CHAPTER 1

THE NATIONALISATION OF NORMAN'S BANK

(a) INTRODUCTORY

FOR THE most part, this history begins during the Second World War while Montagu Norman was still Governor of the Bank. Norman is in charge when the Bank decides its attitude towards plans for a post-war international monetary order. It is Norman who sets the Bank thinking about domestic monetary policy in the post-war period. It is Norman who gets work done on the post-war finance of industry and sets about persuading the City to join the Bank in creating two new special financial institutions. It is Norman who ultimately commands the response of the Bank to initiatives on all these matters in Whitehall. Finally, it was under Norman that the Bank itself began to think about alterations to its constitution, alterations that were later to be made in great haste when the Bank was nationalised early in 1946.

These activities, at the end of his long and unique Governorship, were necessarily undertaken with the Bank that he had himself largely created. Onto a permanent staff mostly devoted to the efficient performance of regular tasks, Norman had superimposed an entourage or Cabinet of his own, either by special recruitment or by selection from the career staff. It was within this circle that questions of policy were discussed so that decisions could be adopted and put into effect. It was men from this group who represented the Bank at policy meetings in Whitehall and men from this group who helped the Governor maintain higher-level relationships with the City, with industry, or with central banks abroad. Besides the Deputy Governor, they were mostly Executive Directors, Heads of Departments, or Advisers. They were all people of high quality, some chosen for a combination of intellectual distinction and special experience, others for their knowledge and experience of financial markets, others still for a combination of administrative ability and some particular aptitude that the Governor wanted to harness. Their numbers were not large, perhaps no more than fifteen or twenty. They were more numerous on the overseas and foreign side. This was partly due to the advent of exchange control but mainly to the international status of sterling and to the relationships with overseas central banks that Norman had created in the inter-war period. The numbers concerned with domestic monetary policy were tiny, not more than five at the most. Economic advice was available as required, from two members of the profession. Industrial advice was also obtained. Finally there was a Press Officer.

Looking back in 1943, the Governorship and the above Cabinet had all developed as circumstances seemed to require and as Norman went along. Acts of Parliament had not had too much to do with it. The Gold Standard's revival and its later demise, the subsequent statutory institution of the Exchange Equalisation Account (EEA), and the Currency and Bank Notes Act, all in their way provided background. But the Bank itself, a chartered company, had become a central bank through evolved practice and remained with private proprietors and a Governor and Court self-chosen. Its relations with Whitehall and the City were clear enough in broad outline, but often informal, uncodified, and uncertain at the edges. Maintenance of the authority of the Bank, together with control over the direction in which it moved, therefore depended unusually on the supremacy of the Governor. The seeming autocracy in the Bank, at this time and later, was not so much due to despotic personalities at the top as to the need to prevent authority being dissipated and weakened by officials paddling their own canoes in poorly charted waters.

Norman himself has mainly come down to us as a strange but brilliant personality, one who combined exceptional charm with intuitive ability, but one who was prone to occasional depressive illness. He is a subject for the investigative biographer, unlike few if any of his associates and immediate successors. The Bank he created, with its uncertain edges, its informalities, its inner Cabinet, its somewhat mysterious authority, its studied public relations of supposed reticence, and its powerful Governor, was well suited both to his personality and to the surrounding circumstances. When serious illness forced his retirement early in 1944, at the age of seventy-two, his creation simply sailed on without him, trained to work as he had taught it. It is true that he was succeeded by a relative outsider, Lord Catto,[1] a shrewd and successful Scot, a man of

