‘SURVIVAL CAPITALISM’: CULTURE, CONTINGENCY AND CAPITAL IN THE MAKING OF THE 1980s FINANCIAL REVOLUTION

By

EMMA BARRETT

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School of History and Cultures
The University of Birmingham
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Abstract

There is a narrative of inevitability attached to the 1980s financial revolution in the UK, linked to structural global economic shifts and technological change dating from the 1970s, coupled with the rise of New Right ideas, and cemented by the free flow of capital after 1979. This thesis introduces the concept of 'survival capitalism' to what is traditionally depicted as a high point in the histories of capitalism. It does so by showing what was at stake for capitalist firms and institutions, and the Government's preoccupation with what it perceived as an existential threat to the survival of capitalism. Moreover, the Government's concern with monetary credibility and quest for autonomy when selling government debt affected the stock market mechanism. This meant reforms, more usually associated with the supply side, were in fact significantly impacted by macroeconomic policy. By examining the making of the financial revolution, this thesis privileges people and processes. In so doing, it captures the dynamic and evolutionary nature of change, struggles, alternative possibilities and thus the contingent nature of reforms. It also reveals intent and an institutional awareness of likely outcomes. Furthermore, the Government harnessed exogenous factors to support its domestic agenda, meaning even capital requirements and new technologies played a supporting role, as opposed to being merely catalysts for change. International imperatives were real, but they were mediated at the domestic level. Reconceptualising the financial revolution and the Government's role sheds fresh light on Thatcherism and neoliberalism. Equally, bringing people and processes to the fore de-mystifies and de-naturalises the 'inevitable' march of market forces.

Dedication

To Tim, Sophie and Alice

And to the memory of my father

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Abbreviations

BAT - British American Tobacco

BOE - Bank of England

BP - British Petroleum

BZW - Barclays de Zoete Wedd

CAC - Churchill Archives Centre

CGO - Central Gilts Office

CLC - City Liaison Committee

CPRS - Central Policy Review Staff

CRL - Cadbury Research Library

CRD - Conservative Research Department

DFA - Douglas French Archive

DGFT - Director General of Fair Trading

DoT - Department of Trade

DTI - Department of Trade and Industry

E[E]C - European [Economic] Community

FSB - Financial Services Bill

FST - Financial Secretary to the Treasury

GFC - Great Financial Crisis

GOOIES - Group Of Outside Independent Economists

HF1 - Home Finance [Division] 1 at the Treasury

HI - Historical Institutionalism

HMT - Her Majesty's Treasury

IEA - Institute for Economic Affairs

IMF - International Monetary Fund

ISRO - International Securities Regulatory Organisation

JMB - Johnson Matthey Bank

L&G - Legal & General

LMA - London Metropolitan Archives

LMX - London Market Excess of Loss

MAO - Main Alternative Option

MIB - Marketing of Investments Board

MLR - Minimum Lending Rate

MTFW - Margaret Thatcher Foundation Website

NACBS - North American Conference on British Studies

OFT - Office of Fair Trading

PCW - Peter Cameron Webb [syndicate]

[P]PS - [Parliamentary] Private Secretary

PSBR - Public Sector Borrowing Requirement

RI[T]C - Reinsurance to Close

RP - Restrictive Practices

RPI - Retail Price Index

R&R - Reconstruction & Renewal

RTPA - Restrictive Trade Practices Act

R[T]PC - Restrictive [Trade] Practices Court

SEAQ - Stock Exchange Automated Quotation (system)

SEC - Securities and Exchange Commission

SFO - Serious Fraud Office

SIB - Securities and Investment Board

SRO - Self Regulatory Organisation

TNA - The National Archive

WCP - Westminster and City Programmes

Introduction

Appropriated from the name for the theory of the origins of the universe, the Big Bang, as the name for reform of the London Stock Exchange, conjures the beginning of everything. Discursively, it also places financial markets at the centre of the universe, in accordance with neoliberal thinking.[1] Materially and ideologically, therefore, the 1980s financial revolution was pregnant with possibilities. Rather more prosaically, the name Big Bang emerged during technical discussions to end restrictive practices at the Stock Exchange. A new market system required an industry-wide simultaneous shift if orderly markets were to be maintained. The name emerged then, not for its expansionist cosmic connotations, but for the decision to execute rule changes all at once - in a 'big bang' as opposed to incrementally.[2] Regardless, the concept took hold of City, political and popular imagination. The Big Bang was thus a momentous event which occurred on 27 October 1986 when restrictive practices ended, and new technology was launched at the Stock Exchange. Reforms modernised the City and opened it up to competition.[3]

The impact of reforms can hardly be over-stated. They transformed the nature and scale of financial transactions, domestically and globally, and also the culture and physical

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[1] See D. Stedman Jones, *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics* (Princeton, 2012), pp. 254-272, p. 269. Stedman Jones argues the gradual spread of neoliberal ideas gained credence during the economic crises of the 1970s, resulting in an 'intellectual free market revolution'.

[2] Interview with Sir David Walker, former Executive Director at the Bank of England, London, March 2018. According to Walker, Assistant Director Douglas Dawkins first used the term to indicate change in one go (favoured by Nigel Lawson), as opposed to the Bank's preferred option of evolutionary change.

[3] Christopher Bellringer and Ranald Michie define the term 'Big Bang' as specifically referring 'to a single event that took place on 27 October 1986. On that day the London Stock Exchange switched from floor-based trading, where brokers and dealers met to buy and sell, to a screen-based system linking a network of market makers located in separate bank offices'. C. Bellringer and R. Michie, 'Big Bang in the City of London: an intentional revolution or an accident?', *Financial History Review* 21 (2014), pp. 111-137, p.112.

landscape of the City of London. As significant was the impact on the culture of 'everyday' Britain, which was profoundly changed by the process of financialisation - an implicit part of the financial revolution. The Big Bang, then, represented a shift in the British economy and ultimately helped establish a new consensus - that the market mechanism was common sense and even progressive, while alternative systems and approaches were flawed.[4] Ultimately, this message was absorbed by New Labour.[5] Even when footloose capital caused the Great Financial Crisis (GFC) of 2008, the system emerged relatively unscathed for want of alternatives; because of the socially and institutionally embedded nature of neoliberalism;[6] and because of the networked power of the banking system.

Given the reach of reforms and because 'no reform captured the spirit of the Thatcher era more completely', it is hardly surprising that the Big Bang continues to receive considerable attention.[7] Nevertheless, historical understandings of it, and especially the people and processes behind it, are under-researched. To date, debate has centred on whether reforms were driven by the ideological convictions of the New Right, or by the material interests of the City in response to global economic change.[8] Perhaps dominant is the

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[4] The neoliberal free market system which emerged both in the UK and North America became known as the Washington Consensus; for comments on 'market fundamentalism' and the 'belief that unfettered markets generally bestow welfare and prosperity' see G. Hodgson, 'How Mythical Markets Mislead Analysis: An Institutionalist Critique of Market Universalism', *Socio-Economic Review* (2019), pp. 1-22, https://doi.org/10.1093/ser/mwy049 (accessed 11 June 2019).
[5] See C. Hay, 'Credibility, Competitiveness and the Business Cycle in Third Way Political Economy', *New Political Economy*, 9:1 (2004), pp. 39–57, p. 40; R. Heffernan, *New Labour and Thatcherism* (Basingstoke, 2000); D. Edgerton, *The Rise and Fall of the British Nation: A Twentieth-Century History* (London, 2018), p. 507.
[6] For the embedded nature of neoliberalism see D. Cahill, *The End of Laissez-Faire? On the Durability of Embedded Neoliberalism* (Cheltenham, 2014).
[7] Gideon Rachman, 'The end of the Thatcher era', *The Financial Times*, 27 April 2009.
[8] For an ideological explanation see E. H. H. Green, 'Thatcherism: An Historical Perspective', *Transactions of the Royal Historical Society*, 6th series, Vol. 9 (1999), pp. 17-42; for material interests see A. Davies, *The City of London and British Social Democracy: The Political Economy of Finance in Britain 1959-1979* (Oxford, 2017); also R. Michie, 'The City of London and the British government: the changing relationship', in R. Michie and P. Williamson (eds.), *The British Government and the City of London in the Twentieth Century*

explanatory weight given to the impact of free-flowing international capital and new technologies from the 1970s onwards, which led to conclusions that the financial revolution was 'inevitable'.[9] While these are important considerations, the thesis hopes to resist teleological arguments and binary explanations. It seeks to show responses to ideational, material and structural factors and, in so doing, demonstrate an evolutionary reform process, shaped by real actors and concerns.

This thesis then is about the making of the City's regulatory reforms. The Big Bang reforms of the Stock Exchange are central and are examined from different vantage points, starting with the institutions that shaped change. Accordingly, there are chapters on the Government, the Bank of England, and the Stock Exchange. The latter forms a bridge with two case study chapters that follow, one on elite stockbrokers Cazenove and Co., the other on Lloyd's of London. The selection of these case studies is discussed in the methodology section below. The theme of survival capitalism is adopted because of what was perceived to be at stake. The phrase comes from an interview with Sir Adam Ridley, Economic Adviser to Thatcher's Shadow Cabinet, Director of the Conservative Research Department, and subsequently Special Adviser to the Chancellor, Geoffrey Howe.[10] Quite apart from the statecraft of electoral success, the first Thatcher administration was, according to Ridley, fighting for the very survival of capitalism.[11] Equally, while the financial revolution is

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(Cambridge, 2004), pp. 31-58. Here Michie argues the City united to resist government interference in the operation of financial markets.

[9] R. Michie, *The London Stock Exchange: A History* (Oxford, 1999); Michie, 'City of London and the British government'; interview with Tim Congdon, monetarist economist, Gloucestershire, January 2017, during which Congon spoke of the inevitability of change following the 'bigger bang' of the establishment of Euromarkets in London; for Congdon on this 'bigger bang' see also D. Kynaston, *City of London: The History* (London, 2012), p. 567.

[10] Interview with Sir Adam Ridley, London, February 2017.

[11] Ibid.; for statecraft see J. Bulpitt, 'The Discipline of the New Democracy: Mrs Thatcher's Domestic Statecraft', *Political Studie*s, XXXIV (1986), pp. 19-39; J. Buller and T. James, 'Statecraft and the Assessment of National Political Leaders: The Case of New Labour and Tony Blair', *British Journal of Politics and International Relations*, 14 (2012), pp. 534-555, p. 540. The cornerstones of statecraft were identified as a 'winning electoral strategy',

traditionally depicted as a high point in the history of capitalism, this obscures the Stock Exchange's concern to survive and the different threats facing institutions and firms.

Throughout, the thesis examines the role of key actors, shows the dynamic nature of reform processes, and how they, in turn, shaped outcomes. The contingent nature of reforms comes to the fore, disrupting narratives of inevitability. Furthermore, privileging people and processes reveals intent, demonstrates the evolutionary nature of change, and uncovers a surprising awareness of the likely outcomes of reforms. As a result, Thatcherism can be better assessed on its record, and understandings of neoliberalism are improved.

The main focus is on the period between 1979 and 1986, but longer-term factors are, of course, acknowledged. They include the growth of Euromarkets from the 1950s; the collapse of the Bretton Woods system by 1973; and the gradual uptake of New Right ideas from the 1930s and throughout the post-war social democratic era.[12] Moreover, because culture and tradition played an important role in the reform process, the long history of City institutions like the Bank of England, the Stock Exchange, and Lloyd's of London are relevant. So, too, is the history of City firms, like Cazenove. Equally, the periodisation is extended forward as the Big Bang is considered as part of the legacies of Thatcherism, including the GFC. The impact of reforms on the City and the so-called 'death of gentlemanly capitalism' is examined, most especially in connection with Cazenove.[13] This focus extends the timespan into the 2000s.

'governing competence', 'party management', and 'political argument hegemony' - i.e. 'winning the battle of ideas'. Regarding the latter, regardless of whether the electorate had subscribed to the ideas, what mattered is that the Opposition thought they had, p. 543.

[12] See P. Mirowski and D. Plehwe, *The Road from Mont Pelerin: The Making of the Neoliberal Thought Collective* (London, 2009).

[13] P. Augar, *The Death of Gentlemanly Capitalism: The Rise and Fall of London's Investment Banks* (London, 2000). Augar argued that the takeover of British partnerships by usually foreign-owned, professional corporate investment banks led to the death of the City's 'amateur' gentlemanly capitalism system.

The remainder of the Introduction is structured as follows: First, objectives and central issues are set out. A discussion of definitions, conceptualisations and the wider historiography follows, before an engagement with literature relating to the Big Bang. Methodology and approach are then discussed. Thereafter follows a brief outline of individual chapters before the benefits of an approach which emphasises the making of the financial revolution are reiterated. Finally, a brief chronology of key events is provided.

Objectives and central issues

The thesis has four objectives. The first is to show the role of people and processes in the making of the financial revolution. A cultural intervention in financial history is required because modernising reforms were not implemented in a vacuum; they were not simply imposed by the Government; nor were they practitioner-led. Instead, on the one hand, they were contested, negotiated and navigated by established elites using inherited practices and traditions to do so. On the other hand, the City authorities' own traditions, hierarchies and processes delivered results. In between, cross-sector relationships entwined to ease and shape the process. The thesis argues that social relationships and cultural practices were thus an important part of the dynamic mediated reform process itself and should not be overlooked.

The second objective is related to the first. It is to show that Big Bang itself, and associated outcomes, were not inevitable but were wholly contingent on historically specific conditions. Of course, global forces mattered, but how globalisation was manifested and experienced was always mediated by the nation state which responded in accordance with its own interests.[14] The thesis will therefore privilege domestic considerations and responses to circumstances over exogenous factors.

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[14] See F. Cooper, *Colonialism in Question: Theory, Knowledge, History* (London, 2005), pp. 91-112, p. 91, p. 95, p. 112. Cooper challenges the concept of globalisation by insisting on the limits of interconnection and the on-going importance of the nation state. He suggests a

The third objective is to show that from the outset, the Government's overwhelming 'existential' concern was to get monetary policy right to ensure the very 'survival of capitalism'.[15] The thesis will consider the re-constitution of Thatcherite economic policy and argue that a thought-out macro and microeconomic policy framework acted as an over-arching philosophical guide for Thatcherism. In common with other historiographical accounts, microeconomic policy is seen to be enacted through the deregulatory measures and free market competition associated with Big Bang. Atypically, however, a link is established between Big Bang reforms and the Government's macroeconomic policy.[16] The two were explicitly linked because the conduct of policy depended on the successful sale of gilts, and as the mechanism for selling gilts was found wanting, it quickly fell under review. This was to impact the entire stock market structure. Improvements in gilt sales after Big Bang were credited to the introduction of an auction system which had been 'technically impossible prior to the change in market structure'.[17] Although understated in the historical record on Big Bang, monetary policy thus played an important role in shaping market outcomes. Conversely, the quest by and for international capital, which is generally regarded as the principal factor in driving reforms, becomes less dominant when macroeconomic policy is assessed. This leads to the fourth objective: The thesis seeks to show that capital was

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consideration of 'connections and their limits'. Equally, Glenda Sluga argues that internationalism should not be seen in opposition to nationalism but as a 'parallel' and 'interconnected' phenomenon, see G. Sluga, *Internationalism in the Age of Nationalism* (Philadelphia, 2013).

[15] Interview, Sir Adam Ridley.

[16] Unusually, Sahil Jai Dutta makes a connection between sovereign debt management and the Big Bang, see S. J. Dutta, 'Sovereign debt management and the globalisation of finance: re-casting the City of London's "Big Bang"', *Competition and Change*, 22:1 (2018), pp. 3-22.

[17] C. A. E. Goodhart, 'The Bank of England 1970-2000', in R. Michie and P. Williamson (eds.), *The British Government and the City of London in the Twentieth Century* (Cambridge, 2004), pp. 340-371, p. 361.

something to be harnessed, certainly, but that its centrality is both overstated and misunderstood.[18]

Throughout the thesis, the City emerges as a space where traditional conservatism and neoliberalism coalesced. In its dealings with the City, the Thatcher government was cautious and pragmatic. The first administration was preoccupied with the art of statecraft.[19] Yet the Government was also a creative force for free markets, and frequently made judgments about the balance between intervention and non-intervention in markets: Lloyd's stands as an exemplar of imperceptible changes leading to significant results. Rather than seeing a paradox here, the strength of the dual approach is observed, particularly as the logic of free markets formed a new political argument hegemony. Thus, one of the cornerstones of statecraft went beyond party electoral success to change the political economy consensus.[20]

Definitions, conceptualisations and the wider historiography

This section explores the many definitions of Thatcherism, contestations over the nature of conservatism, and different understandings of neoliberalism. It then examines literature on Historical Institutionalism (HI) for insights into the ways historical institutions are seen to shape and constrain change. Thereafter it engages with literature on the City in general and the Big Bang in particular.

[18] For accounts which emphasise the importance of capital see Michie, *London Stock Exchange,* p. 544; *Michie,* 'City of London and the British government', p. 50; Kathleen Burk in M. D. Kandiah, 'Witness Seminar 1, "Big Bang": The October 1986 stock market deregulation', *Contemporary British History*, 13:1 (1999), pp. 100-132.

[19] Bulpitt, 'Mrs Thatcher's Domestic Statecraft', pp. 19-39.

[20] For scholarly accounts of the 'Blatcherite' consensus see Hay, 'Credibility, Competitiveness and the Business Cycle', p. 40; Heffernan, *New Labour and Thatcherism*; Edgerton, *Rise and Fall.* For the institutionally embedded nature and 'durable' qualities of neoliberalism, see Cahill, *End of Laissez-Faire?*

Thatcherism, Conservatism and Neoliberalism

As Eric Evans notes, the 'ism' in 'Thatcherism' implies a 'coherent body of thought or ideology'. Yet although 'profoundly ideological' on one level, Thatcherism offered no 'new insights' and was better understood as 'a series of non-negotiable precepts' or 'interconnected political attitudes' rather than a 'consistent' or 'coherent' body of thought.[21] Political hallmarks included statecraft, pragmatism, flexibility, and an appeal to self-interest and individualism. Economically neoliberal, Thatcherism pursued free markets, ended controls on 'freedom', implemented a low (direct) tax regime, and rejected 'paternalism'. Its 'particular constellation of policies and values', as articulated by Nigel Lawson, involved 'a mixture of free markets, financial discipline, firm control over public expenditure, tax cuts, nationalism, "Victorian values", privatisation and a dash of populism'.[22]

David Cannadine also regards Thatcherism as 'a political phenomenon rather than a coherent philosophy'. Thatcher was not 'a Thatcherite *avant la lettre*' if 'cautious and pragmatic' key documents written in Opposition were anything to go by.[23] On the one hand, Thatcher was a conviction politician with 'core beliefs'; on the other, she was capable of compromise and spontaneity. Thatcher broke the political consensus and shifted politics to the right, yet 'achieved less than she set out to do or claimed she had done' and was also the beneficiary of 'deeper historical trends and longer-term changes'.[24] For Cannadine, these trends and apparent contradictions underscore the need for nuanced accounts of Thatcherism.

[21] E. Evans, *Thatcher and Thatcherism*, third ed., (London, 2013), pp. 2-5. Thatcherism did not offer the sort of insights associated with political ideologies like Liberalism, Marxism or Conservatism.

[22] Ibid., p. 4; N. Lawson, *The View From No. 11: Memoirs of a Tory Radical* (London, 1992), p. 64.

[23] D. Cannadine, 'Thatcher [née Roberts], Margaret Hilda, Baroness Thatcher', *Oxford Dictionary of National Biography* (2017), p. 11. Cannadine refers to *The Right Approach* and *The Right Approach to the Economy,* neither of which were 'ideological and crusading manifestos'.

[24] In terms of proclaimed achievements, public expenditure was not curbed significantly; the state was not rolled back; and attitudes towards the welfare state and enterprise economy did

Mark Bevir and Rod Rhodes have provided a helpful framework for considering Thatcherism and conservatism. They identified four different political narratives (Tory, Liberal, Whig, Socialist) and insisted that understandings of Thatcherism differed according to which political tradition was doing the narrating (and indeed which political 'dilemma' they were responding to).[25]

Within the Tory tradition, on the one hand, Jim Bulpitt emphasised continuity with party traditions due to Thatcher's electorally successful 'statecraft' strategy.[26] On the other hand, Ian Gilmour insisted Thatcherism broke with One Nation Conservatism by implementing harmful social and economic policies and failing 'to conserve the fabric of society'.[27] 'Two Nation economics' and free market ideology rendered the Party under Thatcher 'as ideological as any British political party can be while entertaining any hope of electoral success'. Notably, 'consistency was not required to measure ideological commitment'.[28] Thatcherism's inflexibility was at odds with 'Conservative pragmatism'. Moreover, as state activity was directed at 'economic liberalism', it was a mistake to attribute Thatcherism's 'strong state' reputation to a mark of Conservatism.[29] Mark Garnett and

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not significantly shift. In terms of trends and changes, political shifts to the right were widespread following the global shocks of the 1970s and early 1980s; and the shift from a manufacturing to a service economy in Britain 'would have happened whoever might have occupied 10 Downing Street', p.50.

[25] M. Bevir & R. A. W. Rhodes, 'Narratives of "thatcherism"', *West European Politics*, 21:1 (1998), pp. 97-119.

[26] Bulpitt, 'Mrs Thatcher's Domestic Statecraft', pp. 19-39. For Bevir and Rhodes, the 'commitment to strong leadership' and 'grasp of the arts of statecraft' placed Thatcher firmly within the Tory tradition, see Bevir & Rhodes, 'Narratives of "thatcherism"', p. 102.

[27] I. Gilmour, *Dancing with Dogma* (London, 1992), pp. 15-20, pp. 54-92; I. Gilmour and M. Garnett, 'Thatcherism and the Conservative Tradition', in I. Zweiniger-Barcielowska and M. Francis (eds.), *The Conservatives and British Society, 1880-1990* (Cardiff, 1996), p.80. Sir Ian Gilmour, later Lord Gilmour, was a Tory grandee and a cabinet 'wet' in the first Thatcher administration.

[28] Gilmour and Garnett, 'Thatcherism and the Conservative Tradition', p. 84. It should be noted that the assertion of a lack of ideology is also an ideological stance.

[29] Ibid., p. 91; see A. Gamble, *The Free Economy and the Strong State: The Politics of Thatcherism*, 2nd edn (Basingstoke, 1994) for an account of Thatcherism as economically liberal and conservative for its strong state credentials, especially regarding law and order.

Andrew Denham pursued these ideas, arguing the adoption of liberal ideas by senior Conservative thinker Sir Keith Joseph was indicative of the Conservative Party being 'hollowed out' by the infiltration of classical liberal ideas.[30] This challenges narratives, discussed below, that liberal ideas always formed a strand of Conservatism.

David Seawright examined the centrality of the 'One Nation' concept to Conservatism, the associated electoral advantages, and competing claims to the term by different elements of the Party over time (underscoring the politics of Gilmour's critique of Thatcherism). The One Nation Group promoted internal debate, housed 'conflicting voices', and contributed to generational change and party renewal; yet it was capable of excluding factions from the 'One Nation ethos'. Despite Gilmour's contrary assertions then, Seawright reveals a doctrinal element within Conservative politics, which challenges the notion that the party was 'non-ideological'.[31]

The place of liberal ideas within the Conservative tradition is explored within the Bevir and Rhodes' framework. Notably, David Willetts argued Thatcherism arrested economic decline by insisting on free market competition, entrepreneurialism, and a smaller role for the state. As these traditions belonged within Conservative 'mainstream' philosophy, Thatcherism simply restored them to their 'rightful place'.[32] This narrative of Thatcherism as a corrective accorded with New Right political discourse from the late 1960s that the

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[30] A. Denham and M. Garnett, 'Sir Keith Joseph and the Undoing of British Conservatism', *Journal of Political Ideologies*, 7:1 (2002), pp. 57-75. Denham and Garnett argue Joseph was not 'converted' to Conservatism when he espoused 'neoliberal' ideas in the 1970s, rather he was free to promote long-held ideas and 'specify and promote the most promising conditions for an efficient market system'.
[31] D. Seawright, *The British Conservative Party and One Nation Politics* (London, 2010). One Nation gave the 'impression that only the Party puts "Nation" before any sectional interest', thus only the Conservative Party can act on behalf of the Nation'. This 'politics of the state' was key to electoral success.
[32] Bevir & Rhodes, 'Narratives of "thatcherism"' p. 103; D. Willetts, *Modern Conservatism* (London, 1992).

Conservative party had taken a wrong course in the post-war period.[33] Because this discourse resonated with grass roots opinion, historical understandings of "Thatcher'ism'" are of a phenomenon which predated Thatcher, and was boosted by the adverse economic conditions of the 1970s.[34] This interpretation complicates Cannadine's assessment above, confirming the need for nuanced interpretations of Thatcherism.

Bevir and Rhodes' third categorisation, the Whig tradition, denoted evolutionary or progressive change. Dennis Kavanagh saw a historical shift in Thatcherism's decisive break with the post-war 'consensus', not least because the New Right's political agenda was 'difficult to reverse'.[35] The notion of a post-war consensus is disputed, however. Revisionists point away from 'Butskellism' to political difference, while others see a post-Thatcher consensus as more credible.[36] Finally, the Socialist tradition, sees Thatcherism as a politically coherent regime and a strategic response to the structural economic conditions of the 1970s. Stuart Hall introduced the concept of 'authoritarian populism', while Andrew Gamble encapsulated the meaning of Thatcherism in 'the free economy and the strong state'.[37] Both saw a disconnect between forms of traditional conservatism and Thatcherite neoliberalism.

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[33] See Keith Joseph, *Stranded on the Middle Ground?: Reflections on Circumstances and Policies* (London, 1976); Margaret Thatcher, 'Consensus- or choice?', *Daily Telegraph*, 19 February, 1969. The One Nation Group's concern to re-introduce free market policies can be dated to the 1950s, see Stedman Jones, *Masters of the Universe*, pp. 148-150.
[34] Green, 'Thatcherism: A Historical Perspective', p. 41; also E. H. H. Green, *Thatcher* (London, 2006).
[35] D. Kavanagh, *Thatcherism and British Politics: The End of Consensus?* (Oxford, 1987).
[36] For accounts which contest the post-war consensus see H. Jones and M. Kandiah, *The Myth of Consensus: New Views on British History, 1945-64* (Basingstoke, 1996); N. Rollings, 'Poor Mr Butskell: A Short Life, Wrecked by Schizophrenia'?, *Twentieth Century British History*, 5:2 (1994), pp. 183-205. For accounts of a post-Thatcherite consensus see Hay, 'Credibility, Competitiveness and the Business Cycle', p. 40; Heffernan, *New Labour and Thatcherism*; Edgerton, *Rise and Fall;* Cahill, *End of Laissez-Faire?*
[37] S. Hall, 'The Great Moving Right Show', in S. Hall and M. Jacques (eds.), *The Politics of Thatcherism* (London, 1983), pp. 23-29; Gamble, *Free Economy Strong State.*

More recent scholarly work has pushed back against the coherence of Thatcherism, emphasising the Administration's inconsistency and evolutionary policies.[38] Similarly, this thesis will point to the lack of coherence quite simply because of how policy developed, met with embedded culture and tradition, and was shaped accordingly. Having stressed the 'varieties of Thatcherism', Ben Jackson and Rob Saunders sought to historicise Thatcherism and locate it within a broad range of political, economic and cultural contexts.[39] Similarly, in his review of Tim Bale's edited collection on *Margaret Thatcher*, Saunders highlights the construction of Thatcher's 'many lives'.[40] Others have 'revisited' *Marxism Today's* 'new times' approach of contextualising Thatcherism, seeing alternatives, and therefore rejecting the inevitability of Thatcherism. This scholarship offers fresh perspectives on what the Thatcher era looks like when Thatcherism is 'de-centred'.[41]

David Marsh and Rod Rhodes have emphasised the 'implementation gap' between the Government's aims and achievements.[42] Their 'audit' of Thatcherite policies sought 'to establish the extent to which substantive change was actually achieved over the period as a direct consequence of the implementation of the declared objectives of official policies'. Despite the Government's clear objectives and substantial legislation, they emphasise the shortfall between 'rhetoric' and 'radical policy change'. This is attributed, in large part, to the unintended consequences of the Thatcherite radical agenda.

