to National Australia Bank.<sup>117</sup> These domestic disposals had required government agreement, which involved a complete and sharp reversal in the official stance towards the ownership of major domestic deposit banks. Merely five years earlier, the Bank of England had prevented the respective attempts of Standard Chartered, a British overseas bank, and Hongkong & Shanghai Banking Corporation to acquire Royal Bank of Scotland.

Midland's American problems were shared to varying degrees by all of the 'Big Four', and all had sold their interests in Californian banks by 1988. However, Midland was fatally weakened, a situation aggravated by senior management errors with respect to current business during both 1987 and 1989. The situation was slowly redeemed from 1986 by, first, the appointment of a senior Bank of

<sup>116</sup> R. J. Walton and D. Trimble, 'Japanese banks in London', *Bank of England Quarterly Bulletin*, 27 (1984).

<sup>117</sup> Jones, 'British government and foreign multinationals', in Chick, *Government*, pp. 204-5.

England official as chairman and, then, from 1987, an equity alliance with Hongkong & Shanghai. Initially, the latter did not lead to a planned take-over by Hongkong & Shanghai, but this occurred in 1992 after Midland was forced to halve its dividend in 1990.

The debt crisis, even fiercer competition on international money and capital markets and a slowing in the demand for corporate banking services from the mid-1980s all led to a greater concentration by the 'Big Four' upon the provision of personal banking services. Yet, here they faced significant competition from foreign banks and domestic mutual banking associations. Royal Bank of Canada acquired Western Trust & Savings in 1980 to develop an entry into the British market, and Citibank converted its 40 'loan shops' into full bank branches, joining the cheque clearing system four years later.

Market pressures from the building societies were extreme, with these institutions during the mid-1980s holding 44 per cent of resident sterling deposits as opposed to the clearing banks' share of 33 per cent. Their competition forced Barclays in 1983 to reopen branches for personal banking on Saturdays, a riposte followed by the other major deposit banks. Comparably, in 1984, Midland introduced personal higher interest rate accounts. Heightened rivalry with the building societies on the personal market was increasingly extended to include the trustee savings banks. In 1976, these mutual savings institutions had been permitted to provide a full spectrum of financial facilities to their depositors.<sup>118</sup>

The government's policy of further financial liberalisation resulted over the 1980s in the inception of a sea change in the organisation of the mutual financial sector. The number of trustee savings banks declined from 18 in 1978 to two during the mid-1980s. This provided the context for their de-mutualisation and public flotation to establish the Trustee Savings Bank as Britain's fifth biggest deposit bank. Its management chose to follow the route that the clearing banks had mapped out since the late 1960s, and it became a 'universal bank' through acquiring a merchant bank – Hill, Samuel. However, this

<sup>118</sup> Eliz. II, c. 4, Trustee Savings Bank Act, 1976.

strategy was imperfectly executed and Trustee Savings Bank suffered as a consequence.

Legislation in 1986 allowed the building societies to engage in the provision of the fullest range of financial products. Furthermore, the 1987 Banking Act replaced the 1979 division of financial institutions into 'recognised banks' and 'licensed deposit takers' by a single category of 'authorised institutions'. At the same time, the clearing system was opened to all 'banks' that had sufficient volume of business to warrant entry. These significant changes provided the context for the decision of the management of one of the biggest building societies – Abbey National – to de-mutualise and be transformed into a corporate deposit bank.<sup>119</sup> Most other major building societies followed suit, to become fully-fledged commercial banks owned by shareholders.