[1] *Catto, Thomas Sivewright, 1st Baron 1936, Bt, PC, CBE (1879–1959).* Educated Peterhead Academy, Rutherford College, Newcastle. Vice-President, MacAndrews and Forbes, New York 1908–14, Admiralty Representative on Russian Mission, New York 1915–17, British and Allied Food Missions, US and Canada 1917–19. Chairman and Managing

commerce and of humble origin. Not a full member of the City establishment, he was both an admirer of and admired by the Treasury. Already sixty-five years old, however, he sought no changes in Norman's Bank. Though occasionally liable to go down paths of his own, much of his regular work was devoted to encouraging and supporting Norman's team on issues of domestic and external policy. Norman's Deputy, B. G. Catterns,[2] carried on until the summer of 1945 when he was succeeded by Cameron Cobbold, who himself became Governor in 1949 and remained so until he retired in 1961. Though a very different personality to Norman, Cobbold maintained the latter's Bank substantially unchanged until the later 1950s and throughout the remainder of the period covered by this book. Only right at the end, with the Radcliffe Committee sitting, with some of the surrounding countryside altering, and with a new generation coming to the fore, did change begin.

Though they possessed the defects as well as the virtues of a small informal group surrounding the combined Chairman and Chief Executive, as the Governor in effect was, Norman's immediate successors withstood the pressures of the early post-war decades with great resilience. The tasks they had to pursue were usually difficult and seldom likely to meet with much positive success. They frequently had to serve masters in Whitehall with whom they did not have great sympathy, though often personal admiration. From time to time they harboured an alternative approach to monetary problems of the day, but often failing to convince Whitehall in private they had to keep it frustratingly to themselves. From time to time, too, they adopted radical ideas in preference to a customary pragmatism; only to see such ideas rejected. But though remarkably resilient, they could sometimes be too exclusive and in consequence too slow to adapt, thereby reducing their practical effectiveness. If Norman himself, as a creator, would not have fallen into that error, it would be asking too much of the lieutenants who came after him that they too should avoid it. Instead, Cobbold and his supporting cast stood up to pressures of crisis, anxiety, and continuing uncertainty at the edges of the Bank's responsibilities, which would in all probability have overwhelmed the sensibilities of their remarkable mentor.

Director, Andrew Yule, Calcutta 1919–28, Director, Yule Catto 1919–40, Partner, Morgan Grenfell 1928–40. Director, Bank of England 1940, Director-General of Equipment and Stores, Ministry of Supply 1940, Financial Adviser to the Chancellor 1940–4, Governor, Bank of England 1944–9.

[2] *Catterns, Basil Gage* (*1886–1969*). Educated Trent College. Entered Bank 1908, HM Forces 1916–19, an Assistant Chief Cashier 1923, Deputy Principal, Discount Office 1923–5, Deputy Chief Cashier 1925–9, Chief Cashier 1929–34, Executive Director 1934–6, Deputy Governor 1936–45, Director 1945–8.

The whole story of those pressures, crises, anxieties and uncertainties is told in considerable detail in the many chapters that follow. The Second World War brought about an exponential growth in the Bank's documentation, growth that then ceased at a high level and persisted thereafter at that level. This leaves the historian with an immense mass of material relating to a very action-packed period. Though occurring chronologically later than the start of most other topics considered in this book, the story of the Bank's nationalisation is most conveniently told first. The Bank of England Act 1946 brought Norman's creation under public ownership while doing little to change it. So the introduction and passage of this Act constitute a convenient if lengthy supplement to these preliminary remarks.

(b) THE BILL PREPARED

The Bank of England Act 1946 has attracted little attention from historians. Its passage did not arouse great public interest or controversy. Until very recently there has seldom been any demand that it should be substantially revised. A very brief piece of legislation, clear and concise in most respects, it has not of itself been considered especially interesting. The Parliamentary Debates about it were often rather contrived. On one side were those in favour of placing practice beyond doubt by giving it statutory form. On the other were those who felt that the best thing to do with a satisfactory state of affairs was to leave it alone. Virtually nobody questioned whether the central monetary constitution of the United Kingdom, as it had mainly evolved over the preceding quarter-century, was in practice the best obtainable, fully fit for pouring into a statutory mould at the start of a brave new post-war world. Almost everyone just assumed it was so. Other countries had been obliged to enact legislation to set up central banks *ab initio*, often after prolonged public enquiry. In many cases the resulting institutions were accorded stated duties and responsibilities. In the United Kingdom no such need was felt. For the central bank was there already, the evolutionary product of growth over time.