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[38] See A. Edwards, '"Financial Consumerism": citizenship, consumerism and capital ownership in the 1980s', *Contemporary British History*, 31:2 (2017), pp. 210-229; A. Davies, J. Freeman and H. Pemberton, '"Everyman a capitalist?" or "Free to Choose"? Exploring the tensions within Thatcherite individualism', *The Historical Journal,* 61:2 (2018), pp. 477-501.
[39] B. Jackson and R. Saunders, 'Introduction: Varieties of Thatcherism', in B. Jackson and R. Saunders (eds.), *Making Thatcher's Britain* (Cambridge, 2012), pp. 1-21.
[40] R. Saunders, 'Review Article: The Many Lives of Margaret Thatcher', *English Historical Review*, Vol. CXXXII, No. 556 (2017), pp. 638-658; T. Bale (ed), *Margaret Thatcher* (London, 2015).
[41] M. Hilton, C. Moores and F. Sutcliffe-Braithwaite, 'New Times revisited: Britain in the 1980s', *Contemporary British History*, 31:2 (2017), pp. 145-165.
[42] D. Marsh and R. A. W. Rhodes, *Implementing Thatcherite Policies: Audit of an Era* (Buckingham, 1992), pp. 4-10.

David Dolowitz et al also acknowledge the Government's ideologically informed agenda but they see policy implementation constrained by powerful interests, electoral and broader issues. Moreover, they suggest to attribute change to New Right ideology is to credit the Government with a coherence it did not have in 1979. They introduce the concept of 'strategic learning', based on 'the success and failure of previous policies in Britain and abroad', to better explain change.[43] The observation that policy was mediated and shaped by interest groups, resulting in continuities as well as change, resonates with thesis findings. Equally, the recognition that exogenous factors were 'to an extent, subject to manipulation by government', accords with the argument in Chapter One, that the Government harnessed international capital for its own purposes, as opposed to being simply subjected to external capital pressures.

Stephen Farrall and Colin Hay demonstrate the evolutionary nature of Thatcherism by assessing the Government's radicalism. They argue the Government was radical from the outset, but 'cautiously' and sporadically so. Early radicalism was confined to key policy domains - associated either with the (narrated) crisis of state or the 'consolidation of a social base'. A lull preceded subsequent radicalism - when the Government took on 'core elements of the public sector'. Thereafter, 'targeted' reform of the criminal justice system was a response to 'the unintended spill-over effects of earlier radicalism in other policy areas', which had fuelled crime. Accordingly, the notion of a 'consistently strategic project unfolding over time in distinct waves' is rejected.[44]

Michael Oliver and Hugh Pemberton introduce the concept of 'policy learning' to chart the evolutionary process of 'paradigm change' from social democracy to New

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[43] D. Dolowitz et al, 'Thatcherism and the 3 "Rs": Radicalism, Realism and Rhetoric in the Third Term of the Thatcher Government', *Parliamentary Affairs*, 49:3 (1996), pp. 455-469, p. 469.
[44] S. Farrall and C. Hay (eds), *The Legacy of Thatcherism: Assessing and Exploring Thatcherite Social and Economic Policies* (Oxford, 2014), p. 333.

Conservatism. They stress the importance of 'new economic ideologies' in public discussion; show how 'ideas helped shape change and were shaped by the climate of opinion, which steadily moved away from the Keynesian paradigm' by the end of the 1970s; and how the 1979 election acted as an 'endogenous shock' which then allowed 'further evolution' and lasting change.[45]

On the relationship between Thatcherism and neoliberalism, Jamie Peck and Adam Tickell privilege the 'power of ideas' while drawing attention to 'neoliberalism's "domestic" characteristics'. Despite its 'diffuse ideological form' and 'transnational aspects' they insist neoliberalism is 'grounded' in 'local political economies' as part of a 'politically constructed project'. In Britain, neoliberal intellectuals 'shap[ed] and sustain[ed] the Thatcherite project' by '*translating*' embedded ideas into 'digestible domestic policy practices…deliberately stretching…the politically feasible'. The 'logical coherence', coupled with Thatcher's own political style, made for a peculiarly British form of neoliberalism, with a 'distinctive narrative force'. The Thatcherite project was one of 'ideological restructuring': It began with 'contestation'; broke with consensus and 'previous strands of conservative thought'; and state restructuring amounted to a new '*destructively creative* social order'. Essentially, Peck and Tickell (like Garnett and Gilmour) see Thatcherism's 'programmatic intent and inspiration' providing an underlying coherent ideology, even if the actual 'program of government' was not coherent.[46]

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[45] M. Oliver and H. Pemberton, 'Learning and Change in 20th Century British Economic Policy', *Governance*, 17:3 (2004), pp. 428-32.
[46] J. Peck and A. Tickell, 'Conceptualizing Neoliberalism, Thinking Thatcherism', in H. Leitner, J. Peck and E. Sheppard (eds.), *Contesting Neoliberalism: Urban Frontiers* (New York, 2007), p. 40, p. 46.

Robert Ledger explores the relationship between Thatcherism and the different schools of neoliberal thought.[47] He sees financial deregulation as ‘a pure application of neoliberal ideas’;[48] and Thatcherism’s assault on vested interests as a neoliberal reform (because vested interests were perceived to have the power to distort markets). While this thesis also emphasises the ideological nature of financial reforms, it seeks to expand this perspective by showing additional explanatory factors, and it further complicates by showing institutional efforts to protect British firms from foreign competition, regardless of free market ideals. In respect of the City, Ledger attributes Thatcherism’s variable success in challenging vested interests to the rise of new ‘more potent vested interests’ after the demise of the ‘clubby City’. While thesis case studies are not representative of the City as a whole, they do fundamentally disrupt narratives of the Thatcher government taking on vested interests.

Ben Jackson shows how aspects of neoliberalism were adopted by Britain’s main political parties before Thatcherism. In so doing, he emphasises ‘varieties of neo-liberalism’, and the ‘astounding ideological success of neo-liberalism in Britain’. Success was due in part to neoliberalism’s ‘affinity with long-standing anxieties about the character of the British state and its increasing involvement in corporatist economic management’. But equally, neoliberalisms were durable, could mutate, and be ‘absorbed and championed by political actors who were embedded in the pre-existing ideological and institutional fabric of democratic debate’. The power of ideas was then ‘capable of directing and legitimating neoliberal rule’. If ‘diverse’ neoliberalisms were capable of ‘substantial political influence’ in general, for Thatcherism specifically, monetarist ideas held political appeal because they ‘re-

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[47] R. Ledger, *Neoliberal Thought and Thatcherism: ‘A Transition from Here to There?’* (London, 2017). Ledger argues for ‘its attempt to use the state towards a more liberal economy and society’, Thatcherism most closely resembled Friedmanite neoliberalism.
[48] In terms of Thatcherism prioritising wealth creation and efficiency, lowering barriers to market entry, exposing British firms to competition, and increasing individual liberty, p. 82.

tasked' the state, allowing it to target inflation by controlling the money supply, and divest itself of responsibility for employment.[49]

In terms of definition, neoliberalism is regarded as a 'slippery' concept due to its pervasive nature.[50] It has 'snuck up' and appears to be everywhere.[51] It is variously understood 'as a hegemonic ideology, a state form, a policy programme, an epistemology, and a version of governmentality'.[52] Broadly speaking, it is understood as 'the extension of competitive markets into all areas of life, including the economy, politics and society'; however, neoliberalism's dynamic and hybrid nature prevents any 'pure' form or agreed conceptual definition.[53]

Given that neoliberalism is 'anything but' a 'clearly defined political philosophy', Dieter Plehwe and Philip Mirowski sought to chart its gradual historical development and

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[49] B. Jackson, 'Currents of Neo-liberalism: British Political Ideologies and the New Right, c. 1955-1979', *The English Historical Review*, 131:551 (2016), pp. 823-850, p. 849, p. 838; Bulpitt 'Mrs Thatcher's Domestic Statecraft'. Jackson notes neoliberalism was a doctrine which was not 'opposed to the state per se, but one that was pursuing "the disenchantment of politics by economics"' (see William Davies, *The Limits of Neo-liberalism*, (London, 2014)). Essentially, on the basis that efficient markets produced liberating outcomes for individuals, democratic decision-making became less important than pursuing free markets. See also Foucault's explanation of 'a state under the supervision of the market rather than a market supervised by the state', in Foucault's 'History of Neoliberalism', in L. Downing (ed.), *After Foucault: Culture, Theory and Criticism in the 21st Century* (Cambridge, 2018), p. 49.

[50] S. Springer, K. Birch and J. MacLeavy (eds.), *The Handbook of Neoliberalism* (Abingdon, 2016), p. 1.

[51] S. Pederson, "Shock Cities', *London Review of Books*, 42:1, January 2020.

[52] Springer, Birch and MacLeavy, *Handbook of Neoliberalism*, p. 1; see Cahill on the dimensions of neoliberalism, https://www.worldeconomicsassociation.org/newsletterarticles/cahill-neoliberalism/ (accessed 11 June 2019); T. Lemke, '"The birth of bio-politics": Michel Foucault's lecture at the Collège de France on neo-liberal governmentality', *Economy and Society*, 30:2 (2001), pp. 190-207; R. Venugopal, 'Neoliberalism as a Concept', *Economy and Society*, 44:2 (2015), pp.165-87. Johal et al have recently described governmentality as a form of 'capillary power' (being socially pervasive and internalizing restraints, it produces a 'docile subjectivity') which they say financial elites harnessed from the time of Big Bang until the Financial Crisis, see S. Johal, M. Moran and K. Williams, 'Power, Politics and the City of London after the Great Financial Crisis', *Government and Opposition*, 49:3 (2014), pp. 400-425. They describe the Great Moderation, which refers to the period of financial boom from the mid 1980s until 2007-08.

[53] Springer, Birch and MacLeavy, *Handbook of Neoliberalism*, p. 2.

'different theoretical approaches'.[54] They argue neoliberalism is best understood 'as a transnational movement' which developed over time before achieving a degree of coherence and power. They insist neoliberalism 'must be approached primarily as a historical "thought collective" of increasingly global proportions'.[55] This lens shows the 'intricately structured long-term philosophical and political [nature of the] project'.[56] Key doctrines were monetarism, supply side economics, minimal government, privatisation, deregulation, and financial and trade liberalization.[57] Daniel Stedman Jones describes this form of transatlantic neoliberalism as 'The free market ideology based on individual liberty and limited government that connected human freedom to the actions of the rational, self-interested actor in the competitive marketplace.'[58] Set against the background of the postwar Keynesian consensus, Stedman Jones argues the uptake of neoliberal ideas was not inevitable but wholly contingent on the crisis of the existing settlement in the 1970s, the availability of and appetite for alternative ideas, and the relative weakness of the Left.[59] Rachel Turner also examines neoliberalism's intellectual origins, considers the specific contexts in which ideologies evolved, and how 'borrow[ed] ideas from the past [were] then 'reinterpret[ed] on a new ideological terrain'. Despite its many 'different strands', Turner argues neoliberalism's

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[54] Mirowski and Plehwe, *Road from Mont Pelerin*. The origins of neoliberalism were rooted in opposition to 'collectivism and socialism' and the need 'to develop an agenda diverging from classical liberalism', p 6.
[55] Ibid., p. 4. Mirowski and Plewhe discuss the foundations and different schools of neoliberal thought, reveal differences on specific issues, and highlight the role of the collective in overcoming differences in order to promote widely 'the merits of neoliberal reasoning'. 'Their capacity to jointly develop and widely disseminate neoliberal knowledge is due to a set of shared values and principled beliefs, which allow community members to effectively communicate across disciplines and audiences in the pursuit of hegemonic strategies', p. 35.
[56] Ibid., p. 426.
[57] Ibid., p. 8.
[58] Stedman Jones, *Masters of the Universe*, p. 2.
[59] Ibid., pp. 215-272.

identity rests on core concepts - the market; (limited) welfare; the constitution; and property rights.[60]

Peck reminds us of the ‘dialogic’ way in which neoliberalism is reproduced, and that each example of ‘neoliberalism in practice’ is dependent on historically and geographically specific conditions.[61] For Peck, the term ‘neoliberalization’ best captures neoliberalism’s ‘shape-shifting’ qualities and its nature as an ongoing project. It is ‘always concerned’ with ‘first seizing and then re-tasking the state’, and thereafter with the necessary ‘regulatory re-structuring’ required of a utopian project which is unattainable in ‘pure’ form.[62] Peck’s concern to show how neoliberalization works in a range of settings and registers calls attention to the ‘hidden hands’ of actors behind neoliberal reforms and influences upon them. This resonates with the thesis objective: to show the role of people and processes in the making of the financial revolution.

Finally, on the vagueness of the term neoliberalism, William Davies notes its many-faceted nature which renders the concept ‘both intriguing and infuriating’. It is used by detractors as a term of abuse, or to denote conspiracy, while lacking proper definition. Accordingly, Davies sees merit in understanding neoliberalism ‘in terms of its origins, early protagonists, networks of intellectual coordination and animating political anxieties’.[63] Given its ‘contradictory and polymorphic’ nature, Peck resists attempts to reduce neoliberalism to ‘some singular essence’ such as ‘hard-boiled Thatcherism’. It is better understood by following its ‘*movements*’ and - in an effort of historical geography - by attempts ‘to triangulate between its ideological, ideational, and institutional currents, between philosophy,

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[60] R. Turner, *Neoliberal Ideology: history, concepts and policies* (Edinburgh, 2008), p. 217. Thereafter various ‘adjacent and peripheral’ concepts emanate from the core.
[61] J. Peck, *Constructions of Neoliberal Reason* (Oxford, 2010), p. 6.
[62] Ibid., p. 7.
[63] W. Davies, ‘The making of neo-liberalism’, *Renewal*, 17:4 (2009), p. 88.

politics and practice'. While this perhaps offers a way of understanding a specific neoliberal project, the larger interconnected project continuously evolves.[64]

Peck credits David Harvey with the less ambiguous interpretation of neoliberalism as a 'class project'.[65] Harvey's is a materialist critique of elite responses to the crises of social democracy and authoritarian communism respectively, which saw the restoration of economic power to the richest in society at the expense of the poorest. Neoliberalism is thus perceived as a programme of 'accumulation by dispossession' which necessarily increased social inequality.[66] The 'merit' of this interpretation is that 'it accurately identifies the political opportunities and social forces that enabled neoliberalism to conquer the heights of public policy-making'.[67] Moreover, rather than necessarily representing a distinct perspective, materialist critiques can complement scholarship which emphasises the role of ideas in the rise of neoliberalism. Peter Hall, for example, notes that macroeconomic policy 'tends to favour the material interests of some social groups to the disadvantage of others'; the 'struggle for power and resource' is a key element of policy framework, even if 'hidden or highly mediated'.[68]

Historical Institutionalism

HI is concerned with 'the role of institutions in political life'. It explores the ways in which 'several variables - institutions, ideas, and interests - [interact] in the determination of

[64] Peck, *Constructions of Neoliberal Reason*, p. 8.
[65] Ibid., p. 32; D. Harvey, *A Brief History of Neoliberalism* (Oxford, 2010).
[66] Harvey, *Brief History of Neoliberalism*.
[67] Jackson, 'Currents of Neo-liberalism', p. 823
[68] P. A. Hall, 'The movement from Keynesianism to monetarism: Institutional analysis and British economic policy in the 1970s', in S. Steinmo, K. Thelen, and F. Longstreth (eds.), *Structuring Politics: Historical Institutionalism in Comparative Analysis* (Cambridge, 1992), pp. 90-113, pp. 94-95. Regarding the 'paradigm' shift from Keynesianism to monetarism, Hall argues social conflicts were mediated by institutions 'that channelled contention in certain directions, privileged some actors at the expense of others, and profoundly affected the balance of power at any one time'. Institutions also shaped the way groups perceived their interests and the relative power with which interest were pursued.

political outcomes'. As institutions are associated with routines and incentives for types of behaviour, they 'contribute to the very terms in which the interests of critical political actors are constructed'; by supporting the activity and views of certain groups they 'affect the power with which the interests of key social groups are pressed'. National institutions are commonly associated with regularities and routines which 'impose a measure of continuity on policy over time'. But equally, they can 'filter new information' and 'act as vehicles' for ideas and intentions. Or they may alter behaviour in ways which give rise to unintended consequences.[69]

The re-orientation of the economy under Thatcher is understood by Hall as a 'revolution in ideas best captured by the concept of *policy paradigms*'. Based on 'relatively coherent' interpretations of how the economy should work, policy paradigms refer to 'an overarching set of ideas that specify how…problems…are to be perceived, which goals might be attained through policy and what sorts of techniques can be used to reach those goals'.[70] 'Change was 'rooted' in Thatcherism's 'coherent vision associated with monetarist economics' and was supported by 'the institutional framework that characterizes the British polity and policy processes'.[71] Hall argues 'the institutions associated with economic policy-making in Britain did not fully determine any of the outcomes', but they did play a 'crucial mediating role' by helping to 'structure the flow of ideas and the clash of interests in ways

[69] Hall, 'From Keynesianism to monetarism', pp. 90-91. The concept of institutions refers to 'formal rules, compliance procedures, and customary practices that structure the relationships between individuals in the polity and economy', p. 96. Institutions are broadly categorised as: organizational structures which have constitutional functions; state specific institutions which help structure the state; and public organisations, pp. 96-97.
[70] Ibid., p. 91.
[71] Ibid., p. 106. Including state institutions which supported 'capitalist relations of production'; the two-party political system and cabinet government; and, notably, the media as an institution.

that had a significant impact on these outcomes'.[72] The thesis observes the same mediating role of institutions in the making of the financial revolution.

The relationship between ideas, interests and institutions in the development of policy is complicated by disagreement in the field of Comparative Political Economy about the weight each variable is accorded, and the intertwined nature of the variables.[73] Accordingly, Hall recommends incorporating insights about the role of ideas, the importance of coalitions and the structure of the economy into particular studies. Insights might be that, notwithstanding material circumstances, interests may shift and form new coalitions, particularly in response to political contention or new economic ideologies;[74] or that 'interests have to be derived from a process of interpretation'.[75] Colin Hay stresses the interplay between interests and ideas in periods of 'punctuated equilibria' and the need to identify interests on an ongoing basis. Hay also recommends 'an analysis of the material and ideational determinants of moments of crisis and the conditions of successful crisis narration' in paradigm change.[76] For Hall, the reasons why interests are interpreted in particular ways, and some ideas triumph in politics 'emerge[s] from an iterated process of interaction between potentially new interpretations of interests and existing ones, mediated by the institutions that structure political competition and allocate cultural authority within the relevant

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[72] Ibid. p. 91, p. 104.
[73] P. A. Hall, 'The Role of Interests, Institutions and Ideas in the Comparative Political Economy of the Industrialized Nations', in M. I. Lichbach and A. S. Zuckerman (eds.), *Comparative Politics: Rationality, Culture and Structure* (Cambridge, 1997), pp. 174-207.
[74] Ibid., p. 189.
[75] Ibid., p. 197.
[76] C. Hay, 'Ideas, Interests and Institutions in the Comparative Political Economy of Great Transformations', *Review of International Political Economy*, 11 (2004), pp. 204- 226, p. 205, p. 223. Punctuated equilibria describe the process by which 'relatively lengthy periods of institutional stasis are punctured periodically by intense and cathartic bouts of crisis'. Hay notes that some political systems - e.g. the two-party system - are 'more prone to crisis-engendered institutional change than others'. See Chapter One for Hay on crisis and Thatcherite narration of crisis.

communities'.[77] Here culture is conceived not as a set of values but as 'cognitive templates' and 'strategies for action…that can influence behaviour…by providing the basic templates through which…possibilities are construed'.[78] Institutions therefore have an important cultural role in the promotion and interaction of ideas and interests. For the thesis, the significance of culture is thus broadened to take account of the above, in addition to culture conceived of as sets of values, traditions and belief systems.

Policy networks are conceptualised as venues within which interests and institutions contest and shape the implementation of ideas as policy. By mapping policy networks onto case studies, Hugh Pemberton shows how existing policy paradigms can be overwhelmed by networks which promote alternative policy analysis and prescriptions. Networks may be so extensive as to form 'meta-networks', consisting of those from within and outside government. Pemberton finds that a new consensus ('that the old policy is no longer useful') can be formed without necessarily leading to regime change. This suggests that 'third order change', which is associated with wide societal debate, electoral competition and change, is better understood 'in terms of its networks'; and that examining 'complex and fluid' policy networks improves our understanding of the workings of British polity. While policy networks do not 'explain change' (in HI terms they are not an 'independent variable' like ideas, interests or institutions), Pemberton argues they are 'a particularly important *intermediate* variable, for change is brought about *via* policy networks'. In short, given their responsiveness to previous policy and new ideas, for widening the 'policy environment' and promoting new prescriptions, networks are highly capable of influencing key decision-

[77] Hall, 'Role of Interests, Institutions and Ideas', p. 198; P. A. Hall, *The Political Power of Economic Ideas: Keynesianism across Nations* (Princeton, 1989).
[78] Hall, 'Role of Interests, Institutions and Ideas', p. 194.

makers.[79] As networks played an important role in the reform process these prove important insights.

Rod Rhodes defines policy networks as a 'cluster or complex of organizations connected to one another by resource dependencies'.[80] Power relations within policy networks therefore rest on the exchange of resources, characterised by the 'power-dependence model'.[81] This sees power shift according to the particular context or issue, and challenges the 'zero-sum concept of power' associated with the Westminster model (where power is fixed to a person or institution).[82]

Martin Smith uses the 'power-dependence model' to demonstrate the significance of power resources within government. He demonstrates the variable power of the prime minister; the relative power of actors within the core executive, depending on their resources and the particular issue at stake; and the high degree of mutual dependency.[83] The model

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[79] See H. Pemberton, 'Policy Networks and Policy Learning: UK Economic Policy in the 1960s and 1970s', *Public Administration*, 78:4 (2000), pp. 771-792, p. 771, p. 789. Policy learning builds on Hall's concept of 'social learning' and the insight that actors and networks 'learn' from their policy experiences. It maps the sequences whereby policy paradigms change. Hall identifies different orders of change, from first to third, and associates the latter with regime change. See P. A. Hall, 'Policy Paradigms, Social Learning and the State', *Comparative Politics*, 25:3 (1993), pp. 275-296.

[80] R. A. W. Rhodes, *Understanding Governance: Policy Networks, Governance, Reflexivity and Accountability* (Buckingham, 1997), pp. 37-38. Organizations range in type from 'tightly integrated policy communities to loosely integrated issue networks'. Rhodes distinguishes between analysis at the 'macro-level', which centres on intergovernmental relations; at the 'meso-level', on linkages between the centre and sub-central organizations; and at the 'micro-level', which centres on the behaviour of individual actors or organizations.

[81] Ibid., p. 11. Rhodes argues power-dependence is a key feature of policy networks: 'The distribution, and type, of resources within a network *explains* the relative power of actors…The different patterns of resource-dependence *explain* differences between policy networks'.

[82] Ibid., p. 5. The Westminster model focuses on 'parliamentary sovereignty; strong cabinet government; accountability through elections; majority party control of the executive (Prime Minister, cabinet and the civil service); elaborate conventions for the conduct of parliamentary business; institutionalized opposition; and the rules of debate'.

[83] M. Smith, 'Interpreting the Rise and Fall of Margaret Thatcher: Power Dependence and the Core Executive', in R. A. W. Rhodes and P. Dunleavy (eds.), *Prime Minister, Cabinet and Core Executive* (Basingstoke, 1995), pp. 108-124. Smith defines power as relational and 'dependent on interaction rather than command', underscoring the need for the exchange of

provides useful insights for analysis of City reforms which were undoubtedly influenced by inter-governmental (and external) power relations, where the balance of power shifted over time or according to the issue at stake, the Office of Fair Trading (OFT) case being a good example.[84]

Institutional path dependency describes a 'social process grounded in a dynamic of "increasing returns"' or 'positive feedback loops'.[85] Although path dependency effects can prevent or channel change, they are strongly associated with continuity. Thus, institutional change, when it occurs, is seen to emanate from a 'critical juncture' or 'triggering event', usually an exogenous shock.[86] Path dependencies are associated with the sharing and reproduction of 'similar ideology', as groups incorporate 'confirming' and reject 'disconfirming' information. This resonates with an interviewee's experiences of implementing Thatcherite policies and the perceived significance of feedback loops to the Thatcherite project.[87]

However, in a critique of path dependency's reliance on 'punctuated equilibrium models of institutional change', Kathleen Thelen and Wolfgang Streeck insist 'institutional change is *incremental* and cumulatively *transformational*'.[88] Rather than occurring only infrequently in response to exogenous shocks, they argue change emanates from within on a more gradual and regular basis. Clashes over interests, for instance, see actors pursuing new

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'power resources' within government. He argues Thatcher's growing 'indifference to dependency relations' with cabinet significantly contributed to her downfall, p. 121.

[84] See Chapters One and Two for power relations between the DTI, the Treasury, the Number 10 Policy Unit, and the Bank.

[85] P. Pierson, 'Increasing Returns, Path Dependence and the Study of Politics', *American Political Science Review*, 94:2 (2000), pp. 251-267, p. 251.

[86] This gives rise to the concept of 'punctuated equilibrium', as the equilibrium of an institution is seen to be punctured.

[87] See Chapter One for Lord Burns discussing the importance of feedback loops.

