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*To Dianna*

# The Bank of England

## 1950s to 1979

**FORREST CAPIE**
Cass Business School, UK

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# Foreword

This volume is the latest in a series of 'official' histories of the Bank: it joins Clapham (1694–1914), Sayers (1891–1944), and Fforde (1941–58) and brings the story up to the end of 1979, which, for all sorts of reasons, proved a watershed for the Bank, as it did for the nation. The works in this series are official only in the sense that the Bank has sponsored their preparation and publication, providing access and research support: the selection of material and its presentation are the author's responsibility, and the Bank does not interfere. The benefits of this approach are, I believe, especially evident in this volume, and I am immensely grateful to Forrest Capie for providing such a thorough, perceptive, and (improbably) entertaining account.

The period covered is one of the least happy in our economic history, covering the series of crises that preceded the devaluation of 1967, the secondary banking crisis of 1973–74, and the great inflation of the 1970s. Neither the instruments of policy nor the policies themselves seemed capable of addressing the seemingly irreversible decline in our fortunes.

However, the Bank is at its best in adversity, and whatever private doubts might have been harboured, heroic deeds were done. Governor Cromer famously assembled $3,000 million of central bank credits to support sterling over the telephone on a single morning in 1964. Roy Bridge, the Head of Foreign Exchange, set and sprang traps for the sterling bears. Sir Jasper Hollom, the Deputy Governor, almost single-handedly saved the financial system in 1973: The vignette of Hollom taking a call from a Burmah shareholder is priceless.

And in the background there were those looking for a new policy framework. The prevailing orthodoxy had been that money did not matter. The Bank of the 1950s had almost forgotten what Bank Rate was for; both it and the Treasury became adept at using quantitative and qualitative credit

controls as a substitute. In 1970, though, Goodhart and Crockett published 'The Importance of Money' in the *Quarterly Bulletin* – despite, it has to be said, attempts by the Bank establishment to keep such speculative material out. Steadily, and against opposition, the case was advanced for measuring money, for controlling money even, and for varying the price of money for reasons other than managing the market in gilt-edged securities.

Domestically, this was the time when the great departments of the Bank started to erode, whereas the policymaking part of the Bank expanded. In the early years, only a handful of senior people in the Bank had any connection with policy; the rest were part of a machine. By the end of the period, in the 1980 reorganisation, Richardson was able to reorganise the Bank into policy divisions, with the banking function in support rather than in command. Also over the period the Bank became more open, publishing (rather grudgingly at first) a *Quarterly Bulletin* and producing accounts for the first time in 1971.

Against this background of policy failure, therefore, and partly in response to it, the seeds of the modern Bank became discernible. While the Bank struggled, with exasperated loyalty, to hold a fractured system together, there were those who fixed their gaze on a more rational and stable system, in which the objectives of monetary policy were clear, and the central bank had the authority to deliver them. That story is for our next official history.

*Mervyn King*
*Governor*
*July 2009*

# Preface

I undertook to write this book at the invitation of the Governor; it was an invitation I was delighted to accept. The book follows on from the works of Clapham, Sayers, and Fforde in the series of commissioned histories of the Bank from its foundation in 1694 to the recent past. The terminal date is determined by the implicit 30-year rule the Bank operates on its archives, although I have been given access to papers beyond that date. The starting date has been left open – the 1950s. That is partly because although John Fforde had a finishing date in his title of 1958, he chose a sometimes narrow focus in his book, and some topics therefore merited further development. In any case, though, each historian will have a slightly different approach, and several subjects require an introduction that involves some historical background. To begin with 1959 might lead to speculation that it was the establishment of convertibility that determined the starting point or indeed some other striking event such as the fact that Che Guevara became Governor of the central bank of Cuba that year. I have had access to all the materials available and every assistance in talking to current and former personnel. And I have been given complete freedom in the writing of this history. The long list of acknowledgements that follows indicates the extent of support I have enjoyed.

Readers may need to be reminded that a history of the Bank is not a monetary history of the period. Neither is it a business history nor an institutional or administrative history, although it does impinge on all of these. It is not an applied economics or econometric exercise that tests the propositions that economists would like to see. (That is the job of economists.) A history of the Bank is first of all a record of what the Bank did, how it did it, and if possible, an explanation as to why it did it the way it did. The focus is the Bank. In addition, it should be placed in the context of the times.