For reasons lying deep in British habits of self-satisfaction, these circumstances of prolonged birth were widely presumed to endow the result with a special virtue, enhanced by a flavour of prestige, power, expertise and mystery. No matter that this flavour, together with much of the network of relationships between the Bank and the Government and between the Bank and the City, might reflect too much the dominance of a particular and unusual personality; such that at the end of the Old Lady's long journey into central banking it was difficult to distinguish

Cambridge University Press
978-0-521-29452-2 - The Bank of England and Public Policy 1941- 1958
John Fforde
Excerpt
More information

between the desirable constitution of a central bank and the personal needs of its most famous and but recently retired Governor. No matter too that the country was about to adopt a new economic strategy, one that implied a persistent and prolonged inflationary undertow whose adequate constraint might in turn imply the need for a strong and specific monetary constitution. In 1945, exhausted but victorious in war, with a new and radical Government just elected with a massive parliamentary majority, British Ministers, officials, and legislators, were in no mood to stop and think, nor were they in a mood to question the wisdom of an apparently simple Act by which the Treasury merely acquired the stock from the Bank's proprietors, made arrangements for the Crown to appoint the Governors and Directors, and gave legal support firstly to the ultimate authority of the Treasury over the Bank in matters of policy and secondly to the authority of the Bank over the banks. The discretionary management of money, so as to avoid deflation and depression rather than to stop inflation, was seen as a political responsibility attaching to the Government of the day; for better or worse, but most assumed it was for the better.

The Labour Government took office at the end of July. The Manifesto on which it had fought the General Election contained the sentence: 'The Bank of England with its financial powers must be brought under public ownership, and the operations of other banks harmonised with industrial needs.' It did not take long for the incoming Chancellor of the Exchequer, Hugh Dalton, to decide that this pledge could easily be honoured through the enactment of a short Bill in the first session of the new Parliament. Its contents could be discussed, decided, and drafted in a mere few weeks. An outline plan was put to him under a covering note by the Permanent Secretary, Edward Bridges,[3] as early as 3 August. Its main authors were Herbert Brittain,[4] then a Third Secretary in the Finance Division of the Treasury, and Wilfrid Eady,[5] Second Secretary in charge of that Division

[3] *Bridges, Edward, 1st Baron 1957, KG, PC, GCB, GCVO, MC, FRS (1892–1969).* Educated Eton and Magdalen College, Oxford. Army 1914–18. Fellow of All Souls, Oxford 1920–7, 1954–68. HM Treasury 1919–38, Secretary to the Cabinet 1938–46, Permanent Secretary, HM Treasury and Head of Home Civil Service 1945–56. Chairman, Royal Fine Art Commission 1957–8, British Council 1959–67. Chancellor, Reading University 1959–69.

[4] *Brittain, Herbert, KCB, KBE (1894–1961).* Educated Rochdale Secondary School and Manchester University. Army 1915–19. HM Treasury 1919–57, Third Secretary 1942–53, Second Secretary 1953–7. Chairman, Iron and Steel Holding and Realisation Agency 1958–61.

[5] *Eady, Crawfurd Wilfrid Griffin, GCMG, KCB, KBE (1890–1962).* Educated Clifton and Jesus College, Cambridge. India Office 1913, Home Office 1914, Ministry of Labour 1917–38, Secretary, Unemployment Assistance Board 1934–8, Deputy Under-Secretary, Home

and one of the officials closest to the Bank. Brittain began with a description of the current state of affairs, including the comment that although changes in Bank Rate were legally the prerogative of the Bank, in practice no change now occurred without the closest consultation between the Bank and the Treasury. He then went on to note that the Bank had evolved over 250 years and that no one could say how it would evolve in future. From this he concluded:

> It is therefore very desirable to retain the present flexible set-up of the Bank as far as possible, and, in effect, to concentrate on giving statutory form to the present *de facto* position as regards (i) relations between Bank and Treasury and (ii) the traditional policy of the Bank to conduct its affairs in the public interest and not in that of the stockholders.