[88] W. Streeck and K. Thelen (eds.), *Beyond Continuity: Institutional Change in Advanced Political Economies* (Oxford, 2005), p. 2.

ways of meeting their objectives;[89] change may be the unintended consequence of struggles;[90] and political coalitions, re-alignments and on-going negotiations are constant features of institutions.[91] Thelen therefore rejects 'a deterministic picture of institutional "lock-in"' and proposes 'an alternative perspective that underscores the contested nature of institutional development' and the 'political dynamics' that drive change.[92]

The City

Turning to the City, historians have emphasised its diverse nature and have therefore cautioned against portrayals of a monolith or unified City interest.[93] The City is nevertheless a term used as shorthand for the myriad of firms and service sectors which engage in forms of financial mediation.[94] It was Geoffrey Ingham who observed the commonality between firms which performed this intermediary role, regardless of their individual functions. For that reason, and the associated factor that City profits derived overwhelmingly from fees and commissions, Ingham conceptualised the City as 'primarily a centre of commercial capital'.[95] Moreover, as the City made money from services which facilitated (often international) production, rather than invested in productive national industries, in *Capital Divided* Ingham emphasised the division between finance and industry. In so doing, he built on Perry Anderson's contention that landed and financial interests had merged to form an aristocratic

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[89] Ibid., p. 19.
[90] J. Mahoney and K. Thelen, *Explaining Institutional Change: Ambiguity, Agency and Power* (Cambridge, 2010), p. 23.
[91] K. Thelen, *How Institutions Evolve: The Political Economy of Skills in Germany, Britain, the United States, and Japan* (Cambridge, 2004), p. 31.
[92] Ibid.; see also Mahoney and Thelen, *Explaining Institutional Change*, p. 31.
[93] P. Williamson, 'The City of London and government in modern Britain: debates and politics', in R. Michie and P. Williamson (eds.), *The British Government and the City of London in the Twentieth Century* (Cambridge, 2004), pp. 5-30, p. 11.
[94] Equally, the thesis employs the term 'practitioner' for financial intermediary.
[95] G. Ingham, *Capital Divided? The City and Industry in British Social Development* (Basingstoke, 1984); G. Ingham, 'Commercial Capital and British Development: A reply to Michael Barrett Brown', *New Left Review*, 172 (1988), pp. 45-66.

elite which subordinated industrial interests.[96] This thesis employs Ingham's useful conceptualisation of the City, but its case study of Cazenove suggests a far closer and altogether less binary relationship between finance and industry than Ingham or other Marxist historians asserted in what became known as the 'financial capitalism' thesis. The case study also discusses the allied concept of 'gentlemanly capitalism' which was introduced by Peter Cain and Antony Hopkins to explain the social and political drivers of British imperialism, and the associated inhibition of domestic industrial development.[97]

Within the literature on the City, the Big Bang is generally seen as a paradigm shift: By ending restrictive practices and allowing new entrants, the City is understood to have become more open and meritocratic from 1986, something regarded as a hallmark of Thatcherism.[98] The Big Bang sat alongside competition policy and privatisation as part of an overarching agenda to promote free market competition and secure a smaller role for the state.[99] Meanwhile Thatcherism established a discourse of taking on entrenched interests alongside its crusade to enfranchise the many.[100] John Redwood's account of taking on the City and liberating ordinary people is discussed in Chapter Four. It is perhaps unsurprising, therefore, that historians have been sympathetic to the argument 'Thatcherism was not especially friendly to the "gentlemanly" part of "gentlemanly capitalism"'.[101] However, Ewen Green demonstrated a close relationship between the Conservatives and the City in this

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96 P. Anderson, 'Origins of the present crisis', *New Left Review*, 23 (1964), pp. 26-53.
97 P. J. Cain and A. G. Hopkins, *British Imperialism: Crisis and Deconstruction 1914-1990* (London, 1993).
98 See G. Stewart, *Bang*: *A History of Britain in the 1980s* (London, 2013), pp. 223-261.
99 See Gamble, *Free Economy Strong State.*
100 For attitudes to the City see R. Vinen, *Thatcher's Britain: The Politics and Social Upheaval of the 1980s* (London, 2009); for popular capitalism see M. Francis, '"A Crusade to Enfranchise the Many": Thatcherism and the "Property-Owning Democracy"', *Twentieth Century British History*, 23:2 (2012), pp. 275–297.
101 See S. Howe, 'Decolonisation and imperial aftershocks: The Thatcher Years', in B. Jackson and R. Saunders (eds.), *Making Thatcher's Britain* (Cambridge 2004), pp. 234-251, p. 240.

period.[102] Similarly the thesis finds Thatcherism much less hostile to the un-meritocratic City than is often assumed. It also finds Thatcher closer to City actors and more involved in City-impacting policy than expected. For these reasons, and because ideological Thatcherism (as expressed by Redwood) was constrained in practice by cultural as well as practical considerations, the concept of gentlemanliness remains pertinent. Alongside new more meritocratic practices, gentlemanly practices will be shown to have persisted.

The City's 'hegemonic' position in British society was attributed to its position in the 'City-Bank-Treasury nexus'. Ingham saw this as the 'core' of institutional power in Britain.[103] This conceptualisation is helpful for seeing power and influence in terms of mutual interests - essentially the need by all parties to preserve orderliness and monetary stability.[104] The relative position of any one party to the nexus was less significant than the sum of the whole and could, anyway, shift over time. The thesis employs the concept of the City-Bank-Treasury nexus as part of its concern with dynamic relationships between actors and institutions and how they shaped reforms. It also extends the nexus to consider the role of other parties and government departments.[105] Although the thesis does not see 'capital divided', it notes Ingham's argument about financial capital that 'the existence and control' of market assets mattered more than their actual 'ownership'. This corresponds with thesis findings about markets themselves: That the existence of a central stock market and therefore control of that market mattered more to the authorities than the actual ownership of trading institutions. This is discussed in Chapters One and Two where stark choices are shown. It will be argued that the survival of the central market ensured central control resided with the authorities and was crucial in shaping regulatory reforms.

[102] E. H. H. Green, 'The Conservatives and the City', in R. Michie and P. Williamson (eds.), *The British Government and the City of London in the Twentieth Century* (Cambridge, 2004), pp. 153-173, pp. 171-173.
[103] Ingham, *Capital Divided*, p. 9.
[104] Ibid., pp. 9-11.
[105] For example, industrial interests and the DTI.

Philip Augar argued that the legacy of Big Bang was 'the death of gentlemanly capitalism'.[106] Foreign ownership; institutions run by managers not owners; the shortcomings of gentlemanly amateurs; and a failure to protect the City during the financial revolution collectively contributed to this and created a 'Wimbledonisation' effect, whereby the securities game was conducted on English turf, but was dominated by foreign players. Augar also argued that the introduction of corporate-owned integrated investment banks adversely affected long-term industrial development because banks were anxious to reward shareholders regularly.[107] Interestingly, this argument implicitly rejects the financial capitalism thesis by dating short-termism to the post-Big Bang era and finding a discrepancy with what came before. By showing the continuance of gentlemanly practices, the thesis disrupts the notion that gentlemanly capitalism 'died'. It also disputes the charge of a lack of protection, revealing the efforts to protect the City (including Lloyd's) from international competition. The extent of protectionism shown will complicate understandings of Thatcherism and the application of neoliberal ideas. The attitude toward the City was not one of laissez-faire, whatever happened subsequently.

Reading the Big Bang: Historical narratives

The inevitability of Big Bang reforms has been asserted by historians who consider either the emergence of Euromarkets from the 1950s or the abolition of exchange controls in 1979 as explanatory causes. The notion of one Big Bang defining moment has thus been disputed.[108] In his impressive history of the City, David Kynaston described how the establishment of

[106] Augar, *Death of Gentlemanly Capitalism*.
[107] Leila Talani also makes this argument, insisting on the 'institutional structure of short-term trading', see L. Talani, *Globalization, Hegemony and the Future of the City of London* (Basingstoke, 2012), pp. 203-204.
[108] For the role of Euromarkets see N. Ferguson, *High Financier: The Lives and Time of Siegmund Warburg* (London, 2010); Kynaston, *City of London: History,* pp. 567-568. For the impact of the abolition of exchange controls see Burk in Kandiah, 'Witness Seminar 1, "Big bang"'; Michie, *London Stock Exchange,* p. 548.

Euromarkets in London enabled foreign currency, mostly US dollars, to be deposited in and traded by the City free from exchange controls, allowing parts of the City to operate like an offshore centre.[109] This freeing of capital was attributed to market forces, astute practitioners (famously Siegmund Warburg), and, importantly, the circumvention of regulations.[110] An oral history for this thesis complicates the narrative by arguing that the UK Treasury worked with merchant bankers and took a 'conscious strategic decision' to establish the Eurobond market in London. It did so by insisting that Eurobonds should be paid to non-UK residents gross of UK tax. This was a networked approach by a cross-sector group of actors to establish the market; everyone 'threw their hats in the air when we did it', to celebrate the occasion.[111] This example speaks to literature on neoliberalism regarding the making of markets, the importance of ideas and individual actors, and also the pragmatic harnessing of market forces for material benefit.[112]

Equally, it was argued the abolition of exchange controls made reform 'inevitable' because, with capital freed, London's largely domestic stock market was subject to outside competition.[113] This was Ranald Michie's contention in his three-hundred-year history of the Exchange which provides historical context for the Big Bang.[114] Although not an official history, Michie's account was discussed with former Chairman Sir Nicholas Goodison and,

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[109] See D. Kynaston, *The City of London: Vol. 4: A Club No More, 1945-2000* (London, 2002), pp. 696-697.
[110] See Ferguson, *High Financier*; Kynaston, *City of London: History*, pp. 567-568.
[111] Interview, Sir David Walker; see also 'Mighty Eurobond market celebrates 50th anniversary', *Euroweek*, 28 June 2013, https://www.icmagroup.org/About-ICMA/history/history-of-the-eurobond-market/ (accessed 11 June 2019).
[112] For accounts of the influence of ideas in the emergence of neoliberalism see Stedman Jones, *Masters of the Universe*; Mirowski and Plehwe, *Road from Mont Pelerin.* For the making of markets see P. Mirowski, *Never Let a Serious Crisis Go To Waste, How Neoliberalism Survived the Financial Crisis* (London, 2013). For the role of think tanks in the rise of neoliberalism see R. Cockett, *Thinking the Unthinkable: Think tanks and the Economic Counter-Revolution, 1931-1983* (London, 1995), p. 5.
[113] See Burk in Kandiah, 'Witness Seminar 1, "Big bang"'.
[114] Michie, *London Stock Exchange.*

from an archival perspective, drew on Stock Exchange council minutes (the only records Michie said he 'could manage').[115] Unfortunately, the absence of other sources creates an imbalance in the historical record. Michie is sympathetic to Goodison's attempts to modernise the Exchange and dismisses 'any plan by the Thatcher government to reform Britain's financial services and increase the competitive power of the City'.[116] This assessment is contradicted by subsequently released government papers (and Bank records).[117] The argument that the Government's decision to abolish exchange controls in 1979 was unplanned, independent of City pressure, and taken 'without any real appreciation of the consequences for the City' is also problematic.[118] It gives insufficient weight to ideational factors, such as the influence of the Institute of Economic Affairs (IEA) publication, *Exchange Controls For Ever?,* on Geoffrey Howe;[119] to the work of the Treasury and Bank since the collapse of Bretton Woods;[120] and the role of City interests, such as the Committee on Invisible Earnings, which has been demonstrated by Aled Davies.[121]

It was the competitive disadvantage of Exchange firms, compared with highly-capitalised foreign firms, which made reforms inevitable, according to Michie.[122] Even so, domestic firms were protected by restrictive rules on market entry. As Michie later conceded in a joint paper with Christopher Bellringer, a 'tipping point' was required to catalyse change.[123] It was the abolition of fixed commissions as part of Big Bang reforms that

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[115] Ibid., Acknowledgments.
[116] Ibid., pp. 593-594.
[117] See MTFW, PREM19/1461 f194, 29 June 1984, 'Redwood & Willetts minute to MT ("The City") *[overview of policy] [declassified Dec 2014]'*, http://www.margaretthatcher.org/document/137012 (accessed 23 July 2016).
[118] See Michie, 'City of London and the British government', pp. 49-50.
[119] G. Howe, *Conflict of Loyalty* (London, 1994), pp. 140-141.
[120] See F. Capie, *The Bank of England: 1950s to 1979* (New York, 2010), p. 702; Lawson, *View From No. 11*, pp. 36-39.
[121] Davies, *City of London and Social Democracy.*
[122] Michie, *London Stock Exchange,* p. 544; *Michie,* 'City of London and the British government', p. 50.
[123] Bellringer and Michie, 'Big Bang in the City of London'.

produced the 'essential element' which opened the Exchange to global and technological change.[124] This argument was used to uphold the inevitability of reforms, as opposed to their contingency. Even after the release of official papers, Bellringer and Michie saw nothing to connect the reform process and 'even less' the consequences of Big Bang to 'any conscious decision by the Conservative government whether through the actions of its politicians or officials'.[125] Neither did they see anything to suggest that Big Bang was 'the product of City influence with the deliberate intention of making London into a global financial centre'.[126] They concluded instead that the Big Bang was the result of a series of 'unintended consequences'. The assessment of the archival records for this thesis will point to rather different conclusions.

The thesis argues that to seek a 'plan' for the City surely misses the nature of the Government's overarching free market (microeconomic) agenda; its desire to reform market mechanisms to accommodate gilt sales for macroeconomic purposes; and even the City's own role in shaping change. By demonstrating how these and other considerations shaped reforms, the thesis hopes to show why arguments that the Big Bang was unplanned and even amounted to 'an act of betrayal' of the City by the Government, are problematic.[127] The approach of seeing market liberalisation from various vantage points, including practitioners', shows a cross-section of active participants. Rather than government reforms being something which simply happened to the City, or were driven by the City, the process

[124] In HI terms, suggesting the Government had 'no plan' but that events triggered outcomes which then generated a momentum for change suggests 'path dependency'; the argument that the end of fixed commissions represented a 'tipping point' is consistent with HI's concept of 'slow moving causal processes and outcomes' which can result in 'tipping points'. See K. Thelen and S. Steinmo, 'Historical Institutionalism in Comparative Politics', in S. Steinmo, K. Thelen and F. Longstreth (eds.), *Structuring Politics: Historical Institutionalism in Comparative Politics* (Cambridge, 1992), p. 2.
[125] Bellringer and Michie, 'Big Bang in the City of London', p. 132.
[126] Ibid.
[127] See Michie, 'City of London and the British government', p. 51; Augar, *Death of Gentlemanly Capitalism,* p. 312.

emerges as altogether more dynamic, interactive and contingent. Even so, an evolutionary process does not necessarily equate to unforeseen consequences. As Chapters One and Two will show, likely outcomes of reforms were anticipated.

Other historical accounts have variously attributed responsibility for reforms to the Government, the Bank, and the City. Michael Moran emphasised the state (government and Bank) driven nature of reforms as part of a quest for international competitive advantage.[128] He observed state 'intervention' in the construction of markets, and a process of regulatory reform, rather than deregulation per se.[129] Others have emphasized the role of states in driving 'competitive deregulation' to achieve financial hegemony, with Itzhak Swary and Barry Topf, and Eric Helleiner specifically equating this with a Thatcherite policy of deregulation to reverse economic decline.[130] While these accounts privilege international perspectives which were undoubtedly of concern to state actors and larger internationally-focused financial operators, they underplay the domestic circumstances facing the Exchange and government, including the Government's macroeconomic concerns. By shifting to the domestic, the thesis seeks to show multi-agency responses to circumstances, and outcomes shaped accordingly. Even though the thesis will argue that reforms were state driven, it will also show practitioner agency and negotiated settlements. It will therefore insist on nuance rather than binary explanations.

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[128] M. Moran, *The Politics of the Financial Services Revolution: The USA, UK and Japan* (Basingstoke, 1991), p. 67. Moran argues that foremostly the Bank is an instrument of the state rather than the advocate of the City. There is a body of literature on this key debate which the thesis engages with when considering the role of the Bank in Chapter Two. (Similarly, literature on Lloyd's will be assessed in Chapter Five on Lloyd's).

[129] Moran, *Politics of the Financial Services Revolution,* pp. 1-7; M. Moran, 'The State and the Financial Services Revolution: A Comparative Analysis', *West European Politics*, 17:3 (1994), pp. 158-177. Here Moran also emphasised the role of the Bank, which he says was motivated by the desire to cement London's status as a world financial centre.

[130] S. Vogel, *Freer Markets, More Rules: Regulatory Reform in Advanced Industrial Countries* (New York, 1996); E. Helleiner, *States and the Reemergence of Global Finance, from Bretton Woods to the 1990s* (New York, 1994); I. Swary and B. Topf, *Global Financial Deregulation: Commercial Banking at the Crossroads* (Oxford, 1992).

An alternative perspective to state agency was offered by Leila Talani and Aled Davies who both emphasised the City's role in achieving reforms. Davies demonstrated the City's material interest in abolishing exchange controls and his account therefore implicitly challenges the 'betrayal' narrative.[131] Talani subscribes to the financial capitalism thesis and sees City hegemony achieved through 'pragmatic adaptation' which culminated in advantageous structural changes.[132] This speaks to the kind of social engineering which will be discussed in relation to Cazenove and to the embedded nature of change.[133] This brings us to the legacies of the Big Bang and Thatcherism.

The 'death of gentlemanly capitalism' thesis resounds with the 'culture shock' of change, broadly associated with a more open meritocratic City and the associated phenomenon of 'the yuppie'.[134] Culture shock is certainly evident in a cultural history of the City. Nevertheless, as Chapter Four will show, there was a significant degree of continuation, as well as change, and adaptation by elites and newcomers alike. Moving to responsibilities for subsequent financial crises, unlike Bellringer and Michie, Christopher Kirkland attributed the GFC to 'the policies of Thatcherism', linking the Crisis with Big Bang reforms.[135] Similarly, the thesis will demonstrate an awareness of likely outcomes, including greater market volatility, and argue the Thatcher government cannot, on the basis of 'unintended consequences', be absolved from its share of responsibility.[136]

Compellingly, David Edgerton argued that the Thatcher government presided over a shift from a closed domestic economy to an economy which embraced international

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[131] Talani, *Globalization*; Davies, *City of London and Social Democracy.*
[132] Talani, *Globalization*, p. 2, pp. 202-204.
[133] The institutionally and socially embedded changes resonate with Cahill, *End of Laissez-Faire?*
[134] See Stewart, *Bang*, pp. 223-261, p. 258.
[135] C. Kirkland, 'Thatcherism and the origins of the 2007 crisis', *British Politics,* 10:4 (2015), pp. 514-535.
[136] Bellringer and Michie argue that as the Thatcher government did not plan reforms it cannot be held responsible for the outcomes, including the Great Financial Crisis, 'Big Bang in the City of London', pp. 132-133.

capital.[137] This is indisputable in terms of outcomes. But the thesis seeks to disrupt accounts which chart a march toward international capital.[138] It does so by restoring *intent* to the history of capitalism, for instance by showing the Government's nationalist, protectionist tendencies, and that its domestic policy concerns (not its international aspirations) helped shape the new market structure. In terms of outcomes, Edgerton emphasises the 'Blatcherite' consensus.[139] The thesis also sees Thatcherite 'political argument hegemony' transcend party to become institutionally, structurally, and socially embedded in the political mainstream.[140]

Methodology and approach

The structure and practices of the Exchange meant that market-makers - the stockjobbers - had relatively limited capital to strike deals compared with international houses. However, would-be competitors were restricted from dealing in the central market and there were measures to contain capital weaknesses. Nevertheless, in the context of free-flowing capital, greater capitalisation was regarded as vital by many. This fed into the narrative of inevitability which, retrospectively, has assumed significant importance to historians and practitioners. At the time, however, just as the argument for capital was made it was also contested, even by the Bank. Clearly, the opportunities and threats posed by international capital mattered, but this dominant narrative has subsumed other important considerations.

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[137] Edgerton, *Rise and Fall*, Chapter 19, 'A Nation Lost', pp. 466-494.
[138] See also Ledger, *Neoliberal Thought and Thatcherism*.
[139] Edgerton, *Rise and Fall*, p. 507. For an account which challenges this 'consensus' see M. Smith, 'Globalisation and the Resilience of Social Democracy: Reassessing New Labour's Political Economy', *The British Journal of Politics and International Relations*, 16:4 (2014), pp. 597-623.
[140] For statecraft see Bulpitt, 'Mrs Thatcher's Domestic Statecraft', pp. 19-39; Buller and James, 'Statecraft and the Assessment of National Political Leaders', p. 540. Regarding 'political argument hegemony', although the electorate did not necessarily subscribe to Thatcherite ideas, what mattered is that the Opposition thought they had, p. 543.

The legal case brought against the Exchange by the OFT for restrictive practices, for example, is frequently regarded as having simply delayed change.[141] Instead, it was an important part of the reform process which saw actors negotiate and shape change. Its settlement even provided the conditions for Bellringer and Michie's 'tipping point'. Equally, macroeconomic policy is missing from accounts which emphasise the link between microeconomic free market competition and Thatcherite ideology. Yet, as Chapter One will show, getting monetary policy right was crucial to the Thatcherite project and domestic concerns, unsurprisingly, over-rode international considerations. Perhaps the main reason that insufficient attention has been paid to macroeconomic policy is because the Exchange was regarded as predominantly the market for equities and the introduction of supply side free market reforms was rationale enough for change. Reform of the equity market undoubtedly over-shadows attention to gilt market reforms, but the oversight is a mistake. After all, the Government did pay considerable attention to the gilt market mechanism, and the way that improvements were envisaged had a direct impact on the overall reform process.

The thesis examines key institutions before introducing its case studies on Cazenove and Lloyd's of London. Chapter Three on the Stock Exchange acts a bridge, with the second half of the chapter discussing responses to reforms by practitioners from a relatively wide selection of firms. This is appropriate as neither Cazenove nor Lloyd's are representative of the City's reform experiences so conclusions based on these cases alone risk biasing research results. That said, they have been deliberately selected to show what anomalies or outliers can do to enhance our understandings of Thatcherism and the implementation of neoliberalism as a geographically specific political project. As extreme examples they show how institutional reforms were contested, navigated and shaped rather than cleanly applied.

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[141] Michie, *London Stock Exchange*, p. 594; Burk in Kandiah, 'Witness Seminar 1, "Big Bang"', p. 130. Both these accounts were informed by conversation with chairman of the Stock Exchange, Sir Nicholas Goodison, who strongly adhered to this view; interview with Sir Nicholas Goodison, London, March 2018.

Furthermore, parliamentary debate on the 1986 Financial Services Bill (FSB) was dominated by Lloyd's which was subject to re-regulation under the Bill, just like the Stock Exchange and other institutions, before it was granted special exemptions by the Government. Lloyd's unique reform and rescue process, when compared to that of the Exchange, furthers our understandings of regulation, capitalism, markets and brakes on the application of neoliberalism under Thatcherism. Foremostly, it challenges the idea that the Thatcher government was committed to thorough-going City reform. Equally, evidence that Cazenove navigated reforms by using networks, inherited traditions, and social practices disrupts narratives of wholesale change and indicates areas in which Thatcherism had limited reach. Moreover, evidence that Cazenove's networks extended to government, and that its approach to Big Bang was celebrated by those at the heart of government, contradicts narratives of Thatcherism seeking to challenge vested interests. A hallmark of ideological neoliberalism was not applied in practice.[142] Meanwhile, Cazenove is unusual for having deposited its archive which offers rare insights into how a major City firm responded to financial reforms.[143] Analysing responses to reform processes is an integral part of the thesis focus on the *making* of the financial revolution.

The thesis is built on a detailed reading of numerous archival sources, combined with the extensive oral histories which form a fundamental part of the research. The fusing of archival and oral accounts throughout offers a distinct approach which speaks particularly to the cultural theme. The practice of writing history in this way is a methodological intervention which brings to the fore the generally unrecorded. In particular, this lens reveals networks and spaces of significance and offers insights into the way things worked and how people felt about their experiences.

[142] See Ledger, *Neoliberal Thought and Thatcherism.*

[143] The Cazenove archive was deposited by JP Morgan Cazenove at the Guildhall Library in 2007 and is accessed at the London Metropolitan Archive (LMA).

The archival records on which the thesis relies have mostly been released after the majority of the existing historiography. Michie's reliance on Stock Exchange records, in the absence of official records, shows how using one main source can make for a one-sided history, however much care is taken. In particular, the reliance on council minutes is problematic as minutes are not neutral: They are a political instrument in that they offer a version of information which has been carefully selected, crafted, and disseminated as historical fact by an organisation. Discussion is filtered, and records cannot adequately convey either the views of a diverse membership or interactions with outside institutions. Perhaps unsurprisingly, the historical argument reflects the views of the former chairman, Sir Nicholas Goodison.[144] Despite these problems, Michie has provided the historical context for Big Bang, and, importantly, by using its records, has made available a semi-official account of an elite organisation which has failed to publicly deposit its archive.[145] Likewise, Lloyd's does not release archival material. Requests to access some of its records for the purpose of this thesis were politely denied (over coffee in the Lloyd's coffee house) by in-house lawyers.[146]

Clearly, even after more than thirty years, there are significant gaps in the archives. The release of government papers redresses this to some extent, and the Margaret Thatcher Foundation Website (MTFW) and the private papers of key actors provide important material.[147] However, the DTI was the department with official responsibility for the design

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[144] This assessment is based on a two-and-a-half-hour interview with Sir Nicholas Goodison, London, March 2018, and recordings from the British Library *Sound*s collection.
[145] While some private papers relating to the OFT case are held at the Guildhall, official records on the Stock Exchange have not been deposited for most of the second half of the twentieth century. Accordingly, papers relating to the Big Bang are not available.
[146] Discussion with Peter Spires, General Counsel; subsequent meeting with Christalla Andrews, Solicitor and Manager Commercial Team, and Peter Welch, Lloyd's of London, January 2018.
[147] At interview in February 2017, Sir Adam Ridley provided personal files which had yet to be deposited with other his personal papers which are held at the Churchill Archives Centre, Cambridge.

of reforms and for carrying through the legislation. It ceded responsibility for financial services, and therefore files, to the Treasury in 1991 and, at some point, these files were mislaid.[148] It has been necessary to overcome these problems by gathering archival information sideways on: DTI records routinely turn up in Treasury files; Treasury files, particularly tax files, are an excellent source of correspondence for Lloyd's, as are Bank of England records. Exchange records are found in the Treasury and Bank files. They are also supplemented by the impressive business archive on Cazenove at the LMA, which contains official Exchange (and Bank) documents and, as discussed, the firm's responses to them. Looking at Treasury records has been an important exercise in its own right for throwing light on what was, after all, the most powerful of government departments.[149] Until now, Treasury records and intentions have been largely overlooked in the history of Big Bang, yet in oral histories key actors attested to the department's significance.[150] The thesis is able to test these claims against the official record and so provide important new perspectives. Having to think creatively about the archives has therefore been productive.

The thesis also introduces the newly formed Douglas French Archive (DFA) which is comprised of the records of Westminster and City Programmes (WCP) conferences.[151] Douglas French was a former Special Adviser to Geoffrey Howe, a former chairman of the Bow Group, which was reinvigorated under his leadership, and was the Conservative MP for Gloucester from 1987-1997.[152] French established WCP in 1979 to foster 'interaction and

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[148] Information from Chris Collins, Director of the Margaret Thatcher Foundation.
[149] See A. Davies and C. Walsh, 'The Role of the State in the Financialisation of the UK Economy', *Political Studies*, 64:3 (2016), pp. 666-682, p. 666; I. Budge et al, *New British Politics* (Abingdon, 2007), p. 571; Lawson, *View From No. 11*, p. 383, p. 386.
[150] Interviews with Lord Burns, London, January 2017; Ian Plenderleith, London, February 2018; Sir David Walker, London, March 2018.
[151] The DFA was constructed from WCP records, obtained from Douglas French in 2017, and held at the University of Birmingham's Cadbury Research Library (CRL).
[152] For French's role in the Bow Group see J. Barr, *The Bow Group: A History* (London, 2001), pp. 158-161. As a member of the Conservative Research Department, French was also involved in Fentiman Road meetings which 'drew the threads [of Conservative fiscal policy]

communication' between Westminster and the City of London. In 1983 he resigned as a Special Adviser to spend more time on this business interest.[153] The Archive was acquired by the University of Birmingham's Cadbury Research Library in 2017, initially in connection with this thesis. It opens to the wider research community in January 2020. The relationship which French sought to foster between Westminster and the City was depicted quite deliberately in the design of the WCP logo:

Figure .1 Westminster and City [Programmes] logo

> *Legend: [t]he left hand arm of the W represents the spires of Westminster, where the House of Commons makes decisions and passes legislation which affects the business of financial institutions and their customers. The right hand arm represents the City, originally symbolised by the Stock Exchange tower and more recently by Canary Wharf, where the business of many financial institutions is conducted. The interaction and communication between the two provides the context and subject matter for most of our conferences. The single bar connecting them represents the continuous flowing of the River Thames or the continuous stream of financial regulation…the W logo is also an impressionistic combination of the Parliamentary portcullis and the scales of justice.*[154]

The WCP was conceived then as a way to foster communication between senior politicians and senior practitioners. Often conferences were based on Green or White Papers

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together' in 1978, see D. Needham, in MTFW, 17 January 2012, 'Economy: "Fentiman Road: Drawing the Conservative fiscal policy threads together in 1978" *[study of Conservative economic planning in Opposition]'*, https://www.margaretthatcher.org/document/114053 (accessed 1 August 2019).

[153] MTFW, PREM19/1043 f104, 11 April 1983, 'Appointments: HMT letter to No.10 ("Special Advisers")*[response to reports of appointments of William Hague, Robin Harris and Douglas French] [declassified 2013]'*, https://www.margaretthatcher.org/document/128539 (accessed 6 June 2019).