During the early 1980s managements of the 'Big Four' had decided to confront the building societies by offering mortgages – the societies' traditional field. However, this competitive bout proved short-lived, with the clearing banks retreating in 1982. Nonetheless, it was but a preliminary skirmish and, with the marked inflation in house prices over the decade, the clearers returned from 1985 to providing mortgages to personal banking clients. This proved to be a permanent departure in the 'Big Four's' businesses, constituting head-on competition with the building societies to the extent that Lloyds supported its position in this particular market by becoming, for a time, Britain's biggest estate agent. More general competition with the building societies and the Trustee Savings Bank across all personal banking products resulted in the case of 'NatWest' to it developing as the country's largest insurance broker. However, competitive pressures worked in both directions, and that exerted by the building societies forced deposit bank branches to become 'financial department stores' for personal banking. Furthermore, with the government's privatisation policy, personal banking also involved a demand for the provision of stock-broking services in addition to access to mutual funds.

<sup>119</sup> See M. Reid, *Abbey National, Conversion to PLC*. (London, nd).

Supplying personal banking services was expensive, only tempered by the 'Big Four's' parallel involvement in the provision of credit cards from the late 1960s. However, other intermediaries moved into this particular area of household credit, including foreign banks and financial institutions. By 1986, 22m. credit cards had been issued by banks to British residents, a total substantially greater than in France, or Germany or Italy.<sup>120</sup> Further American technological advances – automated teller machines (ATMs) – permitted some reduction of the costs involved personal banking. In 1983, Midland and 'NatWest' began to develop a shared network of ATMs, followed in 1986 by a further consortium system comprising Barclays, Lloyds and Royal Bank of Scotland. However, the building societies launched their own collective network. As a result, by 1987 11,000 ATMs had been installed in the United Kingdom, producing the highest ratio in relation to population within Western Europe.<sup>121</sup>

During the 1980s, the United Kingdom was clearly becoming 'over-banked', attaining the situation that had been apparent in urban Scotland since the 1930s. The crux of the matter lay in the provision of personal banking services, where the 'Big Four' competed with the Trustee Savings Bank and the building societies. Building society competition had been significant since the 1930s. From the late 1980s it took a new turn, as major building societies were successively converted (de-mutualised) into important commercial corporate banks, the only exception being Nationwide. The remainder – smaller regional and societies – retained significant tax advantages for a time. The resulting very marked transformation of the 'High Street' went in parallel with significant changes in British corporate finance. The overdraft was increasingly superseded by medium-term lending, coupled with such borrowing clients being offered other facilities (of up to 20 years) at fixed or floating rates.<sup>122</sup>

<sup>120</sup> E. P. M. Gardiner and P. Molyneux, *Changes in Western European banking*, (London 1990), p. 96.

<sup>121</sup> *Ibid.*, p. 104.

<sup>122</sup> Collins, *Money and banking*, p. 443.

## VIII

Major changes in British retail deposit banking and also in the way that banks accommodated corporate customers were accompanied by a complete about-turn in the City's conduct of its business. In January 1982, Security Pacific, San Francisco, acquired an interest in Hoare Govett, a firm on the London Stock Exchange. It proved prescient because government pressure resulted in the Stock Exchange announcing the abolition of brokers' fixed commissions in July 1982. This lit the fuse of 'Big Bang' which occurred on 27 October 1986, involving the abolition of not only fixed commissions but also single capacity. Furthermore, 100 per cent external ownership of exchange members was permitted.<sup>123</sup>

Many financial institutions, foreign and domestic, prepared for this 'explosion' from October 1983 through establishing links with Stock Exchange firms. Amongst the 'Big Four', Barclays acquired interests in de Zoete & Bevan, brokers, and Wedd, Durlacher, Mordaunt, jobbers (market makers). Midland invested in W. Greenwell, brokers who specialised in British government stocks, while 'NatWest' bought into Bisgood Bishop, jobbers. Only Lloyds was somewhat aloof, a management stance that was prescient. By the inception of 'Big Bang', others of the 'Big Four' had linked their recently acquired stakes in the London Stock Exchange with the operations of their merchant banking arms. This had involved substantial investments – Barclays £235m., Midland, £300m. and 'NatWest' £311m. Although not establishing a direct link with the about-to-be transformed securities market, Lloyds nonetheless prepared for 'Big Bang' at a cost of £135m. 'Big Bang' also caused some merchant banks to reconfigure and restructure their business operations. For instance, Warburgs attempted to become an integrated house, acquiring Rowe & Pitman, brokers, and Akroyd & Smithers, jobbers, to execute this strategy.