Dalton commented an emphatic 'yes', though he objected to one feature of Brittain's outline statute, namely the retention of private stockholders whose sole function was to provide legal cover for the appointment of five Directors, out of a proposed total of twelve, to remain with the Bank itself. In this Dalton was supported by Eady, who felt there was no sense in keeping shareholders with no real rights or functions. In a classic statement Eady went on to explain and justify the independence that would remain with the Bank under the proposed plan. Independence was:

> not to be exercised on major issues of policy; not to be exercised on appointment of Governor or Deputy, or in selection of Court. But on day-to-day business of internal management, and day-to-day relations with other financial institutions, there is everything to be said for viewing the Bank as a public corporation, subject to control on policy but not to interference in the running of the machine. The more the permitted independence on inessentials the easier will it be for the Bank to maintain its intimate relations with other parts of the financial system and with City interests. The reason for the high repute of the Bank, not only in this country but also, and the point is of very great importance, particularly under present conditions of our external finances, in foreign countries, is the degree of independence that the Bank has possessed. The general morale of the Bank and the power of speaking with complete freedom to the Chancellor and the Treasury are assets of the highest value. Under wise leadership these can be maintained fully within the general change of relations between HM Treasury and the Bank.

The Permanent Secretary judged the plan was workable, though he counselled close consultation with the Bank itself. But before any such consultation had occurred, and subsequent to a meeting between Ministers

Office 1938–40, Deputy Chairman, Board of Customs and Excise 1940–1, Chairman 1941–2, Joint Second Secretary, HM Treasury 1942–52.

and officials, a draft additional provision was submitted by Brittain. This was the origin of the controversial Clause 4(3) of the Act. It proposed that the Bank should have the power, where it thought it necessary in the public interest and with the approval of the Treasury, to make regulations governing the proportion of assets of different description to be held by the banks. With this draft provision included, the Chancellor wrote to the Governor on 14 August enclosing the outline proposals and suggesting a meeting to discuss them.

The outline took the form of draft heads of legislation and its main proposals were as follows. The Governors would be appointed by the Prime Minister and the Chancellor of the Exchequer jointly, that is to say the Treasury in its formal sense. It was suggested that there should be two Deputy Governors, one of whom would normally be chosen from the permanent staff. Instead of the existing twenty-four Directors there would be twelve, in addition to the Governors. All would be appointed either by the Treasury after consultation with the Court or by the Court with Treasury approval. The Directors would be part-time and there would therefore be no Executive Directors. Power would be taken for the Treasury to give directions to the Bank, but the intention was that this power would be used only in relation to major issues of policy. Subject to such directions, the management of the Bank's business was to remain the responsibility of the Court. Compensation to the stockholders was to be by way of perpetual non-voting annuity, charged on the profits of the Bank, in exchange for surrendered Bank Stock. The Bank would then issue special voting stock to the Treasury. Finally, a possible additional clause would give the Bank the powers, already mentioned, over the banks.

The new Parliament was opened by the King on 15 August. His Speech included the words: 'A measure will be laid before you to bring the Bank of England under public ownership.' But there was no mention of harmonising, by Statute, the operations of the other banks with industrial needs. In the Debate that followed, Churchill opened for the Opposition and declared that the national ownership of the Bank of England did not, in his opinion, raise any matter of principle. Foreign countries need not be alarmed at the prospect, for 'British credit will be resolutely upheld'. Later in the Debate Oliver Lyttelton, who thought the proposal unnecessary and unwise, continued for the Opposition and sought reassurance that the Bill would go no further than a simple transfer of ownership, with associated provision for Treasury appointment of the Court. Replying, the Chancellor told the House that to a large extent the proposal would do no more than 'bring the law into accord with the facts of the situation as they have developed'. After paying a generous tribute to Catto, and to the frank and friendly conversations that had taken place between them since the new Government had taken office, Dalton went on: 'I am happy to say that he has expressed his willingness to continue as Governor for a suitable period to manage the new regime which we propose to establish.'[6]