[154] Logo designed sometime after the company was established in 1979, reproduced here with the kind permission of Douglas French. See Westminster and City Programmes website, https://www.westminsterandcity.co.uk/about-us/ (accessed 19 July 2018).

‘and timed to take place within formal periods of consultation, thus contributing to the consultative process itself’. Legislators and regulators were granted space to ‘explain and expound’ their ideas and proposals, while practitioners could ‘feedback’ on the implications of change.[155] The very concept of WCP speaks to the mediated reform process discussed throughout the thesis. The DFA contains a wide range of conference speeches by politicians including ministers, and practitioners including Exchange council members. Speeches and discussion were recorded.[156] Venues were among the important meeting spaces where policy and process were discussed, and reforms shaped. They were chosen for their conducive atmosphere; lunches were convivial affairs, and the Government was acutely interested in what practitioners had to say.[157] WCP records show the evolutionary and responsive nature of reforms and, importantly, provide a wealth of contemporaneous accounts. As much of the historic record is based on retrospective oral accounts, the contemporary serves to balance retrospection.

The thesis concentrates on these networks of association across City, government and beyond, borrowing insights from HI to do so.[158] The focus is on *relationships* between people, practices and ideas, all of which re-casts Big Bang as a dynamic cultural process rather than an event resulting simply from the imposition of neoliberal ideas. In addition to culture conceived as ‘cognitive templates’ and ‘strategies for action’ which enable institutions to play an important cultural role in the promotion and interaction of ideas and interests, the thesis also borrows from interpretivist approaches in Cultural Political

[155] Ibid., Our history.
[156] As of June 2019, oral recordings are available for conferences which took place during and after 1988. Recorded conferences include those on ‘The Future of Stock Exchanges’ and ‘City Regulation’.
[157] This is implicit from officials’ attendances at WCP conferences, and explicit in Chancellor Lawson’s request for a detailed account of practitioners’ views from a separate conference held in Oxford in 1986, as discussed in Chapter One.
[158] Including that institutions themselves determine interests and policies, rather than merely act to formulate or implement policy, see Thelen, ‘Historical Institutionalism in Comparative Politics’.

Economy, wherein culture is seen as a process which mediates between agency and structure.[159] The focus on beliefs, meanings, social structures, and subjectivities allows change to be better understood. The approach allows City spaces to be considered as sites of conformity and persuasion as well as competitive places which were reshaped by new alignments between actors. In terms of neoliberalism, the cultural approach mediates between explanations which centre on the role of ideas, ideology and actors, and those which emphasise the institutionally embedded nature of neoliberalism.[160]

As well as being based on archival evidence, oral histories are used throughout the thesis. Twenty-four people were interviewed for the project.[161] The thesis has drawn on oral history methodologies, recognising the strengths and limitations of oral accounts, and the particular issues surrounding elite testimonies.[162] David Richards has highlighted the problem of elites potentially deceiving the interviewer, and even themselves, and for the need to be alert to the fact that the information supplied may be 'highly subjective' and possibly misleading.[163] Claims made in interviews are therefore matched against interviews with other interviewees and the written record.

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[159] See J. Best and M. Paterson, *Cultural Political Economy* (Oxford, 2010); W. A. Jackson, *Economics, Culture and Social Theory* (Cheltenham, 2009).
[160] For example, between Mirowski and Plehwe, *Road from Mont Pelerin*, and Cahill, *End of Laissez-Faire?*
[161] Supplementary use was also made of British Library *Sounds* and University of London recordings. See British Library *Sounds* collection, Banking and finance, https://sounds.bl.uk/Oral-history/Banking-and-finance (accessed 11 June 2019); University of London, School of Advanced Study, B. Attard, *London Stock Exchange oral history: interview with David LeRoy-Lewis,* http://sas-space.sas.ac.uk/2596/ (accessed 1 August 2018).
[162] This was necessary as participants, defined by their former occupations, include the Secretary of State for Trade and Industry; the Chief Economic Adviser and Permanent Secretary at the Treasury; the Chairman of the London Stock Exchange; the Chairman of Lloyd's of London; members of the Court of the Bank of England; the deputy Government Broker; bankers, stockbrokers and stock jobbers; government officials; monetarist economists; Lloyd's names and members of the Lloyd's council or secretariat.
[163] D. Richards, 'Elite Interviewing: Approaches and Pitfalls', *Politics*, 16:3 (1996), pp. 199-204. Richards warns interviewees may 'adjust their interpretation of an event in order to avoid being seen in a poor light or, in some cases, they may have an axe to grind. Thus, the

Paul Thompson, a key contributor to this field, is renowned for capturing the voices of the 'financial elite of the City of London'.[164] He argues that oral histories are useful to establish 'repeated patterns of everyday life', to show how systems worked and for the connections between 'home and work, politics and culture', including how these were 'mediated' by influences such as parents, school, the media, and culture.[165] Such recollections have generally proven more accurate than actual recall of specific events. As this suggests, interviews have revealed informal networks and everyday practices, even if accounts of the event of Big Bang require careful interpretation. It has been necessary to be mindful that the preserved record – the recollection of or anecdote about Big Bang – has been 'chosen', that the story is often well-rehearsed, and even the subject of written memoirs. Even so, such accounts are helpful for what they reveal about power structures, as understandings, myths and even untruths provide useful insights into thoughts and ideologies.[166]

The shift from oral history, understood by Ronald Grele, as 'the interviewing of eye witness participants in the events of the past for the purposes of historical reconstruction', to narratives which are today understood as 'socially, culturally and psychically constructed', owes much to post-structuralist and feminist scholarship with its emphasis on discourse

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interviewer must constantly be aware that the information the interviewee is supplying, can often be of a highly subjective nature. In the extreme, an interviewee may deliberately set out to mislead or falsify an issue or event', p. 201.

[164] P. Thompson, *Voices of the Past* (Oxford, 1978); P. Thompson, 'The Pyrrhic Victory of Gentlemanly Capitalism: The Financial Elite of the City of London, 1945-90', Part 1, *Journal of Contemporary History*, 32:3 (Jul., 1997), pp. 283-304; P. Thompson, 'The Pyrrhic Victory of Gentlemanly Capitalism: The Financial Elite of the City of London, 1945-90', Part 2, *Journal of Contemporary History*, 32:4 (Oct., 1997), pp. 427-440; P. Thompson, 'Oral History and the Historian', *History Today*, 33:6 (June 1983).

[165] Thompson, 'Oral History and the Historian', pp. 27-28; Thompson, *Voices of the Past*, p. 220.

[166] Thompson, 'Oral History and the Historian', p. 26; Thompson, 'Pyrrhic Victory', Part 1, p. 287.

analysis.[167] Joan Scott argued that stories provide people with 'the means by which…[to] constitute themselves' and this makes subjectivity an important area which can be explored through the language employed in an interview. Subjectivity thus becomes an important methodological tool, rather than a hindrance to achieving objectivity.[168]

Methodologies from sociology, anthropology, psychology and linguistics have all been employed by scholars to understand 'the narratives of memory' and the 'relationships between identity, memory and personal narrative'.[169] Luisa Passerini showed, through her work on Italian fascism, how 'silences, discrepancies and idiosyncrasies of personal testimony' reveal the influences of culture and ideology on interviewees, as well as how dominant narratives capture history.[170] This is pertinent because in practice, silences sometimes accompanied a contrary position, or instances when an interviewee was critical of an actor. Methodological insights helped develop discussions around such matters. Equally, the observation about dominant narratives applies to the discourse of inevitability surrounding the financial revolution and helps show how this has subsumed other explanations. Elsewhere, Alessandro Portelli argued that 'memory is not a passive depository of facts, but an active creation of meanings', while Katherine Blee noted that 'meanings are created in social and political context; memory is not a solitary act'.[171] These insights were pertinent generally but especially acute on the few occasions when joint interviews were conducted. The social and performative aspects of an interview undoubtedly differed when there were three actors instead of one-to-one discussion between interviewer and interviewee.

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[167] P. Summerfield, 'Oral History as an Autobiographical Practice', p.2, https://miranda.revues.org/8714 (accessed 1 December 2016), citing R. Grele 'Directions for Oral History in the U.S.', (1973), in D. K. Dunaway and W. K. Baum (eds.), *Oral History: An Interdisciplinary Anthology* (Plymouth, 1996), p. 63.
[168] Summerfield, 'Oral History as an Autobiographical Practice', pp. 4-5; J. Scott, 'The Evidence of Experience', in *Critical Inquiry*, 17:4 (1991), pp. 773-797.
[169] R. Perks and A. Thomson (eds.), *The Oral History Reader* (London, 1998), p. ix, p. 5.
[170] Ibid. p. 3.
[171] Ibid., p. 335.

Blee also shows how narratives are affected by political bias and how stories are moderated for the interviewer or in accordance with later norms and censure.[172] Her observations can be applied to interviews with financial elites whose accounts are moderated, in part, by the need to respond appropriately to the GFC and ongoing concerns about banking regulation.

Feminist writers, including Sheila Rowbotham, Joan Sangster, and Joan Scott, have revealed the relationships between 'language, power and meaning', to draw attention to women in history and frameworks constraining them.[173] Their findings are universally important. Sangster recommends interviews are interrogated to 'unearth the underlying assumptions or "problematic" of the interview'. Thus, who is speaking, about which event and with what agenda is important, as are subtexts and silences. Attention should be paid to how views - for example about class, gender, and race - can be revealed by the narrative form. Regarding gender, while there are few women in this history of the City, dialogue in Chapters Four and Five helps to reveal structural barriers to their entry. Oral testimonies in Chapter Four suggest the ongoing importance attached to class (in the supposedly meritocratic City) and point to performative aspects in the shaping of personal identity. Meanwhile, forms of social engineering are discussed throughout the thesis. In terms of race, while this is a history of elite white men, the Empire (and war) assumes considerable importance to their cultural history, even though people of colour are notable for their absence.

Scholars have suggested that narrative forms offer information about the construction of memory: the epic suggests a story of drama and struggle, while the anecdote often signals a well-rehearsed account. Asking interviewees to revisit the anecdote and explore certain aspects in greater detail was a way to overcome some of its problematics. The thesis had

[172] K. Blee, 'Evidence, empathy and ethics: Lessons from oral histories of the Klan', in Perks and Thomson, *Oral History Reader*, pp. 333-343. In Blee's study, a lack of reflexivity and justification was part of the overall story of white supremacy.
[173] See Perks and Thomson, *Oral History Reader*, p. 4, pp. 88-90.

hoped to employ feminist scholarship as a way to disturb accounts which focus on how socially-elite men were propelled into the City and afforded, in Thompson's words, 'a route to masculine power'.[174] The lens of masculinity proves important as women are notable for their relative absence from the record, even well into the 1980s, and this is reflected in the thesis.[175] Only one woman provided an oral history and her recollection of Reconstruction and Renewal at Lloyd's is gendered very differently from the 'heroic' accounts voiced by male interviewees. Rather than thriving on the adversity, she described a 'traumatic' time, physical debilitation, and of feeling 'all tight again' when reading about and recalling events even twenty years later.[176] Another woman who agreed to be interviewed wished to discuss only the generalities of City life in the 1980s, was concerned not to give the name of her firm, and subsequently withdrew from the process before the interview took place. Men were altogether more relaxed about coming forward, were not afraid to discuss their firms or experiences, and were prepared to offer controversial views.

Oral history methodology, with its 'interdisciplinary reflections on interview relationships and ways of interpreting oral testimony', offers important insights for this qualitative research.[177] The thesis focus is on interpretation rather than recall, textual analysis, and 'the linguistic and "performative" aspects of the interview'.[178] Attention is also paid to the dynamics of individual interviews, and how stories are 'mediated' between interviewee and interviewer.[179] Oral histories permeate the thesis and offer more reflexive accounts than those usually associated with City/government histories. Of particular importance is their

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[174] Thompson, 'Pyrrhic Victory of Gentlemanly Capitalism', Part 1, p. 304.
[175] See M. Roper, *Masculinity and the British Organization Man since 1945* (Oxford, 1994); J. Tosh, 'The History of Masculinity: An Outdated Concept?', in J. H. Arnold and S. Brady (eds.), *What is Masculinity? Genders and Sexualities in History* (London, 2011).
[176] Interview with Irene Dick, London, December 2017.
[177] Perks and Thomson, *Oral History Reader*, p. 5.
[178] R. Grele, 'Movement without aim: methodological and theoretical problems in oral history', (1975), in Perks and Thomson, *Oral History Reader*, p. 3.
[179] See Thompson, *Voices of the Past*, p. 219.

means to explore networks of association which do not form part of the written record. Networks even applied to the interview selection process, as interviewees were met during networking opportunities, or resulted from personal introductions, and because introductions begat introductions. One oral history participant also engineered entry to Lloyd's and provided records which had been withdrawn from The National Archives.[180] Finally, oral histories help fuse together culture, politics and economics, allowing a 'thicker' more multi-layered analysis than accounts which do not privilege cultural experience.

In terms of the interview sample, because of the gendered and white British ethnic profile of the 1980s City, overwhelmingly interviewees were privileged white men. While the majority were over the age of seventy, several were in their fifties and sixties. Many were privately educated and, more often than not, had attended university, usually Oxford or Cambridge. Some were grammar school boys who tended to have entered the City as graduates. One or two were neither privately nor grammar school educated and had joined the City around the age of fifteen. Some had done national service, either taking a break from or delaying entry to the City, and one had been in the Guards. Several interviewees had established City family pedigrees; most notably the former Deputy Government Broker was the fifth generation to work at Mullens, the Government's broker. Even where there was no family connection, older participants frequently demonstrated considerable loyalty to their firms.

Interviews were conducted at participants' homes; at banks or institutions where, occasionally, interviewees traded but more often held executive positions; or at London clubs, where women are now permitted. One interviewee, who spoke of having advanced in

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[180] Andrew Duguid afforded access and kindly provided a copy of the Neill Report which was on long-term recall from TNA by a Government department; Cm 59, *Regulatory Arrangements at Lloyd's: Report of the Committee of Inquiry*, HMSO (London, January 1987), Chairman: Sir Patrick Neill, QC, (hereafter *The Neill Report*).

the more meritocratic City, even procured an interview room at the National Gallery. Using a national institution for these purposes, spoke to findings about new forms of elitism and social engineering, which coexisted and fused with persistent forms of gentlemanliness. My interviewees were very generous with their time and hospitality.

Thesis outline

The thesis consists of five chapters: The Government, the Bank of England, the Stock Exchange, Cazenove, and Lloyd's of London. The institutions, firms, people and markets discussed are inter-connected in various ways, as is the theme of survival capitalism which applies universally. Chapter One examines the Thatcher government's re-constitution of macro and microeconomic policy and its fight for the 'survival of capitalism'. The chapter emphasises the importance of ideational factors and the overarching free market philosophy which informed the Government's approach. Ideas and ideology were crucial in shaping financial reforms. However, as the thesis provides new material about the impact of the Government's macroeconomic policy on the City, this is the chapter's main focus. Two parallel but interconnected motivations for reforms are therefore observed. City policy was tied up with macroeconomics from the outset, as the execution of monetary policy depended on control over the quantity and timing of the sale of government debt. As gilt-edged strikes had threatened to bring down governments, gaining autonomy was a form of statecraft, to be achieved by a new market mechanism for debt sales. This directly impacted the Stock Exchange jobbing system by introducing dual capacity trading by auction. The focus on gilts shows, first, that domestic concerns - centred on funding the PSBR and meeting monetary targets - drove reforms; this challenges discourses about international capital driving change. Second, that the acknowledged price for the preferred auction system (or, if you like, statecraft) was greater volatility in financial markets, which the Government imagined could

be ‘managed’ by having significantly more capital in the system. Capital requirements (set by government) to alleviate volatility is at variance with the narrative that jobbers needed more capital to compete with international firms. That they did so was of secondary order and that argument is to misunderstand the Government’s agenda. The Chapter considers the Thatcher government’s role in the origins of subsequent financial crises, how it shifted the political economy consensus and, consequently, the options understood to be available to New Labour. The chapter also captures the dynamic nature of the reform process; although they were government-led, practitioners could and did shape reforms.

Chapter Two on the Bank of England shows that reforms emanated from the Government and the Bank and demonstrates the latter’s key role. In so doing, it refutes the official discourse of practitioner-led reforms. Detailed planning by the Bank (in its own capacity and as tasked by the Government) challenges the notion that the Big Bang was the ‘unintended consequence’ of government action. Furthermore, the objective of protecting British interests shows that far from embracing international capitalism, there was a preoccupation with British nationalism. The degree of intervention and awareness also undermines the narrative of ‘betrayal’ associated with the ‘death of gentlemanly capitalism’, even if protection measures ultimately proved insufficient. A story of adaptation, resistance, and compromise shows that even for the authorities, Big Bang was not simply a matter of implementing ideologically driven reforms and key actors and networked solutions come to the fore. The Bank’s primary concern was that control of the central market should reside with the authorities. Trading through and not around the Stock Exchange was therefore essential. Ultimately, the Exchange was protected because the survival of the central capital market was at stake. Findings relating to survival capitalism disrupt accepted rationales for reforms. In particular, the need for greater capitalisation is qualified; strengthening London as a world financial centre emerges as a late-stated objective; while the ‘inevitability’ of new

trading systems becomes more nuanced. Altogether, by showing the constructed nature of markets, the chapter contributes to understandings of neoliberalism as well as the process of financial reforms.

Chapter Three introduces the Stock Exchange. It acknowledges international imperatives for reform but concentrates on local responses, both to exogenous pressures and domestic circumstances. Domestic realities and processes leading to Big Bang come to the fore. On account of monopolistic practices, the Stock Exchange rule book was referred by the OFT to the Restrictive Practices Court (RPC) in February 1979 when Labour was in government. Accordingly, future trading practices rested on the outcome of a court hearing (likely to be adverse as practices were undoubtedly restrictive) or on an out of court settlement (requiring government intervention). The chapter shows how key actors achieved the latter, delivered as the Goodison-Parkinson Accord in 1983, using networks which spanned key institutions and government departments.[181] Thereafter, networks were used in varieties of ways to shape the reform process. The culture of the Stock Exchange is examined, with a focus on the Floor which held particular meaning for practitioners as a site of belonging as well as the location, and therefore embodiment, of the market. The way in which practitioners understood and sought to shape reforms after the Accord is shown using newly available contemporaneous conference records which also cast light on the nature of relationships between City and government. The opportunities and threats perceived by practitioners and enterprises are revealed, with Barclays offered as a mini case study to show the rationale behind its foray into integrated investment banking. The network approach re-casts Big Bang as a dynamic process which met and was shaped by embedded culture and practices. As the contingent nature of the process becomes evident, the chapter challenges the

[181] The Goodison-Parkinson Accord is named after the then Chairman of the Stock Exchange, Sir Nicholas Goodison, and the then Secretary of State for Trade and Industry, Cecil Parkinson.

narrative of 'inevitability' and offers a cultural history as a corrective to teleology. In terms of Thatcherism, the City was a place where traditional conservatism and neoliberalism co-existed. Statecraft was always a priority; it initially dictated caution, but the political argument hegemony of free markets permeated and shifted statecraft.

Chapter Four considers elite Stock Exchange brokerage Cazenove's response to financial reforms. It demonstrates the importance of embedded culture and traditions in the City by showing that neoliberal reforms and international pressures were not applied in a vacuum but were confronted, navigated, and shaped in the process, by actors using established social networks and inherited practices. The chapter shows how privilege and hierarchy were sustained by elite networks; that innovation and tradition coexisted; and established relationships became more important after Big Bang. The analysis not only challenges the 'death of gentlemanly capitalism' thesis, but also complicates the established financial capitalism narrative by demonstrating (albeit in a limited sphere) a mutually supportive relationship between finance and industry. This opens up new areas for research. In terms of Thatcherism and neoliberalism, by showing why neoliberal ideas could not be consistently applied, the chapter adds to scholarly work which denies the coherence of the Thatcherite project.

Chapter Five considers Lloyd's of London. At the time of the City revolution, it had secured a private Act of Parliament. It was then excluded from the FSB and consequently from regulation by the Securities and Investment Board (SIB) on the basis of being at the forefront of regulatory legislation. Yet, ironically, the private Act was in response to and then failed to prevent scandals. The Chapter again shows the dynamic ways in which established interests and Thatcherism responded to each other. Lloyd's exploited its networks, particularly with government (from whom it also recruited) to secure legislation and trade advantages, and to retain tax benefits. Ultimately, in the 1990s, Lloyd's was an early example

of an institution too big to fail and networked assistance ensured the survival of this capitalist institution. The chapter draws attention to tensions between tradition and modernity at Lloyd's and sees parallels within conservatism. In its interactions with Lloyd's, Thatcherism was ideological and inconsistent. Ultimately, it was pragmatic and relied on classical forms of governance. The chapter thus disrupts notions that Thatcherism was radical or, indeed, that it radically challenged privileged interests and restrictive practices despite this being a hall mark of neoliberalism.

The making of the financial revolution

These chapters aim to show, from various vantage points, both what was at stake and the process of making the financial revolution. Together they establish a high degree of connectivity between individuals and institutions across the City and indicate how that shaped change. The picture is of a mediated, contingent reform process, and, accordingly, a negotiated form of Thatcherism emerges. Outcomes were not inevitable but were dependent on the historically specific conditions which existed and the often culturally informed choices that were made. To the extent that reforms were driven by exogenous factors, they were entirely shaped at the national level by institutions, firms and individual actors. Reforms were crafted in particular ways according to circumstances, and outcomes could well have been different; the central Exchange could have been by-passed, for example, just as Euromarkets had by-passed official channels. The Thatcher government emerges as being as flexible and adaptive as the market approach it constructed. An over-arching philosophical guiding framework informed the Government's approach but attempts to seek a plan are misconceived. This was about a medley of microeconomic free market competition, traditional conservatism, the Government's broader macroeconomic concerns, and how all that met with established interests, culture and tradition.

Figure .2 Chronology of key events

November 1978 Sir Henry Fisher appointed to inquire into self-regulation at Lloyd's

February 1979 - OFT case against the Stock Exchange referred to Restrictive Practices Court

May 1979 first Thatcher administration. By August 1979 it determines not to intervene in OFT case

October 1979 abolition of exchange controls

1979 Fisher Report recommends new Lloyd's Act to strengthen self-regulatory powers

April 1980 Competition Act - safeguards were introduced to Competition Bill from August 1979 to maintain orderly markets in event of RPC ruling against the Stock Exchange

July 1982 Lloyd's Act

23 July 1983 - Goodison-Parkinson Accord between Stock Exchange and Government

- minimum terms for Stock Exchange reforms agreed
- Government intervention to withdraw OFT case

1983-1986 interim reform period

- A big bang approach, rather than evolutionary change
- Dual capacity trading agreed, first for equities then gilts
- Mergers and acquisitions
- From 1 March 1986 outside ownership of Stock Exchange firms permitted

January 1984 Gower Report into investor protection published, leading to 1986 Financial Services Act

- January 1986 Lloyd's excluded from Financial Services Bill and Committee of Inquiry announced to report on regulatory arrangements at Lloyd's. February 1986 Inquiry chair named as Sir Patrick Neill

27 October 1986 Big Bang reforms introduced, including

- End of fixed commissions
- Dual capacity trading
- Computerised trading

November 1986 Financial Services Act - introduced self-regulation under a statutory framework

February 1987 Neill Report published

October 1987 Stock market crash

1992-1997 Reconstruction and Renewal at Lloyd's

2008 Great Financial Crisis

Chapter One

The Government

[T]hey were dealing with what they thought were existential problems, about the survival of capitalism…. And when one remembers…the Stock Exchange…we talked about what to do when there were no quoted companies left. I mean that was the degree of threat.

Sir Adam Ridley, February 2017[1]

The Thatcher government perceived itself to be in a fight for the 'survival of capitalism'. Survival capitalism required the end of the postwar consensus, which had seen Conservative policy ratchet leftward, and a reassignment of government responsibilities in a reversal of what constituted macro and microeconomic policy.[2] Inflation was to be tackled by monetarist policy which targeted the growth of the money supply, partly by reducing the PSBR but also by containing private lending.[3] Meanwhile, lower rates of direct taxation and ending economic restrictions, including exchange controls, were designed to foster enterprise, competition, growth, savings and investment.[4] Inevitably, the perception of high stakes is complicated by the salience of the Thatcherite project resting on a declinist narrative and the over-statement of both consensus and economic decline.[5] Nevertheless, this chapter argues

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[1] Interview, Sir Adam Ridley.
[2] See Joseph, *Stranded on the Middle Ground*, pp. 19-36.
[3] In the UK monetarism was imposed by the IMF from 1976 and endorsed by the Conservative government from 1979. Duncan Needham points to an earlier experiment with monetarism by the Bank of England, in D. Needham, 'Britain's Money Supply Experiment, 1971-73', *The English Historical Review*, 130:542 (2015), pp. 89-122.
[4] In practice, ending exchange controls did not fit comfortably with monetarism and the Medium Term Financial Strategy (MTFS) because the authorities had less control over the money supply. See R. Backhouse, 'The Macroeconomics of Margaret Thatcher', *Journal of the History of Economic Thought,* 24:3 (2002), pp. 313-334, p. 28.
[5] For declinism see J. Tomlinson, 'Thatcher, monetarism and the politics of inflation', in B. Jackson and R. Saunders (eds.), *Making Thatcher's Britain* (Cambridge, 2012), pp. 62-77; J. Tomlinson, 'Mrs Thatcher's Macroeconomic Adventurism, 1979-1981, and its Political Consequences', *British Politics*, 2 (2007), pp. 3-19; for consensus see Jones and Kandiah, *The Myth of Consensus*; R. Toye, 'From "Consensus" to "Common Ground": The Rhetoric of the Postwar Settlement and its Collapse', *Journal of Contemporary History*, 48:1

that while ideological free market competition was a crucial driver of reforms, to ascribe Big Bang to this alone is to pay insufficient attention to monetary policy; specifically, what was at stake for the Government - including its fear of being 'cut off at the knees' by gilt-edged strikes - and the consequences. [6]

From a statecraft perspective, monetarism broke the social contract with trade unions and assigned responsibility for employment away from government. According to Jim Bulpitt, this insulated 'central policy-making' from outside 'interests'.[7] It also insulated policymakers from the consequences of their policies.[8] This chapter sees a similar attempt by the Government to insulate itself from the whims of the gilts market. It argues that the quest for autonomy over the quantity and timing of the sale of government debt necessitated a new mechanism for selling gilts, directly informed decisions about the Stock Exchange trading system, and significantly shaped reforms. For the Administration, the problem was clear from the outset, but the solution evolved, in line with the OFT case and subsequent reform process. The chapter therefore emphasises the parallel but interlinked concerns about the equity and gilts markets that drove the government towards Big Bang and the interplay between ideas and interests. Ideas and ideology were undeniably important, but this chapter draws attention to the Government's interest in the functioning of the gilts market which also drove change. That focus is not intended to detract from parallel concerns.

The 'close long-standing relationship' between government and the Stock Exchange dated from the late seventeenth century when the National Debt was established. Thereafter government 'gilt-edged' stocks were transacted on behalf of governments in the Exchange's

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(2013), pp. 3-23; for re-assessing the 1970s and contextualising Thatcherism, see H. Pemberton, 'Strange Days Indeed: British Politics in the 1970s', *Contemporary British History*, 23:4 (2009), pp. 583-595.

[6] Interview, Sir Adam Ridley.

[7] Tomlinson, 'Thatcher, monetarism and the politics of inflation', p. 70.