The writing of history requires two important things: perspective, that is, some distance from the events, and primary documents. There is no difficulty with the first. However, a caution is needed on the second. For twentieth-century history, a common problem is too much information, and the task is to try to distill it. However, this is not always a problem for the Bank. Perhaps it is the nature of banking and its concern with confidentiality that has meant that much is not written down. Of the Bank's handling of the 1914 crisis, Clapham wrote, 'The way hit upon – how and by whom is nowhere written down – was a great operation by the Bank….'[1] And of the key decisions on Bank Rate, Sayers complained, 'Despite the significance attached, through decade after decade, to this regular function of the Bank, there is not the slightest indication in the Court or Committee of Treasury records of the reasoning on which each week's action was based.… no minutes, files, diaries or letters contain regular explanatory notes bearing on this central question.'[2] These habits continued into the late twentieth century. A key meeting in the Bank was morning 'Books' (formerly 'Prayers'), where the Governor and his senior officials would discuss business and tactics across the range of activities in which the Bank was involved. There were no briefing papers, and no records were kept, at least not before the 1980s. Certainly, in the 1950s and 1960s, on the subject of Bank Rate there is almost no paper. The Governor might consult his deputy or another official before telling the Chancellor of his decision. There is some evidence of change in the 1970s, but not a great deal. Thus on key areas of the Bank's activity there are no papers.

Even where things are written down, there is no guarantee of survival. For a host of reasons, someone makes decisions on what should be kept. Generally speaking, though, there is no institutional policy and no particular responsibility. Some material simply might be disposed of before it reaches an archive. And even if it is kept for a time, for reasons of convenience or storage space or costs, it might not survive longer term. Material also could be destroyed by accident, and it remains a possibility that some will be destroyed on purpose. Thus there are some substantial gaps in the Bank's records, with material on important topics, such as the secondary banking crisis, lost to posterity.

On what appears, at least at first glance, the more positive side, there is a possibility, in carrying out comparatively recent history, of the chance to interview some of the participants. Oral history has flourished in the

[1] Sayers (1976), vol. III, p.41.
[2] *Ibid.*, vol. I, pp.28–9.

second half of the twentieth century for a number of reasons. Leaving aside the question of mechanics, of whether to tape or not or to tape with agreement to quote, or simply to have a conversation, interviewing participants offers an opportunity to better understand the people involved, and it can alert the writer to the existence of documents (although not necessarily their survival), and well-designed questions might elicit clues that are worth following up. That said, perceptions can differ greatly, and added to this, memory is a strange thing. And then the passage of time and the intrusion of other versions of the events can colour; and even where there is a strong desire to recapture the past, it is not always or perhaps ever successful. Seldom are two stories of an event the same from any two participants. There is, too, the subconscious at work, improving the contribution of the reteller of events in which he or she was involved. Moreover, there is another danger, and that is that a judgement made by the author based on written sources may get reconsidered when the author discovers the person to be charming and helpful – the usual stance of the interviewee – and likely to be around when the book is published. Despite all this, I am extremely grateful to all those who spared the time to talk about the Bank in the period.

A word on usage is needed. Should the 'Bank' be treated as singular or plural? 'The Bank' was an abbreviated version of 'the Governor and Company of the Bank of England' and therefore a plural noun. Formal documents such as court records and Bank publications such as the *Annual Report* and *Quarterly Bulletin* always used the plural. However, some internal notes referred to 'the Bank' in the singular, resulting in inconsistency. Outside writings, notably the press, referred to the Bank as singular. The issue was raised in the late 1970s, with some feeling that the plural use could be seen by critics of the Bank as 'an unnecessary and irritating self-conceit'.[3] In 1978, the Governor, Gordon Richardson, accepted that in legal documents the Bank should remain plural but wanted the singular in other uses because the plural often resulted in 'unnatural, contorted English which must seem strange or even pompous to readers who do not appreciate the reason for it'.[4] It was agreed that 'all concerned should exercise flexibility and good judgement, without the imposition of hard and fast rules'.[5]

A large number of people appear in this story. They are identified on first appearance by their full name and thereafter by their surname. On occasion,

[3] Colin Henderson (Secretary's Department) to Peter Brown/Geoffrey Gough (The Secretary), 'The Bank: singular or plural', 20 July 1977', 3A114/1.
[4] Chief of Establishments, Notice to Staff, 'The Bank: singular or plural', 18 December 1978, 3A114/1.
[5] Extract from 'Meeting of Heads of Departments', 7 February 1979, 3A114/1.

however, if there is a risk of confusion or if one mention is sufficiently far away from another, the full name is used.

A brief word on sources also might be useful. Apart from the number of archives that have been used (the references for which are all in the endnotes), the publications of several financial institutions, including the Bank – Annual Reports, Reviews, and so on – also have been used extensively. Again, the full references are in the endnotes and not shown in the Bibliography.

# Acknowledgements

A work of this kind could not be accomplished without the help of a large number of people. I would like to say that the responsibility is partly theirs, but of course, I cannot. However, I do express my sincere thanks to all who took the time to talk or correspond with me about the Bank. It would be invidious to present these in any order that implied a degree of gratitude or hinted at the size of their contribution. So I begin with those closest to the project. I must start with my principal research assistant, Mike Anson, who was with the project from the beginning to the end and without whose industry and application the work would have taken a lot longer. His skills in tracking down material in the archives and providing summaries were a boon. I owe him a great debt of gratitude. He was ably supported by Will Goodfellow, and I had the secretarial support of first Chris Armbsy and then Shona Carswell. And then in the Bank directly supporting the project were the staff of the Bank's Archive: Sarah Millard, Jeanette Sherry, Jenny Ulph, Lara Webb, Ben White, and Hayley Whiting; followed literally closely by those in the Information Centre: Janet Adams, Kath Begley, Catherine Gardner, Maggie Hawes, Penny Hope, Shahid Nazir, Sarah Stevens, and Chris Thomas; and from the Museum: Richard Brigenshaw, Sue Jenkins, John Keyworth, and Lorraine Painter.