The lead into 'Big Bang' created a climate of euphoria that soon

<sup>123</sup> See Michie, *London Stock Exchange*, ch. 12.

resulted after autumn 1986 in a 'hangover'. The 'Big Four's' total or partial commitment to the securities market fully transformed them into 'universal banks'. Yet, the pursuit of investment banking proved to be costly. Substantial losses incurred by both Lloyds and Midland during 1987 resulted in their marked retreat from the securities business while, in the case of Midland, they significantly added to the grave problems caused by its acquisition of Crocker National. The other two of the 'Big Four' were soon badly affected by the October 1987 stock market crash. 'NatWest' lost £116m., quickly incurring thereafter further and different problems when it was found that its subsidiary, County NatWest, had acted illegally. This forced in 1989 the resignation of the bank's chairman and three other directors. Scandal and legal actions also affected a merchant bank, Morgan Grenfell, arising from involvement in a take-over duel between Distillers Co. Ltd. and Guinness Plc. Again, the outcome was the resignation of leading senior bank officials, while stock market losses forced this venerable merchant bank to retire from the securities business.<sup>121</sup> Deutsche Bank acquired it in 1989. Only Barclays de Zoete Wedd (BZW) appeared to prosper – although only until the mid-1990s.

The long lasting 'hang over' after 'Big Bang' in conjunction with a domestic recession from 1992 constituted the context for the inception of further organisational changes across the financial sector. Lloyds acquired Trustee Savings Bank but incompatible computer systems prevented rationalisation savings being immediately gained. Subsequently, Royal Bank of Scotland took over 'NatWest' to establish the first fully combined British domestic bank straddling Hadrian's Wall. At the same time, there was the rise of, first, telephone-banking and, then, e-banking within the provision of personal financial products (accompanying the adoption of comparable selling methods for insurance products).

Further transformation, a marked characteristic since the mid-1960s, took place within the City. The 'square mile' burst its historic bounds with the rise of Docklands (and also the 'West End') as a

<sup>121</sup> Burk, *Morgan Grenfell*, pp. 256-7.

satellite. The 'cosmopolitan-isation' of the City has continued apace with the further acquisitions of long-established houses by foreign banks, as with Dresdner Bank's take-over of Kleinwort Benson, and Barings' rescue by a Dutch institution. Rapid and continued product development within the securities business has been a further responsible factor for producing an almost never-ending sequence of changes in the ownership of institutions that comprise London's now increasingly integrated markets for foreign exchange, credit and capital.

## IX

The experience of the United Kingdom's financial sector during the twentieth century has been characterised by growth in terms of both the number of institutions that comprise it and the expansion of their assets/liabilities. Its augmentation during the three decades from 1931 was particularly characterised by existing institutions, such as the merchant banks, turning to the domestic market. The rise of near-banking institutions, particularly the building societies, and non-banking institutions - the insurance companies - also marked the mid-century period. The former financed an increasing English social trait - house purchase for personal occupancy - while the latter gained some significance in financing the investments of the non-household sector. Their collective expansion initiated the beginning of the relative decline of the deposit banks' importance. The erosion of the deposit banks' market share continued - to become a persistent feature as the twentieth century continued to unfold. Competition with the 'mutual sector' increased particularly from the 1960s, with the transformation of creeping inflation into galloping price rises, especially for housing. It was joined by the rise of other domestic near-banking institutions - hire-purchase companies and 'secondary' banks - in part spurred by the growth of incomes during the so-called 'golden years' of the 1950s and 1960s, coupled with the reactivation of monetary policy from 1951. By the late 1980s 'High Street' banking had been totally transformed, with further changes then ensuing as a result of personal

banking beginning to be conducted from within the home by telephone or micro-computer.