[8] For the Government's 'adventurism' see Tomlinson, 'Mrs Thatcher's Macroeconomic Adventurism'.

gilts market.[9] Correspondingly, the equity market raised capital for private industry. These two distinct markets provided the mechanism for public and private sector capital-raising through the 'new issue' of securities on the 'primary' market. Securities already issued and in the public domain were subsequently traded on the 'secondary' market - a 'prerequisite for an efficient new issue market' because it ensured the liquidity of traded securities and therefore confidence.[10] The primary and secondary markets were thus complementary and co-dependent.

Also separated was the function (or 'capacity') of market practitioners, the stockjobbers and stockbrokers. The former were 'principals for their own account', that is, independent practitioners who bought and sold stock, were prepared to hold excess stock, and sought to make a profit from the differential in the buy and sell price, the 'bid-offer spread'.[11] Precluded from directly accessing clients, jobbers dealt with stockbrokers - the client's agent - who was required, under agency law, to act in the client's best interests.

This single capacity system prevented conflicts of interest. Brokers assessed stockjobber prices without disclosing whether they wished to buy or sell shares for clients who ranged from private clients to institutional fund managers and pension funds. Clients engaged brokers by reputation and service-offering, often for research, corporate finance, investment or fund management advice.[12] Across the industry, brokers charged a sliding scale of fixed rate minimum commissions on transactions. Price, therefore, was not a major selection criterion. The workings of the Stock Exchange are discussed in greater detail in Chapter Three.

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[9] The Government officially acknowledged the Exchange and used its services to raise capital by issuing securities in the form of gilt-edged stock, so-called because government bonds were issued by the Bank of England on behalf of the Government on gilt-edged paper. See *The Stock Exchange Official Year Book 1983-84*, p. xiii.
[10] 'The Role and Objectives of The Stock Exchange', pp. 9-10, in *The Statement of Case of The Stock Exchange*, 9 March 1981, papers of G. H. Turner, MS 35759, Guildhall Library.
[11] Stockjobbers emerged because of market imbalances in the demand and supply of stock.
[12] *The Stock Exchange Official Year Book 1983-84*, p. xiii.

This chapter focuses on the introduction of the dual capacity auction system at the Exchange. In so doing, it disrupts the narrative sequence that capital needs came first and drove reforms. Dual capacity was introduced in the Government's knowledge that it brought greater volatility. Market volatility was the acknowledged price for controlling the price and timing of gilt sales and would be ameliorated by injecting more capital into the system, or so it was thought.[13] This finding also places an acceptance of volatile markets squarely with the Thatcher government, improving our understandings of the origins of subsequent financial crises as well as options which were perceived to be available to New Labour.

Moreover, reforms were driven chiefly by domestic concerns, were contingent as opposed to inevitable, and centred on 'economic nationalism', rather than the deliberate embrace of 'international capitalism'.[14] These findings accord with Bulpitt's assessment that 'Conservative economic discussions' neglected the international, notwithstanding structural global economic and technological shifts.[15] Capital requirements and outside ownership were demonstrably important considerations, but were of second order magnitude to the Government, which drove reforms but discursively insisted they were practitioner-led (as opposed to practitioner-shaped).[16]

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[13] Auctions were understood to 'introduce a random and arbitrary element into the market'. John Page, the Chief Cashier at the Bank from 1970-1980 insisted 'investor behaviour was bound to be volatile at a time of uncertainty about government policy and the future course of inflation and interest rates', see Capie, *Bank of England,* pp. 668-669. In 1982, the Bank advised that auctions would bring about 'less price stability' and therefore 'less marketability' than the jobbing system, see Letter, Douglas Wass, Permanent Secretary at the Treasury, to Bank Deputy Governor, Kit McMahon, 15 March 1982, T521/43, TNA; Letter, Kit McMahon to Douglas Wass, 15 June 1982, T521/43, TNA (discussed below).

[14] See Edgerton, *Rise and Fall*, pp. 466-494, for the shift from economic nationalism to international capitalism in this period.

[15] Tomlinson, 'Thatcher, monetarism and the politics of inflation', p. 76. This was a comment on preparations for government while in Opposition in the late 1970s.

[16] Chapters Three, Four and Five show how reforms were not applied in a vacuum but were shaped by practitioners. Nevertheless, this chapter, like Chapter Two, demonstrates the primary role of the authorities.

This chapter restores the notion of intent to this history of capital transformation, privileging the role of networked individuals and institutional preferences. While culture and habitus are clearly entwined, the chapter takes a less ethnographic approach than subsequent chapters to focus chiefly on the workings of the Government and how it pursued its interests.[17] It is structured as follows: first the Government's 'counter-revolution' and over-arching strategy for the survival of capitalism is discussed, taking account of macro and microeconomic policy. Then, the Government's relationship and shared economic interest with the City is considered. Discussion of the Government/Treasury relationship follows to show the extent to which the Treasury represented the Government (rather than simply conflating the two). Thereafter, a focus on gilts shows the deficiencies in executing government policy and explains the convergence of monetary and City policy, as improvements required a different market mechanism. A section titled taking back control then shows how the Government sought to control gilt sales by altering the market mechanism. Thereafter, the OFT case is discussed, from how it was held in abeyance, to how it was revived and resolved. Here, the distinct (although ultimately interlocking) interests of the DTI and the Treasury are observed, as the DTI promoted free market competitive reforms in the equity market (which were also subsequently advanced by the Number 10 Policy Unit), and the Treasury pursued changes to the gilts market mechanism to conduct monetary policy. Discussion of the Government's role and intervention in the Stock Exchange consultation process follows, where the power dynamics of various interests are shown. The messy shift from single to dual capacity is then assessed. Finally, perspectives on the changing world of

[17] For ethnographic accounts of government see R. A. W. Rhodes, 'Everyday Life in a Ministry: Public Administration as Anthropology', *American Review of Public Administration*, 35:1 (2005), pp. 3-25; J. Bruce-Gardyne, *Ministers and mandarins* (London, 1986).

financial risk are considered, alongside reflections on systemic risk and responsibilities, before the chapter concludes.

Thatcherism and the survival of capitalism: A glorious counter-revolution and the significance of unplanned plans

'Conservatives are not revolutionaries', thus, to describe the Thatcher government as engaged in 'a peaceful counter-revolution would be somewhat fanciful.' So said Nigel Lawson in an address to the Bow Group on 'The New Conservatism' in 1980.[18] Nevertheless, there was 'no doubt' that the Government's 'chosen course' represented a 'distinct and self-conscious break from the predominantly social democratic assumptions' that underpinned the postwar consensus. According to Lawson, the Government's radicalism consisted in the 'relearning of old lessons' and returning the party to its 'broad historic tradition' by ending state intervention and promoting enterprise.

Lawson pursued this theme in his 1984 Mais Lecture on economic policy.[19] Titled 'The British Experiment', the speech was a deliberate rebuttal of Keynesianism.[20] It repositioned macroeconomic policy as the means to tackle inflation (insisting inflation was a monetary phenomenon), and microeconomic policy as the vehicle for employment and enterprise. This was set within a medium-term framework, the MTFS - introduced in March

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[18] MTFW, 4 August 1980, 'Lawson (Nigel) [Financial Secretary to the Treasury] Economy: The New Conservatism *(Lecture to the Bow Group)*', https://www.margaretthatcher.org/document/109505 (accessed 18 January 2018).
[19] MTFW, THCR 1/17/112 f3, 18 June 1984, 'Economic policy: MT's copy of Nigel Lawson's Mais Lecture ("The British Experiment") *["conquest of inflation … the objective of macro-economic policy … growth … the objective of micro-economic policy"] [released 2014]*', https://www.margaretthatcher.org/document/136308 (accessed 18 January 2018).
[20] The British experiment meaning and counter-meaning: 'It stands in contrast to the post-war trend towards ever more ad hoc interference with free markets within a context of financial indiscipline…the experiment that failed'.

1980, to ensure stability and uphold government credibility.[21] Lawson insisted the 'true British experiment' sought 'within an explicit medium term context, to provide increasing freedom for markets to work within a framework of firm monetary and fiscal discipline'.[22]

Thatcherite economic policy thus consisted of a monetarist macroeconomic policy to control inflation, complemented by a microeconomic policy with the 'parallel aim of rolling back the frontiers of the State and improving the functioning of the market economy.'[23] The 'rediscovery' of an enterprise culture required 'markets to work better', free from 'rigidities and distortions'. Economic benefits would be direct and indirect. Ending 'pay controls, price controls, dividend controls, foreign exchange controls' would be beneficial of themselves but also promote enterprise and revitalise Britain. This went hand-in-hand with lower direct taxation and lower public expenditure; 'the onward march of privatisation; and the breaking up of monopolies and restrictive practices - not least in the City of London'.[24] Thatcherite microeconomic policy was thus concerned with the 'supply side' - that is, with government interventions to spur free market competition in order to improve productivity, while simultaneously creating incentives by promoting lower direct taxes, deregulation and privatisation.[25] Drags on incentives, like trade union power, would be curbed.[26]

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[21] As a framework for stability and credibility, the MTFS was 'the cornerstone of the Government's macro-economic policy', see p. 11, Mais Lecture. It imposed discipline and the 'rules of the game'.

[22] It was also 'a political experiment', to 'demonstrate' that trade union power could be curbed, and inflation eradicated within a democracy.

[23] MTFW, 4 August 1980, 'Lawson (Nigel) [Financial Secretary to the Treasury] Economy: The New Conservatism *(Lecture to the Bow Group)*', https://www.margaretthatcher.org/document/109505 (accessed 18 January 2018).

[24] MTFW, THCR 1/17/112 f3, 18 June 1984, 'Economic policy: MT's copy of Nigel Lawson's Mais Lecture ("The British Experiment") *["conquest of inflation ... the objective of macro-economic policy ... growth ... the objective of micro-economic policy"] [released 2014]*', https://www.margaretthatcher.org/document/136308 (accessed 18 January 2018).

[25] In respect of financial reforms, more efficient capital markets would attract retail investors and ensure the Government's privatisation programme was successful. For privatisations see D. Parker, *The Official History of Privatisation*, Vol. II, (Oxford, 2012), p. 3. It should be noted that Parker saw early privatisations driven by the Government's need to control the money supply by reducing the PSBR: 'as it was perceived that there was a relationship

With the 'survival of capitalism' at stake, 'the biggest by far, *the* thing that mattered' to the first Thatcher administration 'was that the postwar consensus was dead'.[27] In this context, policy toward the City was part of the Government's broad two-pronged approach from the outset. First it was 'a macro plan really. Initially it was to get monetary policy right, to get monetary control right, to get monetary base right and so on.'[28] Intent in this respect was 'signalled' by the MTFS.[29] It not only signalled the 'change of direction' but, more fundamentally, was designed to end the association between the 'short-term mechanical link between financial policy and inflation'.[30] In so doing, it sought to reduce the 'impact' of economic forecasts by stockbrokers on macroeconomic outcomes.

Terry Burns was appointed as Chief Economic Adviser to the Treasury in 1979, with a commitment to 'fiscal orthodoxy' and a reduced role for government.[31] He reflected on the 'impact' of economic forecasting by brokers, noting the economists tended to 'end up in those stockbroker places' and 'the Treasury was certainly listening to them'. Senior people at the Treasury and Bank were very much 'tuned in to the outside world'.[32] Thatcher was also listening, in particular, to monetarist stockbroker Gordon Pepper of Greenwell's. Pepper was introduced to members of the Conservative Shadow Cabinet by fellow Greenwell partner

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between the size of the PSBR and monetary growth, special asset sales helped to support the MTFS.' Only after government finances improved was there 'more emphasis on achieving the "supply side" benefits of privatisation, in terms of raising economic efficiency and widening share ownership.' Matthew Francis acknowledges these economic drivers and statecraft in driving privatisations but insists 'ownership' always mattered: 'From the very beginning, the Conservatives saw privatization as being about more than raising money and reducing state responsibility for the economy - it was also about ownership.', see Francis, 'Crusade to Enfranchise the Many', pp. 289-290.

[26] See https://www.economicshelp.org/macroeconomics/economic-growth/supply-side-policies/ (accessed 18 January 2018).

[27] Interview, Sir Adam Ridley.

[28] Ibid.

[29] Interview, Tim Congdon. Congdon was one of several monetarists who advised the Conservatives in Opposition and then in Government on monetary policy.

[30] Lawson, *View From No. 11*, p. 69.

[31] See Budge et al, *New British Politics*, p. 571; interview, Lord Burns.

[32] Interview, Lord Burns: from the Treasury, John Bridgeman and Peter Middleton were particularly 'tuned in to the outside world', as was Charles Goodhart at the Bank.

Peter Lilley, then chair of the Bow Group.[33] Thatcher spent time at Greenwell's, was advised by Pepper before Dennis Healey's budget and Conservative Party Conference, and subsequently when in office. The propriety of a gilt-edge stockbroker advising the PM (with Tim Lankester 'taking notes') meant Pepper put himself 'in purdah for a week' and visits abated.[34] Yet *Greenwell's Monetary Bulletin*, authored by Pepper, continued to assume '*vast* weight' in the administration and consistently formed part of Thatcher's regular weekend reading.[35] The 'weight' centred on the analysis of 'Fixed Interest Stock (primarily gilt-edged market)', and 'General Economic Trends'. Essentially, Pepper showed the relationship between monetary aggregates and the likely direction of interest rates, and the effect of this on investment decisions.[36] For the Government, it underscored the fact that the timing and quantity of gilt sales were hostage to assessments of the conduct of monetary policy and fell outside the authorities' control.

The second prong of the Government's approach to the City was microeconomic policy. Here, according to monetarist stockbroker Tim Congdon, the abolition of exchange controls represented far 'more than the pursuit of free market competition' because, in the same way as the MTFS signalled intent in respect of macroeconomic policy, 'so the abolition of exchange controls signalled intent for microeconomic policy.'[37] Burns agreed: the abolition of exchange controls 'set down a marker as far as that government was concerned…it was all about showing that the US [-style] cavalry had arrived'. By this he meant 'this was different' from what came before and there would be no Heath-like U-turn. Importantly, it also 'presaged the whole deregulation and really meant that the UK was in the

[33] Interview with Gordon Pepper, Marlborough, January 2017; see also G. Pepper, *Inside Thatcher's Monetarist Revolution* (Basingstoke, 1998).
[34] Ibid. The civil service advised Thatcher against seeing Pepper again, or at the least that he 'come through the back door'.
[35] Interview, Sir Adam Ridley; interview, Lord Burns.
[36] See Davies, *City of London and Social Democracy*, pp. 188-192.
[37] Interview, Tim Congdon.

vanguard when it came to deregulation, when it came to freedom of markets'.[38] The abolition of exchange controls and challenges to restrictive practices should thus be seen in the broad context of wider supply-side policies and the ideologies underpinning them. Financial deregulation was part of this but, because of the workings of monetary policy, crucially also spanned macro policy.

Overall, the overarching philosophical approach to macro and microeconomic policy provided a framework informing intent and direction. There remained plenty of space for political pragmatism needed in everyday government. Or as the Second Permanent Secretary to the Treasury, Sir Kenneth Couzens, put it, there may be 'flexibility and pragmatism' over 'interpretation and management' of monetary aggregates, public expenditure, and the PSBR, but there would be 'no compromise on the basic framework of financial discipline.'[39] So, when monetary targets were surreptitiously dropped from about 1984 in favour of shadowing the exchange rate, a measure of discipline remained. Essentially then, a philosophical framework underpinned a plan of action, loosely conceived.

Burns emphasised the reality of a 'generalised plan', which consisted of 'having an approach, and a philosophy, and a way you are going to do things, and which direction you are biased in'. Thereafter, it was 'navigated according to the winds that emerged'. Just because there was no plan in the 'Stalinist sense', Burns insisted things like privatisation and financial deregulation 'don't happen by accident in government':

> *You require a mind-set. You require an environment. You require a way of thinking. You require an approach, which then takes advantage and spots opportunities, as they arise, which fits in with that philosophy.*[40]

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[38] Interview, Lord Burns.
[39] MTFW, THCR 5/1/5/121 part 3 f105, 13 November 1981, 'Economy: Couzens letter to Scholar ("Guildhall Speech") *[thoughts on content of the speech] [released 2012]*', https://www.margaretthatcher.org/document/121874 (accessed 7 February 2019).
[40] Interview, Lord Burns.

Moreover, 'too little attention' was paid in politics to 'feedback effects' - 'the way the system starts to repeat those things that go well, and it backs off from those things which aren't going so well'. These reflections confirm institutional path dependency effects where iteration of the prevalent 'ideology', and disavowal of contrary positions, helped channel change.[41]

Thatcherite economic policy and City/government relationships

Thatcher addressed the City at the Lord Mayor's Banquet at the Guildhall in 1981. There she recognised the City of London as 'a precious national asset', stating

> *The practical wisdom which you have accumulated by trading in the markets of the world is a surer guide to our understanding of finance and trade than any amount of economic theory. Your confidence and co-operation are essential to any economic policy. Any Government which fails to recognise this, fails to understand our national interest.*[42]

Invoking Disraeli with the theme 'One Nation, One World', Thatcher insisted the City had acted as a 'channel for capital' between disparate parts and sectors of the country and had thus helped create 'One Nation'.[43] Growth associated with Britain's imperial past had made it 'possible to speak of one world as well as one nation'; while contemporary forms of globalisation meant 'more than ever, we live in "One World"'. Thanks to its 'great financial institutions', 'standards of excellence', and 'operational freedom', the City was 'one of the

[41] See Pierson, 'Increasing Returns', p. 251.
[42] MTFW, THCR 1/7/29, 16 November 1981, 'Margaret Thatcher, Speech at Lord Mayor's Banquet', https://www.margaretthatcher.org/document/104741 (accessed 9 April 2019).
[43] Invoking Disraeli for true Conservatism underscored Thatcherites distancing themselves from ratcheting to the left during the postwar consensus. Moreover, associating the City with the creation of One Nation was to draw parallels between it and the Conservative Party, for a 'politics of the state'. David Seawright has noted One Nation was key to Conservative electoral success, see Seawright, *British Conservative Party,* while Ewen Green builds on A. Seldon and S. Ball (eds.), *Conservative Century* (Oxford, 1994), noting the twentieth century was politically 'the Conservative Century' but economically 'the City's Century', see Green, 'The Conservatives and the City', in Michie and Williamson (eds.), *The British Government and the City of London*, p. 153.

great, perhaps the greatest, banking centre of the world'. It was therefore neither necessary nor appropriate for the Government to intervene to strengthen London as a world financial centre (the rationale attributed to government for Big Bang).[44] Economic deregulation was sufficient condition for the City to thrive and was consistent with a limited role of the state;

> *Of course we in Government cannot ensure that the pre-eminence of London will continue. That's up to you. But what we can do is to make certain that you are not constrained by needless regulation. That we can and must do. Between us, I have every confidence that London will keep its premier position in the banking world.*

Burns also argued it wasn't a question of cementing London as a world financial centre, because 'London has always been a financial centre'.[45] Rather, the Thatcher government, and the Treasury in particular, championed deregulation in general and regarded financial services as a 'prime candidate'. In retrospect, Burns insisted the Government was not 'in the business of picking winners' but of seeing 'which of the big industries would flourish'. However, it was taken as read, 'in a world of globalisation and deregulation, London was always going to thrive'. How apparent this was in 1979 is unclear.

The Treasury's influence in shaping government policy is assessed in detail below. Here it worth noting the Chancellor and Financial Secretary to the Treasury were at the core of decision making.[46] Moreover, Burns' claim that the Treasury's pro-active role in financial deregulation has been insufficiently recognised is noteworthy. He insisted 'the Treasury basically took the view to allow this to happen' and 'stuck to the view'.[47] The observation is consistent with archival evidence. It underscores the importance of domestic politics in

[44] See Cecil Parkinson in Kandiah, 'Witness Statement 1, "Big Bang"'.
[45] Burns argued this was 'even more pronounced' when American Regulation Q restrictions (on US interest bearing depository accounts) saw money flood to London through the Euromarkets.
[46] See Budge, *New British Politics*, p. 571; interview, Lord Burns.
[47] Interview, Lord Burns.

forging change and attests to the power of ideas and the role of institutions in policy making.[48]

At the Guildhall, Thatcher emphasized 'the invisible hand of competitive advantage' in 'One World' trading where there was 'scant regard to national boundaries'.[49] She insisted a deregulatory framework was the solution to global competition. This implied the decision to open the City to foreign competition was an ideological choice although this interpretation overlooks the crucial assumption that British institutions would compete successfully.[50] During the course of Big Bang reforms measures were taken by the Government and the Bank to protect British firms, as discussed in Chapter Two. Furthermore, the Government insisted on reciprocity, so countries whose financial institutions had a presence in the UK opened their home markets to British institutions.[51] Open markets were thus championed on the basis that British firms would be well-placed to compete, and the Government was not inhibited from intervening to that end.

Thatcher's friendship with the stockbroker Michael Richardson, discussed in Chapters Three and Four, raised 'really big money' to fund her private office in Opposition.[52] Other City practitioners, like Gordon Pepper, were sources of advice. John Sparrow, Head of Investments at Morgan Grenfell became an 'outside adviser' to the Central Policy Review Staff (CPRS), the 'Think-Tank', to tell Thatcher 'what the City thought'.[53] Asked about 'the

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[48] See Oliver and Pemberton, 'Learning and Change'; Hall, 'Role of Interests, Institutions and Ideas', p. 198.
[49] MTFW, THCR 1/7/29, 16 November 1981, 'Margaret Thatcher, Speech at Lord Mayor's Banquet', https://www.margaretthatcher.org/document/104741 (accessed 9 April 2019).
[50] See E. H. H. Green, *Ideologies of Conservatism: Conservative Political Ideas in the Twentieth Century* (Oxford, 2002); Green, *Thatcher*, p. 74, for accounts which attribute City policy to New Right ideology.
[51] See Treasury files, 'Banking Bill, FS Bill, Reciprocity', T520/21; 'Reciprocity: Implications within the Banking and Financial Services Bill', T551/29, TNA. Ahead of Big Bang, considerable effort was spent trying to achieve reciprocity with Japan.
[52] Interview, Gordon Pepper.
[53] C. Moore, *Margaret Thatcher, The Authorized Biography, Volume One: Not For Turning* (London, 2013), p. 344; Sparrow became the Director of the CPRS in 1982-83.

steps that need to be taken to turn us from a wealth-distributing to a wealth-creating country again', Sparrow advocated the abolition of exchange controls. The notion they were abolished without heed to the City thus has little salience.[54] Sparrow was close to Thatcher and continued to write a weekly report to government on 'the City's reaction to the Government's economic policies' even after the CPRS was disbanded in 1983.[55] The value attached to his advice was such that he met with Thatcher's adviser Alan Walters and from 1981, at her behest, sent Walters 'a copy of the letters which I send to you most weeks'.[56]

Formal and informal spaces existed for ministers and officials to meet practitioners, hear attitudes to City policy, and share information. As discussed in Chapter Three, WCP conferences demonstrated practitioners' clear and welcome understanding that the Government's role had changed and policy would be hard to reverse.[57] Equally, they were a space for ministers to hear City frustrations with reforms.[58] Menus attested to the deliberately luxurious atmosphere of conferences which were always held in four or five star central London hotels, convenient for Westminster and City. Fine dining was deliberately conducive

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[54] See Michie *London Stock Exchange,* p. 544; Bellringer and Michie, 'Big Bang in the City of London'.
[55] J. Aitken, *Margaret Thatcher: Power and Personality* (London, 2013), p. 270.
[56] J. Sparrow to Thatcher, 20 February 1981, in 'Correspondence with John Sparrow and meetings on Economic matters', MTFW, PREM 19/436, https://331215bb933457d2988b-6db7349bced3b64202e14ff100a12173.ssl.cf1.rackcdn.com/PREM19/1981/PREM19-0436.pdf (accessed 3 April 2019). The Bank was disparaging of Sparrow's advice, but it carried weight with the PM and therefore attracted the attention of the Governor, see MTFW, 3A-92-10 f.108, 17 July 1979, 'Archive (Bank of England) Monetary Policy: Bank of England note for the record (Eddie George on talk with John Sparrow) *[declassified 2010]*', https://www.margaretthatcher.org/document/113174 (accessed 1 August 2019).
[57] Bernard Lardner, 'Winners and Losers in the Restructuring of Financial Institutions', *What Future For Financial Conglomerates?*, Conference held on 2-3 October 1984, DFA, CRL, Conference No. 23, Box 23. Supply side policies cited included wider share ownership, stimulation of venture capital, individual pensions and private health care.
[58] See Nils Taube, 'The New Role of UK Merchant Banks in the Securities Markets', *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, DFA, CRL, Conference No. 19, Box 19.

to convivial informal discussion.[59] From the City perspective, with stakes high, this allowed the nature of and responses to change to be better understood. From the Government perspective, 'networking, gossiping and identifying the main issues of the day and people's views on them' was important. It wanted to 'keep track' of the 'hot topics' which emerged from these sorts of events.[60] WCP conferences, especially, had a political quality which was in large part due to the role of Douglas French, owner of WCP, former Special Adviser to Geoffrey Howe, and former chairman of the Bow Group.

Linkages between the City, Bank, government and Whitehall were maintained through informal lunches, routine drinks and dinners. The Treasury made a point of forging new or nurturing existing relationships and telling 'travelers' tales' at morning meetings to share outside information.[61] A handwritten note on the Treasury files showed an awareness of increased networking by the City. By April 1986, with concerns about the effects of reforms on resources, it committed a significant amount of time, 'especially lunchtime… finding out what Whitehall [wa]s up to'. The note conceded this was necessary but suggested it 'diverts from [their] immediate task of making money' and was also 'bad for civil servants' waistlines'.[62] Tellingly, the note privileged Whitehall with the agenda for change, belying the practitioner-led narrative, and showed the Treasury was not disapproving of increased networking, waistlines aside. Elsewhere, established relationships were maintained by MPs and officials whose careers cut across City and government. Notwithstanding his disparaging '"fairytale" on reform of the stock exchange', discussed in Chapter Four, as head of the

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[59] See luncheon menu, Tuesday 2 October 1984, Intercontinental Hotel, London W1, '*What Future for Financial Conglomerates?*', Conference held on 2-3 October 1984, DFA, CRL, Conference No. 23, Box 23.
[60] Interview, Lord Burns.
[61] Ibid.
[62] D. Jones to M. Hall, on M. Hall to Chancellor note on 'Bow Group Speech Revisited', T486/207, TNA. The resources included 'salaries, but also human resources needed to keep abreast of *regulatory* change, not to mention staffing the practitioner-based regulatory bodies'.

Number 10 Policy Unit, John Redwood met practitioners and Stock Exchange council members, to take the temperature of the City.[63]

The Government reached out to the City increasingly, rather than relying on the Bank as a conduit, as was customary. In particular, the Treasury established its own network. This should not be construed as the Treasury and Bank in opposition; for while undoubtedly there were areas of tension, there was also an established, effective and mutually supportive relationship and the Bank was frequently drafted to support the Treasury, notably on the line it took with the DTI or the Exchange. The Treasury 'saw the Governor as an adviser to the Chancellor who could not properly be wheeled out as an independent third party to such a discussion'.[64] This use of power resources within policy networks, to either uphold or shift the balance of power, suggests the power-dependence model best captures the power dynamic within the core executive.[65]

The Treasury's overlapping interests and responsibilities with the DTI undoubtedly caused tensions. Accordingly, the Treasury welcomed new direct channels of communication with the wider City, including Lloyd's. By 1986 the Stock Exchange Monitoring Group was established to formalise meetings between the Treasury and the Exchange.[66] At the same time, militaristic language was deployed to defend the 'massing of Treasury divisions' on the

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[63] See MTFW, PREM19/1199 f210, 1984 June 11, 'Redwood minute to MT ("Tilting at Castles") *["fairytale" on reform of the stock exchange] [declassified 2014]*', http://www.margaretthatcher.org/document/134173 (accessed 14 March 2019);
MTFW, PREM19/1461 f212, 12 June 1984, 'City: Redwood minute to MT (dinner with Stock Exchange chairman & council) *[still somewhat divided on its future] [declassified Dec 2014]*', https://www.margaretthatcher.org/document/137008 (accessed 7 August 2019). Redwood, Peter Lilley and Norman Lamont were among MPs who had worked (and subsequently worked) at merchant banks or stockbrokers. A City/ finance background was understood to have helped Nigel Lawson and Cecil Parkinson reach the Goodison-Parkinson Accord.