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Carr, Laura Daniels, Sue Davidson, Julie Gallagher, Sandra Mills, Diane Moore, Pat Morgan, Debbie Nyman, Lesley Oughton, Sarah Pegg, Stephen Sabine, Russell Seddon, and Nick Stansfield. Former Bank staff who gave their time include Bill Allen, Tony Coleby, Leslie Dicks-Mireaux, Garth Hewitt, John Hill, David Mallett, Teresa May, Chris Parry, John Pullinger, John Rumins, and Tony Latter.

Some idea of the work of the Agents was gained from a visit to the Agents: David Buffham (North East) and Tony Strachan (Glasgow); and I talked to John Bartlett (Birmingham). On a fascinating visit to the Printing Works at Debden, I was given a complete tour and short history by Jim Biggs, Martin Wylie, Paul Lane, John Clark, and Fiona Dodd.

On a visit to Washington to the International Monetary Fund (IMF) and the Federal Reserve, I enjoyed the hospitality of and benefited from the guidance of current and former employees of the IMF and the Fed: Mark Allen, Jim Boughton, Mohsin Khan, Jens Larsen, Jacques Polak, Mahmud Pradhan, Tom Scholar, Dave Small, and Bob Solomon.

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# Abbreviations and Acronyms

| | |
|---|---|
| AAB | Allied Arab Bank |
| AMC | Agricultural Mortgage Corporation |
| BAMMS | Banking and Money Market Supervision |
| *BEQB* | *Bank of England Quarterly Bulletin* |
| BIS | Bank for International Settlements |
| BOCBA | British Overseas and Commonwealth Bankers Association |
| BOLSA | Bank of London and South America |
| BP | British Petroleum |
| CCC | Competition and credit control |
| CD | Certificate of deposit |
| CDFC | Commonwealth Development Finance Company |
| CLCB | Committee of London Clearing Banks |
| CWS | Co-operative Wholesale Society |
| DCE | Domestic credit expansion |
| DEA | Department of Economic Affairs |
| DTI | Department of Trade and Industry |
| EBH | Edward Bates Holdings |
| EBS | Edward Bates and Sons |
| EBSI | EBS Investments |
| ECI | Equity Capital for Industry Limited |
| EEA | Exchange Equalisation Account |
| EEC | European Economic Community |
| EID | Economic Intelligence Department |
| EPU | European Payments Union |
| FCI | Finance Corporation for Industry |
| FEC | Foreign Exchange Committee |
| FECDBA | Foreign Exchange and Currency Deposit Brokers' Association |
| FFI | Finance for Industry |

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|---|---|
| FHA | Finance Houses Association |
| FNFC | First National Finance Corporation |
| FRBNY | Federal Reserve Bank of New York |
| G10 | Group of Ten |
| GAB | General Agreements to Borrow |
| GATT | General Agreement on Tariffs and Trade |
| GDP | Gross domestic product |
| HMT | Her Majesty's Treasury |
| IBEL | Interest-bearing eligible liability |
| ICFC | Industrial and Commercial Finance Corporation |
| IFU | Industrial Finance Unit |
| IMF | International Monetary Fund |
| IRC | Industrial Reorganisation Corporation |
| ISC | Institutional Shareholders Committee |
| JSC | Joint Standing Committee |
| LDMA | London Discount Market Association |
| LSE | London School of Economics |
| MDHB | Mersey Docks and Harbour Board |
| MLR | Minimum lending rate |
| MPG | Monetary Policy Group |
| MSPs | Minimum sterling proportions |
| NATO | North Atlantic Treaty Organisation |
| NBPI | National Board for Prices and Incomes |
| NEDC | National Economic Development Council |
| OECD | Organisation for Economic Co-operation and Development |
| OEEC | Organisation for European Economic Co-operation |
| OPEC | Organisation of Petroleum Exporting Countries |
| OSA | Overseas sterling area |
| PSBR | Public-sector borrowing requirement |
| SAMA | South Arabian Monetary Agency |
| SARB | South African Reserve Bank |
| SCNI | Select Committee on Nationalised Industries |
| SCOOP | Scottish Co-Operative Wholesale Society |
| SDRs | Special drawing rights |
| SNB | Swiss National Bank |
| SSDs | Supplementary special deposits |
| SWL | Slater Walker Limited |
| SWSL | Slater Walker Securities Limited |
| TUC | Trades Union Congress |
| UDT | United Dominions Trust |
| WBB | Wallace Brothers Bank |
| WP3 | Working Party Three |