One factor responsible for the progressive emergence of the parallel, wholesale money markets was London's resurgence as one of the world's three prime international financial centres. In particular, the explosive growth of the Euro-markets within the 'square mile' completely changed the character of much of City business and, from the late 1960s, progressively affected that conducted by the clearing banks. This altered the very nature of the system's liabilities through the increasing use of CDs denominated in sterling and dollars. For instance, indicative is the rise of United Kingdom residents' non-sterling deposits from £1,432m. during the closing months of 1973 to £5,312m. over the last quarter of 1979 (even when allowing for the effective of marked inflation over the decade). However, the overall growth of the money stock during the last quarter of the twentieth century is rendered somewhat problematic by an important break (first quarter 1975/second quarter 1975) in Bank of England data series. Other comparable statistical problems arise from on-lending practices within wholesale markets. Nonetheless, all the quantitative indicators clearly display a parallel breaking down of divisions between the 'domestic' and 'international' 'segments' of the financial sector. These primarily arise from overseas banks', largely American, lending to corporations and households within the British 'home' market, and the 'Big Four's' significant post-1971 turn to the wholesale markets.

A prime characteristic of the United Kingdom financial system from 1890 until 1973 was stability. It was affected by the 1931 crisis but only lightly when compared with the experiences of other industrial countries. The persisting solidity of its structure until the last quarter of the twentieth century can be attributed to many factors, both innate and contextual. One was constituted by long-standing collusion within deposit banking, and in money market from the 1930s. This was tolerated by the authorities until 1971, with cartels within deposit banking and the money market having been found more than convenient for financing the state's needs during wartime and the effective conduct of monetary and credit policy after 1931.

The continuing cost was borne by the economy and not questioned officially until the late 1960s. At the same time, clearing bankers pointed to the discriminatory nature of post-1945 controls since they primarily affected their businesses (as opposed to those of near-banking institutions, some of which enjoyed long standing fiscal advantages), while constituting an inimical strait jacket. However, financial liberalisation and de-control from 1971 was accompanied by recurrent outbreaks of crisis, involving either groups of institutions (the secondary banks from 1973 or the clearers in 1982 with world debt exposure), or individual banks.

Changes in the supervisory regime since 1973-5 have not regained the stability that the system had previously long enjoyed. Most of the shocks have come from the system's international dimension, and have predominantly arisen from the particular difficulties of individual houses, as with Johnson Matthey Bank in 1984, the BCCI affair (involving a 'licensed deposit taker' but legally sited in Luxembourg), and Barings' collapse due to fraud.

The relative decline from the 1930s of the system's previously major component – the deposit banks – became increasingly overt from the late-1960s, beginning with the take-over of National Provincial by Westminster. It has occurred since the 1960s within a context broadly comparable to that in much of Western Europe, comprising 'over-banking' and competition with fiscally-privileged institutions, particularly building societies (analogous to that between the German commercial banks and the savings bank of the Länder). Nonetheless, the various particular attempts made by the respective managements of the British 'Big Four' to diversify and increase their international presence from the early 1970s, so to become 'universal banks', has often been misfooted. In the case of Midland, they ultimately resulted in take-over by Hongkong & Shanghai Banking Corporation and, more recently, they played a part in Royal Bank of Scotland's acquisition of 'NatWest'. Furthermore, Barclays eventually retreated from its post-'Big Bang' securities business, and has been faced by senior management problems.

The decline of Britain's Victorian undertakings, financial as well

as industrial, over the twentieth century is a leitmotiv of much modern and contemporary economic and business history, often attributed to institutional sclerosis. This is in marked contrast to the continuing vigour of the City, which has been an international market place since it first coalesced during the late seventeenth century. Its complexion has ever been changing through the absorption of in-comers from the provinces and abroad, and positive reactions to new challenges. Developments since 1958, particularly from the 1980s, have taken the City to a new stage of near total 'cosmopolitan-isation', whereby many of its major institutions are foreign-owned and combine international business with a significant presence in Britain's home markets, household as well as corporate.