[64] R. H. Seebohm to Mr Bridgeman, 'Stock Exchange', 22 May 1979, T386/684, TNA.

[65] Rhodes, *Understanding Governance;* also Smith, 'Interpreting the Rise and Fall of Margaret Thatcher: Power Dependence and the Core Executive'.

[66] R. Lomax to F. Cassell, 'Treasury/Stock Exchange Group', 14 November 1986, T575/49, TNA. Suggested agenda items included the ISRO/Stock Exchange merger, fraud, Chinese walls, insider dealing, stock transfer legislation.

DTI 'border'. The DTI could be assured 'that the Treasury ha[d] no territorial ambitions!', but nevertheless had 'a close economic and political interest in the functioning of financial markets in the widest sense', which accounted for its actions.[67] The move appeared to be linked to the need to 'keep under control' a group of DTI lead regulators, appointed to consider City regulation under the FSB. By stressing the language of 'systematic monitoring' rather than 'systemic risks', the Treasury aimed to contain encroachment, but the language revealed tensions, a resistance to risk assessments by 'outsiders', and power resources deployed in battle.

Unpicking the Government/ Treasury relationship: The nexus and beyond

There is a danger in conflating government and state when talking about the Government and the Treasury. The independence or otherwise of the relationship is the subject of scholarly literature.[68] Nevertheless, evidence points to a very close relationship in this period. Lawson explained, from the outset, Thatcher 'considered the Treasury to be *her* Department'. Moreover, 'it was the Treasury that Margaret ensured was 100 per cent "dry" and on whose support she relied' when others were 'wet'.[69] In 1976, Siegmund Warburg had advised Thatcher she would need to get the Treasury right with her own appointment as Economic Adviser.[70] Prior to the 1979 election, over lunch at the Garrick Club, Lawson had concluded Terry Burns (from the London Business School) was 'sympathetic to our thinking' and

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[67] Draft minute R. Lomax to P. Middleton, 'City issues: steering brief', 19 November 1986, T575/49, TNA.
[68] See Budge, *New British Politics*.
[69] Lawson, *Memoirs of a Tory Radical*, pp. 24-25.
[70] MTFW, Thatcher MSS (2/1/1/37), 26 July 1976, 'Economy: Sir Keith Joseph to MT (conversation with Siegmund Warburg) *[blames Treasury for post-war British economic performance]*', https://www.margaretthatcher.org/document/111235 (accessed 9 June 2019); Thatcher was subsequently invited to Siegmund Warburg's 80th birthday dinner in 1982, see MTFW, PREM19/882 f3, 16 March 1982, 'Prime Minister: Cabinet Office minute to MT (Sir Siegmund Warburg) *[MT forced to decline 80th birthday invitation] [declassified 2012]*', https://www.margaretthatcher.org/document/143421 (accessed 9 June 2019).

‘could command the respect of Treasury economists’. Howe subsequently accepted Lawson’s ‘strong recommendation’ that Burns was appointed as Chief Economic Adviser.[71]

Equally, having determined Peter Middleton was ‘on the side of the gods’, Gordon Pepper had hosted ‘a highly secret meeting’ at home in Kent between Thatcher and Middleton - ‘the first time Margaret met Peter.’[72] Middleton was elevated under Thatcher’s patronage;[73] was Thatcher’s personal choice for Permanent Secretary to the Treasury in 1983;[74] and, according to Charles Moore, performed a ‘covert role’ as Thatcher’s ‘spy’.[75] He worked closely with Lawson on the MTFS; became an important protagonist of monetary policy and for rolling back the state; and ‘strongly believed in supporting the government of the day’. Significantly, he was also strongly motivated by City matters (becoming Group Deputy Chairman of Barclays in 1991 and Executive Chairman of its investment bank BZW).[76]

Both appointments highlight the importance of ideas, shaped by the ‘climate of opinion’ in favour of paradigm change from Keynesianism to monetarism, and the evolution and consolidation of ideas following regime change.[77] Burns and Middleton were regarded as ‘a formidable partnership’.[78] Together they were said to have ‘dominated the Treasury for most of the 1980s’.[79] Other important appointments were John Kerr, Principal Private Secretary to Howe and Lawson, and Frank Cassell, the Treasury Under Secretary rated highly

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[71] Lawson, *Memoirs of a Tory Radical*, p. 45.
[72] Interview, Gordon Pepper.
[73] K. Theakston, *Bureaucrats and Leadership* (Basingstoke, 2000), p. 97.
[74] Interview, Gordon Pepper; Lawson, *Memoirs of a Tory Radical*, p. 169.
[75] Moore, *Margaret Thatcher: Not For Turning*, p. 531.
[76] Lawson, *View From No. 11*, p. 267; Abigail Hofman, ‘The Middleton Way’, *The Telegraph*, 27 June 2004, https://www.telegraph.co.uk/finance/2888857/The-Middleton-Way.html (accessed 2 April 2019).
[77] Oliver and Pemberton, ‘Learning and Change’; Hall, ‘From Keynesianism to monetarism’.
[78] Lawson, *View From No. 11*, p. 268.
[79] See Budge, *New British Politics*, p. 571.

by Lawson.[80] The economist Rachel Lomax was Lawson's personal appointment as PPS in 1984.[81] By 1986 she had set up regular meetings between the Stock Exchange and the Treasury in part to counter the influence of John Caines's group on regulation at the DTI which sought to monitor systemic risk.[82] The importance of ideas in creating a 'coherent vision', which was then supported by the institutional framework of government, has been noted.[83] Clearly, the right Treasury appointments helped to structure and shape the ideas in circulation and their impact upon policy.

Overall, there was a 'steady strengthening of the Treasury', in the Government's image, with Lawson taking a close interest and working with Middleton to ensure 'the best people were moved to what [he] considered to be the key jobs'.[84] Furthermore, Thatcher's interest was regarded as an 'unequivocal bonus' in making the Treasury more powerful in this period.[85] Thus, with the Chancellor fully apprised of issues shaping City and monetary policy, the power of the Treasury embodied by the Chancellor, and a keenly interested PM (as First Lord of the Treasury), Treasury policy and processes can be reasonably inferred to represent the Government.

In terms of influence, the Treasury was the senior department of government. Aeron Davies and Catherine Walsh have shown how it became 'far stronger relative to the DTI' from the late 1970s, and subsequently 'attempted to remake the DTI in its own image'.[86] Former Trade official Andrew Duguid confirmed the DTI 'regarded the Treasury as the senior department in matters financial and commercial', noting the Treasury was 'never very

[80] Lawson, *Memoirs of a Tory Radical*, p. 246, p. 544.
[81] Lawson, *View From No. 11*, p. 385.
[82] R. Lomax to F. Cassell, 14 November 1986, T521/23, TNA; see also Treasury and Stock Exchange Group, T575/49, TNA.
[83] Hall, 'From Keynesianism to monetarism', pp. 90-91.
[84] Lawson, *View From No. 11*, p. 386.
[85] Ibid. p. 383.
[86] A. Davies and C. Walsh, 'The Role of the State in the Financialisation of the UK Economy', *Political Studies,* 64:3 (2016), pp. 666-682, p. 666.

inhibited in sticking their hand in anywhere'. Trade officials 'would sort of jump-to' and 'trot over there' if asked.[87] From the Treasury perspective, Adam Ridley recalled 'endless' tension between the Treasury and DTI.[88] Like any large organisation with overlapping interests, in retrospect Ridley noted, there should have been 'serious debate' about the 'machinery of government', notably 'how to have a modern financial services policy-making activity, and where it should be located, and who should do it'.[89] Instead, there were 'many different institutional answers to which people default[ed]'. This institutional dynamic was well-illustrated by an episode concerning RPC exemption (discussed below). Although, perhaps counter-intuitively, the DTI won the point, it was the senior Treasury official Rosalind Gilmour who master-minded a solution and secured time for the Treasury to explore interventionist options, taking account of wider issues. The incident illustrated power relations within government, and how the balance of power shifted over time in accordance with the relative power of actors and the precise issue at stake.[90]

The relationship with the Bank was based on a 'much broader set of interests' at this time than the 'cloistered avenues of communications' or 'silos of common interest' that the concept of the City-Bank-Treasury nexus suggested.[91] It was based on managing the 'whole conduct of the economy' with its interlocking aspects.[92] Credibility hinged on 'reliable spending planning' and a 'predictable' borrowing requirement and was therefore of 'common interest to everybody'. As a consequence, Adam Ridley argued 'there was no question but that we were in the same boat together'. For those with New Right convictions there was also

[87] Interview with Andrew Duguid, London, November 2017.
[88] Interview, Sir Adam Ridley.
[89] Ibid.
[90] See Rhodes, *Understanding Governance;* Smith, 'Interpreting the Rise and Fall of Margaret Thatcher: Power Dependence and the Core Executive'.
[91] Interview, Sir Adam Ridley.
[92] Interlocking aspects included 'interest rates, maintaining employment and economic activity, handling the currency and the problems of the external account, getting the reserves right'.

a political dimension; 'this other fascinating undertone that people suddenly realized that thirty years of progressive decline might be going to be halted.'[93]

In terms of institutional practices, the formal Bank/Treasury monthly monetary meetings were preceded by an informal meeting under Treasury chairmanship. This took 'the temperature of the markets and tried to decide what, if anything, should be done to policy.'[94] Although on occasion the Bank was seen as conservative and 'obstinate', the power of the institution and office of the Governor commanded respect. Making the Bank independent or putting someone else in charge was inconceivable at the time: Ridley confirmed 'you wouldn't *dare* disturb the institutional equilibrium of institutions like that. To have even a weak disruption would be insane, and who was to take charge?' This demonstrated the power of historical institutions to exude cultural authority, mediate policy ideas, and channel or occasionally veto changes that threatened their existence. It also demonstrated effective relationships, bound together by common interest. As such it was wholly in accordance with the concept of the nexus where the binding nature of the relationship (not the extent of broad or narrow interests) was the object defined. The institutional dynamic clearly performed an important aspect, oiling the machinery of government where necessary. Ridley's observations also pointed to classic forms of governance, with Thatcherism working largely within, rather than radically departing from, established norms. That said, in the pursuit of monetary autonomy, Lawson contemplated a radical change in the Government/Bank relationship, discussed below.

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[93] Interview, Sir Adam Ridley. Although the Bank wasn't known for New Right tendencies, see ideas proposed by Andrew Threadgold, Chapter Two.
[94] Interview, Sir Adam Ridley. The meeting typically comprised Ridley; the Financial Secretary, Nigel Lawson; Peter Middleton; John Bridgeman; the monetary economist; the head of the Policy Unit.

The gilt system: From the Grand Old Duke of York to the convergence of monetary and City policy

Government borrowing was funded by issuing gilt-edged bonds (gilts) which were traditionally sold at a fixed price by the Bank and issued via the Government Broker to gilt-specialist stockbrokers. Brokers acted on behalf of investors, usually institutions such as pension funds, life assurance companies or banks. The Government might seek to raise a total of say £1,000,000 with a new issue bond. The issue would be offered to investors and any unsold bonds were bought back by the Bank and subsequently 'tapped out' to the market (via the gilt-edge brokers) in what was known as the tap stock system.[95] Ideally, the Bank could then release the bonds at a time and in conditions of its choosing.

Conventionally, gilts were sold for a fixed term period at a fixed rate of interest. An investor received fixed interest payments (a coupon) during the term, and the nominal value of the bond when it matured. However, as bonds were traded on the secondary market, actual value fluctuated in accordance with demand (shaped by market expectations, interest rates and inflation) and traded bonds attracted a new 'yield'.[96] Generally speaking, demand for bonds (which drove up prices) drove down yield, while reduced demand lowered current

[95] Lawson, *View From No. 11*, p. 115.

[96] When interest rates were high there was less demand for gilts (as investors had other investment opportunities), when interest rates were low demand for gilts tended to rise. A bond's 'Yield to Maturity' or 'Redemption Yield' is based on a calculation where the yield is 'equal to the interest rate that makes the present value of all a bond's future cash flows equal to its current price. These cash flows include all the coupon payments and its maturity value'. The calculation incorporates the 'time value' or 'present discounted value' of money (including compound interest), see https://www.investopedia.com/terms/b/bond-yield.asp (accessed 15 February 2020). The Yield to Maturity calculation is important for enabling investors 'to draw comparisons between different securities and the returns they can expect from each…it also allows…investors to gain some understanding of how changes in market conditions might affect their portfolio because when securities drop in price, yields rise, and vice versa'. See https://corporatefinanceinstitute.com/resources/knowledge/finance/yield-to-maturity-ytm/ (accessed 15 February 2020).

value and increased yield.[97] For government, yield mattered: while the coupon of the initial issue remained fixed, even as yields shifted, and a higher yield did not in itself increase the sum paid by the government on that debt, rising yields could force the Government to raise the interest rate of future coupons, and thus raise the cost of future debt. Sharp rises in yield could thus signal a need to reduce the PSBR. Conversely, a fall in yield indicated that the Government was likely to be able to borrow more cheaply and thus borrow more.

The collapse of the Bretton Woods system of fixed exchange rates from 1971 resulted in a growing emphasis on controlling the money supply as a means of financial discipline.[98] Finance was raised increasingly from institutional investors rather than banks, with implications for the way the Bank managed the gilt-edged market.[99] Changes coincided with a period of higher public sector borrowing, high inflation and high interest rates. This created additional uncertainty for investors and 'occasional interruptions to the Government's funding programme'. Moreover, because a 'direct accounting link between the gilt-edged market and the behaviour of the broader money supply' was observed, gilts sales assumed a new significance. Even a short delay by investors in purchasing stock could cause a

[97] The inverse relationship between bond price and yield is represented graphically by yield curves. A positive (or normal) yield curve represents the situation where the yield on long-terms bonds is higher than on short-term bonds, and denotes a period of economic growth. Conversely, an inverted yield curve shows yields on short-term bonds to be higher than on long-term bonds, denoting the expectation of lower interest rates and lower inflation. However, the inverse relationship can break down in conditions of economic uncertainty, resulting in a flat yield curve. For instance, slowing growth or recession would see long-term bond yields fall and short-term bond yields rise, leading a positive yield curve to flatten. Alternatively, the shift from recession to recovery would see yields on long-term bonds rise and those on short-term bonds fall, leading an inverted yield curve to flatten. See https://www.investopedia.com/terms/y/yieldcurve.asp (accessed 15 February 2020).

[98] See Needham, 'Britain's Money Supply Experiment, 1971-73'.

[99] 'The gilt-edged market', in *Bank of England Bulletin*, June 1979, pp. 137-148, https://www.bankofengland.co.uk/-/media/boe/files/quarterly-bulletin/1979/the-gilt-edged-market (accessed 16 March 2019).

'noticeable upturn in the growth of sterling M3' and thus impact the ability to meet government targets.[100]

Maintaining the momentum of gilt sales was therefore seen 'as an indicator of how far monetary policy [wa]s succeeding in its quantitative objective'.[101] By 1979 it was clear a 'smoother path of official sales' was urgently needed. New 'operating techniques' or financial instruments for the gilts market which 'could have significant implications for the structure of the gilt-edged market, and in particular for the market-making mechanism' were thus anticipated.[102] In short, very early in the Thatcher administration, repercussions for the Stock Exchange trading system were acknowledged.

The City's broad alignment with Thatcherite supply side reforms therefore obscured a significant underlying tension about where power resided. Quite simply, the Government was dependent on the City to sell gilts to fund the PSBR and was also vulnerable to the link between gilt sales and monetary control indicators. 'Disenchantment' with government policy and a disinclination to buy gilts had resulted in gilt strikes in the 1970s.[103] The effect was a

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[100] Ibid. [£M3 was a broad measure of money and the Thatcher government's preferred measurement]. A delay in the institutional purchase of a gilts issue could raise £M3 because sales of gilts offset the factors which contributed to the growth of the money supply (such as the PSBR, bank lending to the private sector, and inflows from abroad).
[101] *Bank of England Bulletin*, June 1979.
[102] Ibid.
[103] Changes to controls on bank lending in 1971 (the introduction of Competition and Credit Control) saw quantitative controls on the amounts banks could lend removed and credit managed by variations in interest rates. This had unintended consequences for the way gilts were marketed (the attraction now lay in the ability to make profits based on interest rate fluctuations, as opposed to the simple attraction of a safe investment). The market became highly responsive to interest rates; analysed government policy/targets/borrowing to anticipate rate fluctuations; and made forecasts. It became remarkably 'cohesive' and responded 'en masse' to rate changes and market conditions. Strikes arose when traders stopped trading in government debt because they anticipated interest rate changes which would affect the value of stock. Equally, dissatisfaction with government policy caused gilt strikes which then pressurised government to make concessions, such as raising interest rates or reducing the PSBR. A slew of strikes in the mid to late 1970s and early 1980s were related to high levels of government borrowing at a time of high inflation, and to fears that inflation might rise further, thus eroding real yields. From July to December 1976 gilts strikes were a feature surrounding the IMF crisis; the market and IMF together famously constrained the

spiralling of adverse economic indicators.[104] Strikes could result from market uncertainty but, equally, practitioners 'could move the gilt-edged market' consciously and directly 'influence the practice' of selling government debt.[105] In other words, City practitioners who disliked policy could make their feelings known and impact the market. This explained why the Treasury and Bank focussed such 'considerable attention' on City firm forecasts of government policy and market reaction to that analysis.[106] The Government's funding programme, ability to meet monetary targets, and credibility was at stake. Strikes apart, gilts could only be sold in the first place when market conditions were favourable, rather than according to government necessity. Moreover, as the financial year progressed and it was clear that the 'authorities must be becoming desperate to fund', the power balance was particularly weighted toward the gilt market.[107]

The financial journalist Anthony Hilton argued the Thatcher government 'successfully stared out the market' when faced with gilt strikes in September and October 1981, and again in July 1984. In so doing, the Government 'impressed them with its

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Labour government's borrowing requirement and imposed conditionality which saw a shift towards monetarism. Gilt strikes were an ongoing problem; Labour's insufficiently monetarist budget in 1978 provoked a strike and required government concessions before funding resumed. The Thatcher government experienced its first proper strike in November 1979 which only ended after interest rates were raised to 17 per cent. See Hall, 'From Keynesianism to monetarism', p. 100-103; Davies, *City of London and Social Democracy,* pp. 207-212; Kynaston, *Club No More,* pp. 544-555.

[104] A. Hilton, *City Within a State: Portrait of Britain's Financial World* (London, 1987), pp. 124-125.

[105] Interview, Tim Congdon; see also the American concept of 'bond market vigilantes': investors who regulate the economy by 'watch[ing] over policies to determine whether they are good or bad for bond investors…if the government enacts policies that seem likely to reignite inflation…the vigilantes can step in to restore law and order to the markets and the economy', see Edward Yardeni in https://adamtooze.com/2017/11/07/notes-global-condition-bond-vigilantes-central-bankers-crisis-2008-2017/ (accessed 29 February 2020); James Carville, *Wall Street Journal*, 25 February 1993.

[106] Ibid., such as the *Greenwell's Bulletin* and work emanating from the London Business School; see also Davies, *City of London and Social Democracy*, pp. 187-192.

[107] Lawson, *View From No. 11*, p. 115.

resolution'.[108] This analysis glossed over the high stakes - the threat to government credibility as economic performance was questioned and, in the process, further undermined and put at risk. It also overlooked the sense of precarity. Having witnessed the Labour government's inability to sell gilts in 1975-1976, the Thatcher government was acutely aware 'the markets could just cut you off at the knees'.[109] Thus 'by the same token' that the Labour government was forced to adopt IMF measures, the Conservatives 'went on to the MTFS in that way'.[110]

The strategy was designed to correct determinations based on the short-term, by stressing medium-term indicators. '[A]cutely aware that there were lots of deficiencies in the way that gilts were being sold', the Thatcher government faced its first buyers' strike in 1979.[111] Notwithstanding preparations, Ridley likened the experience to a physical blow 'below the solar plexus'. It was a 'first warning…[about] just how dangerous the inadequacies of the gilt selling mechanism was'. It also directly informed future policy towards the City, because 'from that moment onwards the Treasury was looking very hard at better ways of selling' gilts.[112] Hence monetary policy and City policy converged.

In the 1970s and early 1980s the Governor intervened to stimulate gilt sales using what the market dubbed the Grand Old Duke of York strategy. Essentially, the Governor commanded interest rates up the hill and then marched them slowly down again. A sharp rise in rates led to an expectation that rates would subsequently 'ease', whereas very slowly reducing the interest rate created an expectation of falling rates. The manoeuvre encouraged

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[108] Hilton, *City Within a State*, pp. 124-125.
[109] Interview, Sir Adam Ridley.
[110] Ibid.
[111] For the buyers' strike in 1979 see MTFW, 'Release of MT's official files for 1979', https://www.margaretthatcher.org/archive/1979-tna-releases.asp (accessed 1 April 2019).
[112] Interview, Sir Adam Ridley.

investment and/or speculation in gilts, boosting sales.[113] Sparrow told Thatcher the system was 'faulty' because the habit of manipulating the minimum lending rate (MLR) 'gave rise to an extremely volatile pattern of short-term interest rates' which was 'damaging economically at or near the peaks of the cycle and damaging psychologically because of the uncertainty which it constantly engender[ed]'.[114] The impact on mortgage rates also suggested the Government should be wary of the strategy.

Although the Bank of England never signalled or acknowledged the Grand Old Duke of York manoeuvre, it was presented to Thatcher as having the predictable rhythm of its child-like nursery rhyme namesake. The pattern was not only unsustainable because it could be second-guessed but, according to Sparrow, represented a 'breach of faith within the market'. Moreover, the jobbers' 'excessively strong' position in the market made funding more expensive by discouraging wider applications for tap stocks, for example from merchant banks.[115] From a merchant banker, the latter point was partisan. Nevertheless, Thatcher insiders regarded the Duke of York strategy as resting on a 'very basic command' and being 'an incredibly rough, tough, crude, inefficient way of conducting business'.[116]

The solution lay in a review of the mechanism for selling gilts which resulted in 'a far greater degree of flexibility on the part of the authorities', and consequently 'much less

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[113] A. Hotson, *Respectable Banking: The Search for Stability in London's Money and Credit Markets since 1695* (Cambridge, 2017), p. 141; S. Howson, 'Money and monetary policy since 1945', in R. Floud and P. Johnson (eds.), *The Cambridge Economic History of Modern Britain, Vol. 3, Structural Change and Growth 1939-2000* (Cambridge, 2004), pp. 134-166, p. 159; D. G. Pierce and P. J. Tysome, *Monetary Economics: Theories, Evidence and Policy* (Cambridge, 1985), p. 278. Officially the Bank denied the existence of the strategy, citing coincidence, although empirical evidence (including from studies within the Bank) suggested the tactic worked successfully on eight occasions between 1974 and 1980, Capie, *Bank of England*, pp. 669-670; Floud and Johnson, *Cambridge Economic History,* p. 159.
[114] Letter, J. Sparrow to Thatcher, 22 June 1979, in 'Correspondence with John Sparrow and meetings on Economic matters', MTFW, PREM 19/436.
[115] Ibid. Sparrow argued 'in times of uncertainty, it would be possible for the jobbers to mark prices down just before applications for a tap stock are due, which would have the effect of discouraging applications and thereby ensuring that the business was ultimately routed through the jobbers.'
[116] Interview, Sir Adam Ridley.

rigidity on the part of the buyers'.[117] Sparrow advised Thatcher the Government was a 'forced seller' and the gilts market was a buyers' market, especially when there was a high PSBR. Inherent 'weaknesses' should therefore be 'eradicated', preferably when a lower PSBR gave 'greater latitude' regarding the timing of any change. Timing was key because 'Probably the most important point here is to make any changes *at a time when the institutional investors are liquid and are therefore relatively eager to buy stock, a state of affairs which does not apply to-day*.'[118] Thatcher was thus advised to bide her time until conditions were ripe. This was wholly in accordance with Thatcherite planning to break strikes in general, from wherever they emanated, at a time of the Government's choosing, best epitomised by preparations for a miners' strike.[119] Sparrow's advice, unsurprisingly given his role in the CPRS, was thus in step with strike policy generally, (on which he also commented). The point about liquid investors being keen to buy stock dove-tailed with the lifting of membership restrictions and the influx of new capital as part of Big Bang reforms. On this reading, wider membership and associated outside capital suited the Government's strategy for autonomy over gilts sales.

Sparrow advocated autonomy, arguing 'the authorities should be prepared to raise or lower the price of the tap stock whenever they feel it necessary'.[120] The use of 'open market operations to buy gilts' and the introduction of 'tranches of stock', so gilts were sold in smaller quantities and more frequently by tender, was advocated. This greater flexibility would help to redress the imbalance between the relative strengths of buyers and sellers and could gradually help reduce the proportion of long-term debt offered to the market in favour

[117] Letter, J. Sparrow to Thatcher, 22 June 1979, in 'Correspondence with John Sparrow and meetings on Economic matters', MTFW, PREM 19/436.
[118] Ibid. Thatcher's emphasis.
[119] See P. Dorey, 'Weakening the Trade Unions, One Step at a Time: The Thatcher Governments' Strategy for the Reform of Trade-Union Law, 1979-1984', *Historical Studies in Industrial Relations*, 37 (2016), pp. 169-201.
[120] Letter, J. Sparrow to Thatcher, 22 June 1979, in 'Correspondence with John Sparrow and meetings on Economic matters', MTFW, PREM19/436.

of medium or short-term debt.[121] Finally, the move away from the MLR 'as a trigger for gilt sales' would be politically advantageous because it would distance the Government from responsibility for higher interest rates and charges of 'forcing up' mortgage rates. This was politically expedient, to retain support from home-owning Conservative voters and meet policy objectives regarding 'right to buy'.[122]

Additional motivation was provided by Gordon Pepper who told Thatcher, by artificially manipulating the MLR, the Bank was 'making money out of you'. Essentially, he

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[121] Fixed interest long-term debt was not attractive to buyers in periods of high inflation; inflation eroded the value of investments and was 'destroying the long-term capital market for fixed interest debt', see M. Oliver and J. Rutterford, '"The capital market is dead": the difficult birth of index-linked gilts in the UK', *The Economic History Review*, 73:1 (2020), pp. 258-280, p. 279. Moreover, when interest rates were high (as they were to combat inflation), long dated stock was an expensive option for government. Michael Oliver and Janette Rutterford note the increase in the proportion of the PSBR funded by gilt sales in the 1970s, and in the coupons attached to these gilts: 'by 1980, £29 billion of gilts with coupons in excess of 10 per cent and maturities of 10 years or above were in issue'. Set against the £11 billion PSBR, interest payments amounted to a hefty £3.5 billion. The Wilson Committee noted 'these high-coupon, long-dated gilts left the government vulnerable to the risk that, should inflation fall, the *real* burden of its debt would rise', see "The capital market is dead", p. 263. Martin Ellison and Andrew Scott argue long-term bonds are more expensive for governments even in normal conditions, as the normal 'upward sloping yield curve makes short bonds cheaper', see M. Ellison and A. Scott, *Managing the UK National Debt 1694-2017* (St. Louis, 2017), https://ideas.repec.org/p/cfm/wpaper/1727.html (accessed 16 February 2020). A shift to short-/medium-term debt would shift the balance of power within the market in favour of the seller on grounds of cost, marketability of debt, and monetary control. Former Bank official William Allen emphasised the use of debt management for monetary control: short-term instruments would contain the growth of £M3 (and thus re-balance power toward the seller) by attracting institutional funds awaiting investment, and other liquid resources, into government securities and away from the liquidity of the banking system. Index Linked Gilts (ILGs) were part of the shift to short-/medium-term funding techniques intended to help control the growth of £M3, redress market reactions to short-term fluctuations in monetary growth, and refocus the market on the medium-term. Discussed in detail below, ILGs offered a way to improve monetary control without the need for changes to nominal interest rates. They were promoted by the Treasury on the basis they 'should allow the Government to achieve a given monetary target with interest rates at somewhat lower levels than would otherwise be necessary, reducing the cost of conventional funding and having beneficial effects throughout the economy', see The Treasury, *Economic Progress Report*, No. 133, May 1981; also W. Allen, *Government Debt Management and Monetary Policy in Britain Since 1919*, BIS Paper No. 65b, (2012), https://ssrn.com/abstract=2078925 (accessed 16 February 2020); 'The gilt-edged market', *Bank of England Quarterly Bulletin*, Q2, 1 June1979.