Neither the Chancellor's letter of 14 August nor most of its contents can have been unexpected by the recipient and his immediate colleagues. Apart from the discussions mentioned by Dalton in the Debate on the Address, and although there is almost no recorded evidence of other prior discussions on the subject between the Bank and the Treasury, it would be wrong to suppose that these had not happened. Lack of record may be attributed to mutual agreement to maintain total informality on so sensitive a subject. Lord Cobbold, speaking to the author in 1984, stated categorically that such discussions did happen and that they were thorough. There is also circumstantial evidence. An exchange of Treasury Minutes between Brittain and Hopkins[7], the then Permanent Secretary, as early as 1943 discusses proposals for altering the constitution of the Bank so as to satisfy public opinion without outright nationalisation or loss of operational independence. Hopkins was close to Norman, still Governor at that time. In February 1944, shortly after the latter had fallen ill but presumably with his earlier agreement, a note was submitted to the Bank's Committee of Treasury setting out changes that had been suggested from time to time 'from within or without'. All these suggestions were to be aired again in the following year, either during the preparation of the Bank Bill or during its passage through Parliament. They included firstly, a reduction in the size of the Court, provision for two Deputy Governors, Government appointment of some or all of the Court, fixed terms for members of the Court, and a provision for freezing the dividend at 12%. Secondly, and after pointing out that all the above would require legislation, the note for Committee of Treasury then listed suggestions for further changes that would not so require. These included a statement that the Chancellor was invariably consulted (or his approval obtained) before any change in Bank Rate, publication of a Profit and Loss Account, and

[6] Relations between Dalton and Catto were always cordial though perhaps not particularly close. Catto's own (privately published) memoirs stress the complete political impartiality with which he endeavoured to carry out his job; and this must have helped him with Dalton. It has also been said that Dalton, the Etonian academic and politician, was a little frightened of Catto, the experienced man of commerce with a humble background. But from references in his own diary Dalton seems to have been completely charmed by him, and always genuinely surprised that he was not rougher.

[7] *Hopkins, Richard Valentine Nind, PC, GCB (1880–1955).* Educated King Edward's School, Birmingham and Emmanuel College, Cambridge. Chairman, Board of Inland Revenue 1922–7, Controller of Finance and Supply Services, HM Treasury 1927–32, Second Secretary 1932–42, Permanent Secretary 1942–5.

provision of an Annual Report. Humphrey Mynors, then Secretary of the Bank, submitted a copy of this note to the new Governor early in June 1944. In May 1945, now an Adviser to the Governor, he prepared notes on two possible solutions to the problem of the Constitution of the Bank, the first of which was minimalist and the second of which was a straight outline of the one eventually enacted (excluding the provision for powers over banks). It is therefore likely that the Chancellor's main proposals of 14 August had already been accepted informally, besides being part of the understandings reached between the Chancellor and the Governor about the latter continuing in office.

But if the main features of the plan were acceptable to the Bank, there were various points of important detail that remained to be resolved. There was also the one feature that may have come as a surprise, namely the provision for statutory power of direction over commercial banks, a matter of some delicacy in terms of relationships both with Whitehall and with the City, and also a matter of public concern. In the ten days following receipt of the Chancellor's letter, and ahead of meetings between the Governors and senior Treasury officials on 28 and 31 August, Catto obtained written advice from the Deputy Governor,[8] from two of the Executive Directors, Niemeyer[9] and Holland-Martin,[10] and from Mynors. He had earlier replied to Dalton suggesting discussions at official level 'in regard to such points as do not affect questions of principle', these latter being reserved for subsequent discussion between the two of them.