[122] See Francis, 'A Crusade to Enfranchise the Many'.

argued the Duke was enjoying the rate of return on interest rates rather than acting in the national interest.[123] Coming from a gilt-edged broker, this was perhaps ungenerous given that the Bank also proposed radical changes in operating techniques and market mechanisms and sought to pension off the old Duke. Nevertheless, Pepper was 'enormously influential' and his advice only compounded the visceral experience of a buyers' strike.

Taking back control

In October 1980 Thatcher chaired a meeting on domestic monetary policy and control with the Chancellor and Treasury officials and the Governor and Bank officials.[124] Discussion centred on finding an improved system for 'marketing debt' to ensure that 'the authorities could sell debt when they needed to' without having to 'make big changes in the price of gilts'.[125] This directly echoed Sparrow's recommendations. Spelling out the Government's agenda, the 'problem which had to be addressed was: how to sell Government debt when there was a "buyers strike" or inadequate sales to meet a particular borrowing requirement'. Two methods had already been considered: marketing gilts by varying their relative yield, and a move towards auctioning on the US pattern. Controversially, the latter 'would significantly add to the cost of borrowing' if the PSBR continued to fluctuate. Moreover, unless the forecasts for borrowing were improved, 'an auction system could also lead to inadequate funding'.

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[123] Interview, Gordon Pepper. An alternative perspective would be that this was a policy in the national interest which ran counter to gilt-edged stockbroker interests.
[124] MTFW, 7A-174-6 f43, 13 October 1980, 'Archive (Bank of England) Monetary Policy: McMahon note (Treasury record of PM, Chancellor & Governor meeting) *[declassified 2011]*', https://www.margaretthatcher.org/document/113147 (accessed 19 February 2019).
[125] It was agreed that technical changes were also desirable which would have the effect of increasing the 'range of debt instruments available to be sold to the public'. Thatcher who was particularly interested in 'selling more debt to persons… suggested that the banks should be encouraged to sell "Granny Bonds"'.

Thatcher noted the 'alleged problems of changing the present methods of marketing' yet insisted on 'some concrete proposals from the Bank of what could be done to enable the authorities to sell debt according to need'. The 'priority' was to take 'whatever measures were needed' to achieve the Government's monetary strategy which, it was agreed, would be restated in the Chancellor's forthcoming Mansion House speech. Changes to the stock market structure were thus directly informed by monetary policy and Thatcher herself was implicated, contradicting accounts which suggest she had little input in City reforms.[126]

Thatcher requested papers on 'Debt sales' and 'Increasing the flexibility of official operations in the money market' from the Bank ahead of a monetary seminar she was holding in November 1980.[127] Treasury briefing papers confirmed the significance of monetary policy on the gilt sales mechanism: £M3 was difficult to control and 'even short-term deviations from the target path *could influence market expectations*' (Thatcher's emphasis). As it was '*not in practice possible*' to control the broad monetary aggregate, adoption of Monetary Base Control (MBC), a narrow aggregate, was seriously considered. From a political perspective, it would need to run alongside £M3 because the entire 'concept of the financial strategy', and thus the Government's credibility, 'would be changed significantly if there were no commitment to a broad money aggregate at all'.[128]

Moreover, due to the 'unstable relationship' between short-term interest rates and £M3, the Treasury did 'not see any efficient means of exercising control over bank lending'.

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[126] At a lunch, Thatcher also asked David Scholey for a 'policy idea and he duly proposed that bonds which protected investors from inflation should be issued'. Scholey argued they cut the cost to the issuer and the risk to the investor. Warburg's then 'put up a paper' on index-linked bonds to the Government, see A. Smithers, extract from memoirs, in draft, 2018, kindly provided at interview.
[127] MTFW, PREM19/180 f112, 14 November 1980, 'Monetary Policy: HM Treasury papers to PM for 18 Nov seminar *[declassified 2011]*', https://www.margaretthatcher.org/document/113311 (accessed 1 April 2019).
[128] MBC was a narrow measure, based on the liquid supply of money, rather than the broad measure £3M; Despite this argument, Lawson would subsequently drop monetary targets in favour of shadowing the deutschemark and be able to argue this was a form of target within a disciplinary framework.

Proposed solutions were all 'still too slow and uncertain'.[129] Consequently, the 'burden' of reconciling the £M3 target and the PSBR 'must fall on *debt sales*'. This opened up 'a very important role for *operations in the gilts market*', where 'the authorities ha[d] greater flexibility.'[130]

In terms of actually marketing gilts, Thatcher was advised of Bank/Treasury discrepancies. The Treasury was prepared to see 'the yields on gilts respond to market pressure' (i.e. greater volatility) in the belief this would 'give greater assurance that a programme of sales could be achieved'. The Bank was concerned that 'the greater volatility of yields would not necessarily secure the sales outside the banking system'; that the 'structure of the market would be damaged'; and that 'the prospects for selling debt in the longer term' would be 'diminished'. Agreement lay in the possibility of introducing auctions of short-term government debt in order to give the Government 'greater flexibility', possibly by using restricted indexed gilts.[131] It was noted that ILGs as alternatives to conventional gilts offered the 'experience of more flexible market operations, with their implications for interest rate volatility and bank behaviour'. Volatility was thus an acknowledged price for changes to the gilt market mechanism and new instruments like indexed gilts allowed a degree of testing.[132]

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[129] Proposals were to make bank lending 'more *responsive to market conditions*', the rationale being that if banks had less certainty about the supply of money at a known price, there would be '*more of an incentive to keep rates in line* with the *market'*. They might also tighten over-draft facilities.
[130] MTFW, PREM19/180 f112, 14 November 1980, 'Monetary Policy: HM Treasury papers to PM for 18 Nov seminar *[declassified 2011]*', https://www.margaretthatcher.org/document/113311 (accessed 1 April 2019). Italics denote Thatcher's emphasis.
[131] The idea was that Restricted Indexed Gilts would be restricted to pension and possibly life assurance funds (RIG was quickly dispensed with as an inappropriate acronym for government debt).
[132] Unlike fixed rate securities, ILGs paid a floating rate which varied 'according to a formula based on the level of short-term interest rates and "index-linked" stocks, which carry only a low rate of interest, but which are topped-up by a payment based upon changes in the retail price index' (RPI), see *The Stock Exchange Official Year Book 1985-86*, p. 9. RPI

The introduction of ILGs in the 1981 Budget was a key indicator of the quest for diversified funding to increase the 'range of options for financing the…budget deficit'.[133] Lawson acknowledged the 'constant struggle to sell sufficient gilt-edged stock to finance the budget deficit' and confirmed this as 'a means of ensuring that the Government could fund steadily, almost irrespective of prevailing conditions.'[134] The idea was that ILGs could be sold independently of conventional gilt sales; would be a 'cheap way of funding' if the market anticipated high future inflation; and would be introduced by tender, allowing sales to the highest bidder rather than by fixed price. Crucially, they could be sold at times of uncertainty without the need to raise long-term interest rates. At interview, Adam Ridley noted the imperative of finding alternative ways of selling gilts. ILGs, he suggested,

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adjustments applied to the semi-annual coupon payments and principal sum. Their attraction to investors was that 'the "real" rate of return to maturity would be fairly clear'. The lower rate of interest was in return for an 'inflation-proofed' security, which made ILGs 'particularly attractive to institutional investors such as pension funds whose liabilities rise with inflation'. As ILGs offered investors protection 'against capital loss as a result of a fall in the market price arising from an upward shift in inflationary expectations (though not from price fluctuations associated with changes in real interest rates)', they were attractive to investors at times when the market 'feared accelerating inflation'. The anticipation of high inflation itself represented a failure of government policy and was the main reason for interruptions to the government funding programme. Thus, for the authorities, ILGs helped redress the balance of power in their favour by allowing securities to be sold at times when the market might otherwise 'strike'; and because they could be sold relatively cheaply, without the need to take policy action such as raising long-term interest rates. Accordingly, ILGs represented 'an important contribution to smoothing the pattern of official gilt-edged sales'. See 'The gilt-edged market', *Bank of England Quarterly Bulletin*, Q2, 1 June 1979. As discussed, the other 'principal' reason ILGs were issued was to improve monetary control: they could be sold at times of inflationary uncertainty 'without the need to raise nominal interest rates'. 'This reduce[d] the Government's vulnerability to surges of growth in £M3', ILGs were also seen as having a 'positive impact on expectations', as only a government intent on tackling inflation would wish to issue ILGs, see The Treasury, *Economic Progress Report*, No. 133, May 1981. Moreover, if inflation did fall ILGs could lead to 'lower debt servicing costs and a consequent reduction in the PSBR', and ultimately to tax cuts, see Oliver and Rutterford, '"The capital market is dead"', p. 267, p. 278.

[133] Lawson, *View From No. 11*, p. 115.

[134] Ibid., p. 46, p. 115; see H. Thompson, 'The Thatcherite economic legacy', in S. Farrall and C. Hay (eds.), *The Legacy of Thatcherism: Assessing and Exploring Thatcherite Social and Economic Consequences* (Oxford, 2014), pp. 33-69, for an account of government policies contributing to the contraction of the manufacturing industry, the recession of 1981, and unemployment payment contributions fuelling public borrowing requirements.

encouraged institutional investors to 'graze' little and often, diluting the reliance on them taking 'enormous strategic' decisions to buy vast blocks of stocks as they did when conventional gilts were newly issued.[135] Certainly, the Bank trialed the use of tranches in order to reduce the reliance on large block sales.[136] Tim Lankester also recorded the use of smaller 'tranchettes' for greater flexibility.[137]

By June 1981 Sparrow was commending Thatcher on the extent to which the Government had 'been able to withdraw from the gilt-edged new issue market, and particularly from the long dated end'.[138] The use of ILGs in July 1981, when conditions for selling conventional gilts were poor, pointed to their immediate effectiveness.[139] Subsequently, Lawson noted they were in less demand than 'envisaged', due to falling inflation and a strong equities market.[140] They nevertheless remained a 'useful addition to the Government's funding armory'. Their introduction highlighted the Government's handicap and bid for autonomy, while also setting a 'convenient precedent' for selling conventional

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135 Interview, Sir Adam Ridley.

136 See *Bank of England Quarterly Bulletin*, March 1982, https://www.bankofengland.co.uk/-/media/boe/files/quarterly-bulletin/1982/distribution-of-the-national-debt-at-end-march-1982 (accessed 1 March 2019). Tranches were sales of small portions of gilts, with information about release dates of future portions.

137 See undated draft letter on 'Funding' by T. Lankester, T521/43, TNA, for new mechanisms for selling gilts in 1981, including use of 'tranchettes' for greater flexibility.

138 Letter, J. Sparrow to Thatcher, 3 July 1981 in 'Correspondence with John Sparrow and meetings on Economic matters', MTFW, PREM 19/436. In practice, Sparrow favoured forms of 'diversified funding' other than index-linked gilts (which he regarded as inflationary), including promoting National Savings - a strategy Macmillan favoured in the 1950s.

139 US interest rate uncertainty and the BP rights issue impacted on the sales of conventional gilts. Interest rates were 15.5 per cent for long-term yields.

140 Although ILGs were in high demand from insurers and pension funds seeking to manage long-term liabilities, falling inflation, and market expectations of modest future inflation, 'boosted' sales of conventional gilts, see Lawson, *View From No. 11*, p. 117. See also *The International Stock Exchange Official Year Book 1987-1988*, p. 9, for recently issued fixed rate stocks which carried high rates of interest (of up to 15%). As the interest on ILGs varied according to 'a formula based on short term interest rates, and "index linked" stocks, which carry only a low rate of interest, but which are topped up by a payment based on changes in the RPI', conventional gilts offered investors the potential for greater returns when their risk assessment was of a relatively stable economy.

gilts by auction after Big Bang.[141] In that sense, they paved the way for the dual capacity auction system.

Another reason for the Government to exercise greater control over gilt sales was to overfund the PSBR. This allowed the Government to 'massage the money numbers to make it look as if monetary policy was tighter than it was.' The policy had been 'stumbled on' following attempts to meet £M3 targets without raising base rates. An excess of gilt sales, beyond those needed to fund the PSBR, saw usually institutional investors reduce their bank balances in order to buy gilts. As aggregate bank deposits decreased so the broad measure of the money supply decreased.[142] Lawson estimated that from 1981-1985 £M3 grew by approximately four per cent a year less than it would have done had overfunding not taken place. The Bank bought Treasury or commercial bills with the proceeds of gilt sales, which reduced government debt and the amount of commercial bank lending.[143] Lawson argued 'in effect a part of bank lending was being nationalized', counterintuitively under a Conservative government.[144] Overfunding had its own set of unintended consequences and ended in October 1985 when monetary targets were dropped in favour of tracking the exchange rate. But throughout the period of agreeing Stock Exchange reforms, this thinking about gilt management was crucial. Control represented a way to achieve domestic objectives and state autonomy. The domestic economic agenda was more acute than any response to the more abstract concept of 'international capitalism'.[145]

[141] Lawson, *View From No. 11*, p. 117.
[142] Ibid., p. 458.
[143] This was the case assuming the money was not released into the banking system for lending, which would actually increase the money in the system.
[144] Lawson, *View From No. 11*, p. 458.
[145] See Edgerton, *Rise and Fall,* p. 453, p. 469, p. 474.

The OFT Case: Strategy reviewed

When the Conservatives came to power in May 1979, Howe supported the removal of the OFT case from the courts in favour of a non-judicial enquiry, as discussed in Chapters Two and Three. As an architect of RP law, Howe had not expected its reach to the Exchange and, when legislation was extended to services in 1976, 'it was assumed that the total exemptions (for example relating to the exercise of monetary control) covered [Government interests] sufficiently'.[146] Accordingly, there was no provision in RP law to hear other than consumer interests and when the Bank and the Treasury subsequently sought to act as 'friends of the court', as discussed in Chapter Two, this was unprecedented.[147]

As an RP judgment demanded a 'narrow view' of the law, and subsequent intervention offered no remedy, Howe deemed the Court an 'unsuitable instrument' to 'handle conditions of evolutionary change and development'.[148] Neither did it address 'the problem that finance is fungible and can flow through loop holes without limit'.[149] With the Trade Secretary John Nott insisting exemption would undermine the Government's 'whole stance on Prices and Competition Policy', Howe solicited a 'good enough' argument (from the Governor) to win the point.[150] Howe's evocation of Voltaire ('otherwise the best will become the enemy of the good'), hand written on the documentation, emphasized his belief

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[146] P. E. Middleton to Douglas Wass, 15 December 1981, T521/43, TNA.
Hence there was no provision for the RPC to hear evidence from the Government on behalf of the public 'as ultimate beneficiaries of government policies'.
[147] The intention to act as 'friends of the court' was an attempt by the authorities to offer evidence relating to the Stock Exchange case and recommend alternative arrangements which, they expected, would change the course of events.
[148] M. A. Hall, PS Chancellor Exchequer, to T. G. Harris, Department of Trade, 'Restrictive Trade Practices Act: Stock Exchange', 31 May 1979, T386/684, TNA. The narrow view centred on legal findings of whether practices were or were not restrictive, rather than whether the restrictions were in the public interest.
[149] R. H. Seebohm to Bridgeman, 'The Stock Exchange', 10 May 1979, T386/684, TNA.
[150] John Nott to Geoffrey Howe, Restrictive Trade Practices Act: Stock Exchange', 30 May 1979, T386/684, TNA.

that the failure to remove the OFT case was a costly mistake.[151] Given the impasse between ministers, only a month into the administration, Thatcher asked to be 'consulted before a final decision [wa]s taken'.[152] Ultimately, for reasons of statecraft, she was 'inclined to the view that exemption now would be hard to justify'.[153] The episode captured power struggles between key departments of state and the enlisting of support to increase their power relative to the other. Equally, the two parallel but interrelated concerns that drove reforms are brought into focus. First was the need to uphold the principles of competition that underpinned government ideology as, taken to its logical conclusion, the OFT case would deliver competition to the equity market. This was Nott's rationale for non-intervention. Second was the need for an efficient gilts market to fund public spending and conduct monetary policy. Hence Howe's objective was to avoid a court ruling which resulted in disorderly markets.

Resolution of the impasse by officials, in particular by Assistant Secretary at the Treasury Rosalind Gilmore, showcased the importance of individuals, policy-making process, and institutional norms which made the Treasury itself a dynamic actor. In mid-July 1979, after 'fairly extensive discussion at official level', Gilmore pronounced

> *we are about to offer the Chancellor advice against exemption now provided that certain changes are made in the Restrictive Trade Practices Court's legal powers and provided that the option of exemption later is held open in case the Court takes too narrowly circumscribed a view of the public interest.*[154]

Gilmore had found common ground between ministers, noting that an external review of the rules surrounding minimum commissions and separate capacity was desirable to all. A change in investment patterns was also observed, which the RPC was not 'ideally placed to

[151] The aphorism was a logical/guiding principle; it meant that to delay in favour of seeking a perfect solution would obstruct a workable solution, thus inaction was to be avoided. See https://theness.com/neurologicablog/index.php/the-perfect-is-the-enemy-of-the-good/ (accessed 9 April 2019).
[152] T. P. Lankester to Tom Harris, Department of Trade, 'Restrictive Trade Practices Act: Stock Exchange', 4 June 1979, T386/684, TNA.
[153] R. E. J. Gilmore, to Minister of State, Treasury, 'Stock Exchange', 16 July 1979, T386/684, TNA.
[154] Ibid.

consider'. First, Stock Exchange transactions had grown in size per transaction, although fewer transactions went through the Exchange due to the increase in institutional investment. Second, the Government's role as a 'monopoly supplier' of certain securities had 'greatly increased'. Weighing arguments for and against exemption, Gilmore reasoned that a dispute about the narrowness or otherwise of the Court's purview was hypothetical until tested. There could be no way of knowing whether the Court's conclusions would be in the public interest, but the same 'difficulty applie[d] to exemption equally, if not more so'. This was because 'to leave things as they [we]re [wa]s no-one's preference'. Appealing to matters of statecraft, Gilmour also argued proposals for an alternative enquiry

> *of this government's own choice would surely in practice be more committal on the government than those of a machinery whose appropriateness to this case would itself be on trial.*

The 'nub of the problem' thus seemed to be 'not so much whether the Court should pursue the reference at all as whether its views, once formed, should immediately settle the matter'. From that perspective, the 'crucial difficulty' was that the Court could only examine current rules and uphold or reject them with immediate effect, as opposed to being able to examine alternatives.

Gilmore recommended a package of proposals to remove the impasse, defer the case, and still uphold the Chancellor's authority.[155] Politically, the 'major advantages' were 'to remove the main difficulties of allowing the reference to proceed, without incurring the difficulties of immediate exemption'. Crucially, the Government's 'freedom to safeguard the operations of the market' was maintained, while (given legal timescales) time was bought 'for thought to be given to such questions as the future means of selling gilts'. The Exchange,

[155] The proposals included drafting a clause in the Competition Bill 1980 to grant a 'stay of execution' during which alternative rules could be devised; consideration of alternative arrangements proposed by the Exchange during or after the hearing; ensuring that the option of 'exemption at a later stage' was 'explicitly held open'; and agreement from the Chancellor that he was 'willing to let the reference proceed' with these 'safeguards' in place.

meanwhile, would be incentivized to 'devise and propose their own improvements' while the Government retained maximum flexibility.[156] The exercise showed the ability of officials to clear logjams and provide road maps. The proposals were 'warmly recommended' to Howe as 'ingenious'.[157] Financial Secretary, Nigel Lawson regarded them as a 'helpful and acceptable compromise';[158] while Thatcher regarded the solution as 'a good practical compromise'.[159] The recommendations not only provided a solution for the Government; they were in the Treasury's interests and informed its approach to examining mechanisms for gilt sales going forward, in conjunction with the Bank.

The announcement of the decision not to exempt was delayed until the second reading of the Competition Bill in October 1979. With *The Guardian* and *The Economist* having 'stated explicitly that they would regard the Government's actions with respect to the Stock Exchange as a key test of its commitment to Competition Policy', Nott was disinclined to make 'an announcement solely about the Stock Exchange' which he feared would be 'badly received' by the press.[160] This suggested Gilmour's package of proposals was a meaningful intervention and the Government's stance on the Exchange was not especially tough. It also underscored the role of the media as a powerful policy network which shaped the 'climate of opinion', had contributed to paradigm change, and would hold government to account.[161]

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[156] R. E. J. Gilmore, to Bridgeman, Littler, Chancellor, 'Stock Exchange', 16 July 1979, T386/684, TNA.
[157] J. G. Littler to Chancellor, 'Stock Exchange', 24 July 1979, T386/684; G. Pepper and M. Oliver, *Monetarism under Thatcher: Lessons for the Future* (Cheltenham, 2001), p. 26.
[158] Nigel Lawson to Chancellor, 'Stock Exchange and Restrictive Practices', 25 July 1979, T386/684, TNA.
[159] T. Lankester to Stuart Hampson, Department of Trade, 'Stock Exchange', 22 October 1979, T386/684, TNA.
[160] N. R. Sallnow-Smith, Note for the record, 'Stock Exchange and the Restrictive Practices Court', 31 August 1979, T386/684, TNA.
[161] For the role of the press in shaping change, in particular Peter Jay at *The Times* and Samuel Brittan at *The Financial Times,* also *The Economist* with Andrew Knight as editor from 1974, see B. Jackson, 'The think-tank archipelago: Thatcherism and neo-liberalism', in B. Jackson and R. Saunders (eds.), *Making Thatcher's Britain* (Cambridge, 2012), pp. 43-61,

In practical terms, because the Bank strongly favoured exemption, delay raised fears that it would seek to re-open the decision. Given his networked approach to resolving the OFT case (see Chapters Two and Three), the chairman of the Stock Exchange, Nicholas Goodison was thus entreated by Douglas Wass to be circumspect and 'not to press his enquiries'. Briefing Wass before his dinner with Goodison, Gilmore had 'hoped we could look bleak if total exemption was mentioned'.[162] Political credibility may have been key, but alliance building, tradeoffs with the Exchange, and respect for the authority of the Governor were evident. In terms of power relations, this demonstrated the building and exchange of power resources as well as, and indeed to counter, the cultural authority of the Bank as an historical institution.[163] It also highlights processes of gradual incremental institutional change.[164]

When the OFT case was reviewed in 1981, the RPC was considered a 'very odd' jurisdiction for the Exchange. Nevertheless, 'before rooting for the difficult course of a change of procedure', the Second Permanent Secretary, Nick Monck argued Treasury officials 'should ask ourselves whether Ministers would in fact welcome any procedure which meant that they themselves had to take the decision'. It might be 'much more sensible', but from a statecraft perspective Monck suspected the Government 'would not in fact want to do so'.[165]

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pp. 54-55; for policy networks which included the media see Hall, 'From Keynesianism to monetarism', p. 106; Pemberton, 'Policy Networks'.

[162] Handwritten note Gilmore to Bridgeman in N. R. Sallnow-Smith letter to John Symes, 'Stock Exchange and the Restrictive Practices Court', 6 September 1979, T386/684, TNA.

[163] See Rhodes, *Understanding Governance*; Smith, 'Interpreting the Rise and Fall of Margaret Thatcher: Power Dependence and the Core Executive'; Hall, 'Role of Interests, Institutions and Ideas', p. 198.

[164] Which ultimately had 'cumulatively transformational effects', see Streeck and Thelen, *Beyond Continuity*.

[165] N. Monck to Middleton, 'The Stock Exchange and the Restrictive Practices Court', 13 February 1981, T521/43, TNA.

During the 1981 review into the future of the Exchange, the Treasury attached considerable 'importance to having an active secondary market [in gilts] to enable the Government to fund its borrowing requirement and implement monetary policy'. Equally, an active secondary market in equities was fundamental from a DTI perspective for 'companies to raise money on the primary market'.[166] It was recognised, too, that the Stock Exchange council's 'authority…over its members, its rules and disciplinary powers' played a necessary role in maintaining an orderly market mechanism.[167] Meanwhile, for the gilts market, the single capacity jobbing system was acknowledged to offer certain advantages for the way in which tap stocks were sold. Inbuilt anonymity, for instance, ensured buyers knew not whether they were buying from the authorities' tap or from another seller. This helped prevent the Government's funding intentions from being guessed.[168] Thus, on the one hand, the Treasury saw advantages in maintaining the existing jobbing system; on the other, the question remained 'whether the existing tap system and sales through jobbers - whatever its advantages - in some circumstances prevents us from achieving a smooth funding profile'.

This dichotomy meant, in December 1981, the Treasury was ambivalent about the merits of single versus dual capacity. It had 'no agreed position' on what the RPC decision should be, 'or the related question of whether we want to resist changes which might result in a move to an auction system'.[169] What mattered was orderliness, to avoid the 'transitional hiatus in gilt sales' which an adverse ruling would bring. The Treasury was prepared to give

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[166] R. H. Seebohm minute, 5 February 1981, 'The Stock Exchange and the Restrictive Practices Court', p. 4, T521/43, TNA. Gilts were issued on the primary market, but it was the active secondary market that ensured continuous trading and hence optimum liquidity. Former head of the Bank's Gilt-edged Division, Ian Plenderleith noted at interview, the more active the secondary market, the easier it was to sell new gilts at a cheaper price. The same principle applied to the equities market, where the secondary market underpinned primary market activity.
[167] R. H. Seebohm minute, 5 February 1981, 'The Stock Exchange and the Restrictive Practices Court', p. 4, T521/43, TNA.
[168] Davies redraft of the Seebohm minute, 'Future of the Stock Exchange', T521/39, TNA.
[169] P. E. Middleton to Douglas Wass, 15 December 1981, T521/43, TNA.

evidence to the RPC to table the Government's interests and secure appropriate timescales for change. In this context, talks with the Bank were re-opened. They were to centre on the jobbing system rather than the introduction of an auction system for gilts per se, and were seen as a 'way into' determining the substance of the court case and appropriate funding techniques. In particular, they should enable the Treasury to 'reach sensible conclusions about whether to do anything about [the court case] and, if so, what.'[170] As the Bank and Treasury pressed on, the DTI meanwhile remained opposed to any intervention in the OFT case, on competition grounds.

Forging ahead

From 1980 the Treasury had scrutinized the gilts system, in part with the Bank. In February 1981 the Wass Report set out the pros, cons, and uncertainties of a move to gilt auctions. Middleton subsequently summarized these for Wass in December 1981.[171] The main advantages were, first, the (not very conservative sounding) 'natural attraction of a radical change'. Second, in an argument which contradicted the narrative that restrictions simply benefited practitioners inside the Stock Exchange castle (see Chapter Four), was the 'desire to avoid restrictions on competition whose sole remaining justification [wa]s the convenience of the Authorities'. Third, and most importantly, gilt auctions promised 'an increased - though far from complete - ability to achieve the desired quantity and timing of gross debt sales'.