Having already announced to maximum effect in the House of Commons that the Governor had agreed to stay on, the Chancellor was not now in too strong a position to resist the Bank on matters of important detail; and he did not like it. 'The Deputy', he noted on a Minute from the Permanent Secretary, 'has been trying to pull the Governor back by the coat-tails'.[11] But by 5 September he had agreed to a Court of sixteen Directors, including

[8] Catterns had given notice of impending retirement some months earlier and Cobbold had now succeeded him.

[9] *Niemeyer, Otto Ernst, GBE, KCB (1883–1971).* Educated St Paul's and Balliol College, Oxford. HM Treasury 1906–27, Controller of Finance 1922–7. Entered Bank 1927, Adviser to the Governors 1927–38, Executive Director 1938–49, Director 1949–52, Member of Financial Committee of League of Nations 1922–37, Chairman 1927, Financial Missions to Australia and New Zealand 1930, Brazil 1931, Argentina 1933, India 1935, China 1941, Fellow LSE, Chairman of Governors 1941–57, Governor 1958–65, Director, BIS 1931–65, Chairman of the Board 1937–40, Vice-Chairman 1941–64, Member, Council of Foreign Bondholders 1935–1965, Vice-President 1950–5, President 1956–65.

[10] *Holland-Martin, Edward (1900–81).* Educated Eton and Christ Church, Oxford. Executive Director, Bank of England 1933–48. Director, Bank of London and South America 1948–70, Deputy Chairman 1951–70.

[11] According to Cobbold, writing in 1977, the relationship between himself and Dalton (a fellow Etonian) soon became one of strong mutual dislike.

four Executives, instead of the Court of twelve with no Executives suggested by the Treasury. But the Bank had to accept Crown appointment of all the Court rather than of the Governors alone and had to accept that the Governors' term should be five years when it would have preferred seven. The powers of direction over the Bank given to the Treasury continued to be drafted in the most general terms, but they now included specific provision for prior consultation with the Governor, for which the Bank had argued. As to the financial provisions, it was now agreed that compensation should be by simple exchange of Bank Stock for Government Stock, rather than by perpetual annuity, and that the Bank should pay annually to the Treasury an amount sufficient to service the new Stock or such other sum as they might between them agree.

This left two questions remaining for decision. The first and lesser question was whether the Governor should in future have two Deputies instead of one. Whitehall preferred that there should be two, only one of whom would be a person promoted from the Bank staff. There had, officials averred, been criticism that the Bank was in the hands of its permanent officials. To meet this, the Treasury had originally suggested that there should be no Executive Directors on the new Court and it is possible that the same argument lay behind the proposal for two Deputy Governors. To the Bank this made no sense. As the Governor explained in the course of a letter to the Chancellor on 5 September, 'the proposal...raises some acute difficulties. The Governor and Deputy Governor are the chief executive officers of the Bank as well as the Chairman and Deputy Chairman of the Court of Directors. In the absence of the Governor all his powers devolve on the Deputy Governor. This is a convenient and efficient arrangement of internal management and in the relations of the Bank with the Treasury and the financial community. If there were two Deputy Governors the question would arise as to which one acted in the absence of the Governor: plainly only one could so act.' The Chancellor accepted this argument and the proposal for two Deputies was dropped. Another unstated reason for opposing it was the suspicion in Threadneedle Street that one of the two Deputies would turn out to be a Treasury official on temporary secondment from the Civil Service.[12] This would have been unwelcome to a Bank anxious to be seen preserving operational distinction between itself and the Treasury.

Finally there was the question of statutory powers over the banking system. Apart from Cobbold, who felt that some such general powers

[12] The Second Schedule to the Act disqualifies Civil Servants from membership of the Court, but only so long as they are in receipt of remuneration payable out of monies provided by Parliament.