Set against such advantages, the Bank had concluded that the current minimum price tender system 'produce[d] the better outcome for the Government on cost, and a better outcome for the Government, other than at times in the very short term, on funding

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[170] Ibid.
[171] P. Middleton to D. Wass, 'The Stock Exchange, Restrictive Practices Court and Funding Techniques', p.5, 15 December 1981, T521/43, TNA.

volumes'.[172] Middleton suggested those 'arguments would look very different if the structure of the market became more competitive', or if there was a move away from monetary targets. In that case the 'importance attached to greater control over the timing of debt sales would recede', but equally, 'so would the need to preserve the present market structure for funding purposes'.[173]

Ultimately, in February 1981 the Wass Report had concluded

> *that any major change in the method of selling conventional gilts which attempted to give up some measure of stability in price in exchange for greater control over quantity sold would have seriously adverse consequences for the jobbing system.*[174]

In the immediate term, with the OFT case outstanding, there had been a 'vote against change'. But the objective - to control the quantity of gilts sold and the timing of sales - was clear, and the implications for the jobbing system and for price stability were understood. Moreover, while the Treasury was uncertain what it wanted in respect of the OFT case, it was clear the case was 'very much tied up with the unresolved issues to do with auctioning gilts and the associated changes in market structure'.[175] This implied that there were parallel but interlinked concerns about the equity and gilts markets that were driving the Government towards Big Bang.

The Treasury sought to make progress on the market structure by engaging with the Bank on the future viability of jobbers.[176] Deliberately shifting the focus to the OFT case was designed to end circular debate about gilt funding techniques (i.e. auctions versus taps).[177]

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[172] Ibid.
[173] Ibid.
[174] Douglas Wass to Deputy Governor, 15 March 1982, T521/43, TNA.
[175] P. E. Middleton to Douglas Wass, 15 December 1981, T521/43, TNA. There was also merit in seeing the future of the Stock Exchange in the 'context of the government's other marketing operations such as the sale of privatized assets in the market to the public'.
[176] P. E. Middleton to Douglas Wass, 'The Stock Exchange, Restrictive Practices Court and Funding Techniques', 15 December 1981, T521/43, TNA. Enquiry included what 'they have already had to do to keep the jobbers alive'.
[177] N. Monck to Peter Middleton, 'Stock Exchange and Restrictive Practices Court', 14 December 1981, T521/43, TNA.

Moreover, examining 'the likely future' of the current system gave the Treasury a 'freer' hand 'on the line' it eventually took on the Court case, at least until 'the method of sale and market structure we want for gilts' was decided.[178] Although the Treasury's wishes were not yet clear, their subsequent importance was assumed.

For the Bank, whose main concern was to preserve the central market, the shift in emphasis strengthened its bid to end the OFT case and fortify the Exchange. It advised that it was 'unclear' whether the central market structure would survive in the long-term but, freed from the OFT case, it was 'entirely possible' that problems like weak capitalization 'could be overcome within the present structure'. Meanwhile, the 'main merits' of the structure were 'market efficiency (and especially in government debt) and investor protection'.[179] However, as the Treasury briefed the DTI, the Bank was not 'wedded' to the 'permanent survival of single capacity jobbers' (albeit that the current system 'work[ed] well in terms of amount of funding, large size and low unit cost of transactions, [and] honesty'). Rather, the Bank 'want[ed] to know the 'new system' before the 'old [wa]s destroyed' and therefore sought a 'transition of several years'. As discussed in Chapter Two, for the Treasury, this conservatism 'look[ed] impossible under present procedure' and 'may not be desirable', notwithstanding 'severe transitional problems'. The problems it anticipated were a period during which 'gilts may be hard or expensive to sell' and the 'unpredictable' long-term outcome of 'more highly capitalised dual capacity dealers with "open outcry" and tape of all transactions'.[180]

That the Treasury adopted a wider lens to take account of the OFT case helped ensure that the interlinking aspects of marketing equities and gilts were considered in tandem rather

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[178] Ibid.

[179] Deputy Governor, McMahon, to D. Wass, Bank paper on 'The Stock Exchange and the Restrictive Practices Act Reference', 24 June 1982, T521/43, TNA.

[180] N. Monck to P. Middleton, 'Stock Exchange and Restrictive Practices Court', Points for discussion with Trade, 18 November 1981, T521/43, TNA.

than in parallel. Widening the scope of discussions extended the Treasury's remit to equities and placed the Treasury at the heart of decision making on the future stock market where its interests dovetailed with David Walker's work on market structure. The joint Bank/Treasury initiative to end the OFT case is the subject of Chapter Two. It included securing DTI support, leading to the July 1983 Goodison-Parkinson Accord which secured non-judicial settlement of the case.[181]

After the Accord: Insights from the Stock Exchange consultation process

In April 1984, the Exchange produced a consultation document on its future structure. Tim Lankester, then Under-Secretary at the Treasury, sent Lawson an advance copy enumerating the Treasury's interests. First, London should be a 'highly competitive centre'. Second, 'it should not become dominated by foreign firms'. Third, 'there should be adequate, and if possible improved liquidity - for private stocks but particularly for gilts'. Fourth, there should be adequate investor protection. As the Stock Exchange council 'had very much the same criteria in mind in formulating their proposals', the Treasury and Exchange were in agreement.[182]

Single capacity was retained under the Goodison-Parkinson Accord (keeping the Exchange in line with Lloyd's) but its continuance depended on 'the evolution of the market'.[183] By April 1984, it was not expected to survive the abolition of minimum commissions for commercial reasons. However, the Treasury perspective was that introducing dual capacity '*simultaneously*' (i.e. in a big bang) would see '*less likelihood of trading moving away from the Exchange*' (Chancellor's emphasis).[184] Constructed in this sense, dual capacity emphasized the objective of upholding the central market by avoiding

[181] Douglas Wass to Deputy Governor, 1 April 1982, T521/43, TNA.
[182] T. P. Lankester to Chancellor, 'Stock Exchange', 6 April 1984, T486/211, TNA.
[183] The Resolution of the Council of The Stock Exchange, 22 July 1983, 15A91/3, BOE.
[184] T. P. Lankester to Chancellor, 'Stock Exchange', 6 April 1984, T486/211, TNA.

trading outside it. Equally, dual capacity heralded integrated investment banks and mechanisms which supported the auctioning of gilts.

Because consultation proposals for gilts were 'very much based on ideas put to the Council by the Bank', the Treasury's interests were secured.[185] The proposals were adapted from the US Treasury model for selling gilts. New 'primary dealers' which would operate with dual capacity would be formally 'recognised' by the Bank and 'obliged to operate within the rules and practices of the Stock Exchange'. The latter requirement avoided the US Treasury's practical problem that its market was 'largely unregulated and wholly outside the stock exchanges'. Going forward, recognised primary dealers in gilts would make continuous markets; be subject to the Bank's capitalisation requirements and prudential supervision; and would receive 'certain privileges' in return.

The 'important implication' for the Treasury was that proposals 'open[ed] up the possibility of moving to an auction system'. Nor was this necessarily an end in itself. In a highly secret aside note (with top copies containing starred information for Lawson, Middleton and FC (Frank Cassell) only), Lankester said he would be preparing, at the Chancellor's request, a note on the 'feasibility of the Treasury taking over responsibility of funding from the Bank'. He was 'sure a necessary, though by no means sufficient, condition for this would be a move to auctions. So the new market structure would at least not be incompatible with at some stage a stronger Treasury role.' To take control of funding from the Bank spoke of a quest for autonomy well beyond new sales mechanisms and the ability to 'stare down the market'. Accordingly, the Thatcher government's domestic agenda and 'strong state' proclivities did not represent a separate face of the administration, but actually

[185] Ibid.

underpinned the very reforms which gave Thatcherism its open, international, free market credentials.[186]

The Treasury welcomed consultation proposals to open up Stock Exchange membership to outside interests. Lankester noted they came as no surprise 'given the widespread recognition now that non-member capital is required to support a dual capacity structure and to make London a more competitive centre generally'.[187] This sentence construction is revealing for basing the need for capital and therefore wider ownership on the requirements of the new market structure. Implicitly, the existing single capacity structure did not demand non-member capital, while London as a financial centre appears of secondary order. Significantly, outside ownership introduced capital to offset the greater volatility of the dual capacity auction system. Capital was a symptom of mechanistic reforms, rather than the main driving force.

Ahead of Big Bang, outsiders were permitted a 29.9 per cent interest in Stock Exchange member firms (and the option to take interests in more than one firm) with a view to 100 per cent outside ownership at the time of Big Bang. This was seen to 'validate' Barclays' strategy to buy a jobber and broker (Wedd Durlacher and de Zoete & Bevan). It 'safeguarded' British interests more generally, because sufficient British businesses had taken the first steps to full acquisitions. Accordingly, the 'worrying' exposure of member firms to foreign takeovers was reduced and foreign entrants could be welcomed 'now that an adequate British presence seems to have been secured'.[188] This was a recurring theme which underscored the Government's national interest in the narrow sense. Narratives which suggest the national interest was best served by the influx of international capital are not

[186] See Gamble, *Free Economy Strong State*.
[187] T. P. Lankester to Chancellor, 'Stock Exchange', 6 April 1984, T486/211, TNA.
[188] Ibid.

necessarily invalidated by these findings, but they overlook the extent of protectionism exercised by the Government.

Lawson indicated Thatcher's interest in the Stock Exchange consultation document by cautioning against signalling approval to the Exchange until the 'PM reacts'.[189] Thatcher duly 'welcome[d] the radicalism' of the document and was satisfied that the decision to end the OFT case was 'fully justifie[d]'.[190] She had also 'given some thought to the Gower Report'. Published in January 1984, it assessed existing investor protection, considered the need for new statutory protections, and made recommendations for legislative changes.[191] Ultimately, the Report paved the way for the 1986 Financial Services Act and the establishment of the SIB. Notably, Thatcher rejected the recommendation that the Government should assume responsibility for the City's self-regulatory bodies. Therein lay the 'risk that ultimately the Government could be blamed for any malpractice in the City when it is not in the Government's power to prevent it'. She insisted the 'Government's responsibility should be limited' to ensuring a separation of client and business money; to the rigorous application of laws against malpractice; and to ensuring that people had 'sufficient information' to take 'reasonably well informed investment decisions'.[192] The disclosure of information would be 'the best guarantee of investor protection after the demise of single capacity'. Thatcher therefore urged the Exchange to 'rapidly' establish 'suitable electronic systems for dealing and providing information about deals in readiness for the move to dual capacity'. The desire to limit the role of government was wholly in accordance with

[189] Handwritten note on 'Draft letter to Deputy Chairman of the Stock Exchange', C. R. J. Eglington, T486/211, TNA.
[190] A. Turnbull, Private Secretary, 10 Downing Street, to C. McCarthy, DTI, 'The Stock Exchange and the Gower Report', 10 April 1984, T486/211, TNA.
[191] G. F. Pimlott, 'The Reform of Investor Protection in the UK - an examination of the proposals of the Gower Report and the UK Government's White Paper of January 1985', *Journal of Comparative Business and Capital Market Law,* 7 (1985), pp. 141-172.
[192] A. Turnbull, Private Secretary, 10 Downing Street, to C. McCarthy, DTI, 'The Stock Exchange and the Gower Report', 10 April 1984, T486/211, TNA.

Thatcherite statecraft. Nevertheless, '[a]s a matter of curiosity', Lawson wanted to know 'who ha[d] put the PM up to this?' So, while Thatcher's close interest in reforms had been anticipated, her detailed recommendations had not.

It was John Redwood at the Number 10 Policy Unit who had warned Thatcher of the 'many dangers in accepting Gower' and 'put the PM up to' intervening in favour of a 'broadly "caveat emptor" philosophy'.[193] This approach was different from that of the 'Tripartite Group' on the Stock Exchange, which comprised the Chancellor, Governor and Trade Secretary, allowing them to work collectively on occasion to shape reforms.[194] Noting the difference, Lawson sought to reconcile the two approaches by investigating the possibility of '"caveat emptor" for institutional investors while ensuring a more thoroughgoing form of protection for smaller investors'.[195] The adoption of policy advanced by Redwood confirms the influence of the Policy Unit and disrupts accounts which suggest thinktanks and policy units had limited policy impact.[196] That the Treasury should accommodate the Policy Unit was an acknowledgment of mutually dependency and power resources. The latter rested on the Unit's responsibilities and access to the prime minister, underscored by its location inside 10 Downing Street; access to domestic policy papers; its briefing role on departmental matters; and the ability of 'remarkably autonomous and independent' members to promote

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[193] MTFW, PREM19/1461 f236, 6 April 1984, 'John Redwood minute for MT (Stock Exchange consultative document on its future) *["many dangers in accepting Gower"] [declassified Dec 2014]*', http://www.margaretthatcher.org/document/137000 (accessed 25 July 2016).
[194] See Tripartite meeting, 'City Issues', Middleton's Room, HMT, 8 December 1986, T575/49, TNA.
[195] F. Cassell to Chancellor, 'Stock Exchange: State of Play', 30 May 1984, T486/211, TNA.
[196] For example, A. Denham and M. Garnett, 'Think tanks, British politics and the "climate of opinion"', in D. Stone, A. Denham and M. Garnett (eds.), *Think tanks across nations* (Manchester, 1998), pp. 21-41; for assessments of the importance of the No. 10 Policy Unit see H. Pemberton, J. Freeman and A. Davies, 'Thatcher's Policy Unit and the "Neoliberal Vision"', paper presented by Hugh Pemberton at NACBS, Providence, 27 October 2018.

policy initiatives.[197] For its attachment to the PM and its outputs, the Policy Unit strengthened the prime minister's power relative to ministers. At the same time, as head of the Unit, Redwood clearly commanded a significant degree of personal power.

By June 1984 Redwood had formally set out City policy in response to Stock Exchange reforms and the Gower Report.[198] The overarching philosophy of free trade, based on competition and disclosure, underpinned the policy. Flexibility ensured adaptation and longevity and took account of the fungibility of money. Loosely conceived, it accorded with Terry Burns' observation about an overarching strategy and the futility of looking for a tight plan.[199] In terms of statecraft, City policy advocated by Redwood and David Willetts was demonstrably caveat emptor and assumed a minimal role for government.[200] However, with principles in accordance with Lawson's 'New Conservatism' address to the Bow Group, any differences between the Policy Unit and Tripartite Group were essentially a matter of degree.

By September 1985 Redwood was arguing that a 'convergence' in world financial markets meant functions which had previously been separate could no longer be separated. He saw a 'high level of generality' for firms as a 'wise precaution in view of the rapid change of activity and style of contract in the wide-ranging financial markets'.[201] Dual capacity was thus justified by a government narrative of internationalism and greater capitalisation. Redwood re-asserted the importance of competition and disclosure, delegated responsibility,

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[197] D. Willetts, 'The Role of the Prime Minister's Policy Unit', *Public Administration*, 65:4 (December 1987), pp. 443-454.

[198] MTFW, PREM19/1461 f194, 29 June 1984, 'Redwood & Willetts minute to MT ("The City") *[overview of policy] [declassified Dec 2014]*', http://www.margaretthatcher.org/document/137012 (accessed 12 March 2019). The overview also considered fraud investigations and the Green Paper on building societies.

[199] Interview, Lord Burns.

[200] MTFW, PREM19/1461 f194, 29 June 1984, 'Redwood & Willetts minute to MT ("The City") *[overview of policy] [declassified Dec 2014]*', https://www.margaretthatcher.org/document/137012 (accessed 12 March 2019).

[201] MTFW, PREM19/1461 f5, 18 September 1985, 'Redwood article ("Big Bang") *[powerful forces reshaping financial industry] [released 2014]*', https://www.margaretthatcher.org/document/137038 (accessed 3 April 2019).

and the small role of the state. He argued the Big Bang project was tied up with privatisation and the share-owning democracy, noting the progress being made in 'taking people's savings and investing them in risk capital activities'.[202] It was important the process continued and new markets were seen 'to be fair, easily accessible, [and] well policed'. Adopting a considerably more respectful tone toward the Stock Exchange than in his 'fairytale' on reform (see Chapter Four), Redwood argued new markets must 'continue the broad tradition of honourable dealing which characterised the old Stock Exchange.'

Redwood's emphasis on the logic of international capitalism driving reforms became the accepted narrative, underscoring the influence of the Policy Unit. Yet it overlooked the intent of and options open to actors and thus the contingent nature of reforms. Moreover, omitting the domestic state agenda (of which Redwood was aware) meant narrow national interests were obscured from the record.[203] The international narrative captured the imagination, promoted the concept of free market competition and open borders, fitted a limited role for government and was cemented by the teleology of structural economic and technological change. Arguably Redwood represented a form of pure Thatcherism by demonstrating a commitment to international free market competition when others were preoccupied by pragmatic domestic market mechanisms. On the other hand, Redwood knew how best to tell a story. He regarded the Big Bang as a 'political triumph', not least because the Government had managed to introduce competition while it 'stood aloof from the fray'. Ensuring that the Stock Exchange itself was seen to have 'taken the decision' to abandon fixed commissions meant 'the stockbroking community [w]as not blaming the Government for the reduction in easy income they have enjoyed from commissions on Government

[202] See Francis, 'A Crusade to Enfranchise the Many'. Subsequently, David Howell would lament the failure of the Government to do exactly this.
[203] Redwood was entirely aware of the domestic considerations surrounding the sale of gilts. Adam Ridley noted the head of the Policy Unit was typically present at informal monthly meetings between the Treasury and Bank, also as Thatcher's trusted adviser he was demonstrably abreast of reforms.

securities'. The 'animosity over such a sensitive subject' was usefully 'being directed between different factions within the Stock Exchange', rather than at the Government.[204]

During the consultation process, the Government maintained close contact with the Exchange. The Council was advised that proposals for gilts appeared satisfactory but would be subject to ongoing discussions between the Treasury and Bank. This showed where power lay and further undermines narratives of practitioner-led reforms. Disarmingly, Middleton suggested the Treasury 'did not mind' an extension of the primary market and expected numerous applications from would-be gilt dealers. More convincingly, the 'greater scope for experimenting with auctions of Government debt' was described as desirable.[205]

Tellingly, the Government successfully intervened to bolster the Exchange when, during consultation, it faced serious opposition from small firms threatened by the demise of single capacity. To avoid a two-tier market emerging in equities and acknowledging it 'ha[d] considerable leverage over what happens in this area', the Government sought to 'stiffen' Goodison's hand. Curiously, meaningful intervention meant a speech to the Bow Group and an 'indication' of the Chancellor's '*dismay at the prospect of a two-tier market*'.[206] Founded in 1951 by 'aspiring Tory thinkers' including Geoffrey Howe, the Bow Group was home to influential Conservatives who forged a 'coherent shared view which carried through for a whole generation'. By the 1980s when key people, like Howe and Leon Brittan, were 'senior people, not back benchers, it really impinged on what people did'.[207] That the Chancellor should turn to the Bow Group to shape the structure of the equity market is an extraordinary

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[204] MTFW, PREM 19/1199 f268, 22 February 1984, 'Monetary Policy: Redwood minute to MT ("Stock Exchange Commissions") *["a political triumph"] [declassified 2014]*', https://www.margaretthatcher.org/document/141736 (accessed 1 June 2019). It is worth noting the filing of this entry on Stock Exchange commissions under monetary policy.
[205] D. R. H. Board, Private Secretary, Note for the Record, Stock Exchange meeting with Sir Peter Middleton, 9 May 1984, T486/211, TNA.
[206] T. P. Lankester to Chancellor, 'Stock Exchange', 29 July 1984, T486/211, TNA. Chancellor's emphasis.
[207] Interview, Sir Adam Ridley. Other members included Michael Howard, Norman Lamont, Peter Lilley, see Barr, *The Bow Group*.

testament to the Group's significance and understandings about the influence it could exert. Numerous drafts of the Chancellor's speech attested to the Group's importance and the fact the speech would be reported in the press.[208]

In April 1984, *The Financial Times* reported on the '[m]ajor changes proposed for [the] Stock Exchange'.[209] It discussed the treatment of gilts, confirming the gilt-edged market would develop 'on the lines of the market for Treasury bonds in the U.S.' and that the Bank would authorise new 'primary dealers', who would make markets in gilts by dealing directly with investors and/or investors' agents. It was noted that the gilt-edged market would be 'shake[n]-up' by dual capacity trading. However, there was no analysis of the increased volatility which integrated systems produced, suggesting this aspect may not have been understood in the way it was comprehended by the Bank and the Treasury.

Single versus dual capacity: Breaking down the logics

The Exchange's defence of minimum commissions had been the inextricable link between fixed commissions (which, as restrictive practices, were hard to defend) and single capacity (which although restrictive was for the greater good). As discussed further in Chapters Two and Three, dispensing with the former eroded the separation of functions between brokers and jobbers. The joke in the City was 'if you merged brokers and jobbers would they become jokers or robbers?'[210] Warburg's Andrew Smithers reflected in 2018, 'well we know the answer, they became robbers because single capacity was abolished' and conflicts of interest emerged. Smithers argued it would have been preferable for brokers to have been paid for

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[208] See file, 'Chancellor's Speech to Bow Group 9 June 1986 on Big Bang and Beyond', 27/04/86 - 10/06/86, T486/207, TNA.
[209] John Moore, City Correspondent, *The Financial Times*, 'Major changes proposed for Stock Exchange', 13 April 1984, in T486/211, TNA.
[210] Interview with Andrew Smithers, Kensington, March 2018.

providing excellent research, rather than taking positions in the market to make money.[211] This resonated with discussions at WCP conferences (see Chapter Three), where institutional clients confirmed the need for research, warned brokers not to cut costs in this area, and intimated that firms would be chosen for their commitment to providing research to the institutions. The inference was this would win institutional support in a competitive climate rather than attract a cost.[212]

From a statecraft perspective, keeping single capacity as part of the Goodison-Parkinson Accord ensured consistency with Lloyd's. As discussed in Chapter Five, it had just moved from a dual to a single capacity system. The option to review single capacity, according to the needs of the market, also meant a move to dual capacity could be attributed to practitioner demand. On this reading, the Government was freed from inconsistencies, responsive to practitioner needs, and absolved from responsibilities associated with choosing a market system. The narrative of practitioner-led reforms in response to international markets could take hold. WCP conference discussions capture debate about the shift to dual capacity, which was broadly accepted by April 1984. Larger firms undoubtedly sought to capitalize on opportunities offered by position taking, but change was resisted by smaller firms. Of interest is the distinction which arose between the equities and gilts markets at this stage.

Notwithstanding discussions around the Government's preferences for selling gilts and the advantages of an auction system, Eddie George, the Bank's Executive Director for Home Finance, was resistant to abandoning single capacity and 'going to the American system' because of the 'appalling conflicts of interest'.[213] Andrew Smithers recalled the

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[211] Ibid.
[212] George Dennis, 'How Investment Managers May Respond to Negotiated Commissions', *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, DFA, CRL, Conference No. 19, Box 19.
[213] Interview, Andrew Smithers

Executive Directors, David Walker, Eddie George and Anthony Loehnis as 'the dominant people' at the Bank, and 'even more important' advisers to the Government on City affairs 'than the Treasury'.[214] As discussed in Chapter Two, Smithers claimed to have 'changed [George's] attitude' to preserving the Stock Exchange status quo. Pointing out the 'cost to the British economy…in jobs and money' of the Exchange's restrictive practices was a 'revelation to Eddie' which made him 'rock back' and reconsider.

Smithers' opinion was undoubtedly shaped by his experiences at Warburg. For him 'the key thing' was that Warburg, which had established the international Euromarkets business, 'was not able to list internal bonds here in London because of the restrictions of the Stock Exchange'. Consequently, Luxembourg received a 'huge boost', because it handled registration and associated business, 'all of which was a loss to the City'. Accordingly, the unreformed Exchange was 'a disaster for Britain'. As discussed in the Introduction, the City was not a monolith and this pointed perhaps to 'jealousies' of merchant banks toward the Exchange, noted by Goodison in Chapter Three.[215] Nevertheless, the notion that the Exchange cost the City business apparently altered George's outlook.

Smithers commended George for trying to preserve single capacity and believed it might have been 'practically possible to have scrapped the Stock Exchange rule book and still preserve single capacity'. Lawson, too, thought single capacity could have been retained although he acknowledged a growing momentum for change.[216] Ultimately, the matter rested on statecraft and autonomy. On the former point, if the Government wished to insist reforms were practitioner-led, there was a need to concede single capacity and support dominant market preferences. On the latter, the market's preference offered the Treasury greater

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[214] See profiles, David Walker, DS/UK/139; Eddie George, DS/UK/79, http://www.bankofengland.co.uk/CalmView/Record.aspx?src=CalmView.Persons&id=DS%2fUK%2f139&pos=1 (accessed 29 March 2019).
[215] Interview, Sir Nicholas Goodison.
[216] Nigel Lawson to Chancellor, 'Stock Exchange and Restrictive Practices', 25 July 1979, T386/684, TNA.

autonomy over gilt sales. In 1979 Gilmour had acknowledged that 'reforming the Stock Exchange, as opposed to weighing the relative advantages of different methods of selling gilts, [wa]s not a primary Treasury interest'.[217] In the intervening period, the Treasury had substantially shaped reforms, but its primary interest in gilt sales was unchanged and dual capacity delivered results.

By June 1984 Eddie George and Ian Plenderleith were interviewing prospective gilt-edged market-makers.[218] By November 1984, the Bank had produced a preliminary blue paper on 'The future structure of the gilt-edged market', which was published in June 1985.[219] Thus, with 'a broad measure of agreement' reached between the Treasury, Bank and DTI on key aspects of Stock Exchange reforms by October 1984, and the 'main outlines' of the Government's response to Gower 'settled', the issues which remained outstanding gain prominence.[220]

First, was the issue of who should appoint members to the new securities investment bodies (or body) which would come into effect with the Financial Services Act 1986.[221] The practice of appointing the right people to committees was tried and tested throughout the City's history and was the Bank's preferred method of exercising power, as appointments to the Lloyd's and Stock Exchange councils in this period demonstrate. While Bank and government interests were often aligned, the lack of agreement over appointments to the SIB demonstrated a refusal by both to cede interests in the new system and confirmed shared

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[217] Draft note, R. Gilmour to J. Bridgeman, Stock Exchange, July 1979, T386/684, TNA.
[218] F. Cassell, Note for the Record, 'Stock Exchange: Gilts Market', 27 June 1984, T448/468, TNA; interview, Ian Plenderleith.
[219] 'The future structure of the gilt-edged market: The Bank of England's dealing and supervisory relationships with certain participants', Bank of England, November 1984, T448/468, TNA.
[220] Sir Peter Middleton, 'Note of a meeting held at 5.30pm on Thursday 18 October 1984 in Sir Peter Middleton's room, HMT', 'Proposed new arrangements in the gilts market', T448/468, TNA.
[221] Initial proposals were for two bodies, the Securities Investment Board (SIB) and the Marketing of Investments Board (MIB). Only the SIB was created.

institutional beliefs that those who appointed to positions of governance held the balance of power. Nevertheless, as the Secretary of State for Trade and Industry was required to defer powers to the SIB chairman, the Government had a statutory role to fulfil. The eventual compromise, that the SIB chairman and members would be appointed jointly by the Secretary of State and the Governor can thus be seen as a victory for the Bank, satisfying its traditions. In the wake of Cecil Parkinson's resignation, moreover, the appointment of the first SIB chairman was left to the Governor, Robin Leigh-Pemberton.[222]

The second issue to be resolved in October 1984 was the arrangements for gilts, specifically around disclosure. The Bank argued against a 'last-trade' tape for gilts which would publicize the price and size of a deal as soon as the deal was agreed.[223] Yet, with the FSB in draft stage, the 'existence of a tape had assumed considerable significance in Ministers' minds as an essential element in any system of investor protection'.[224] The DTI was keen to understand objections and address any 'presentational problems' arising from disclosure discrepancies between equities and gilts. The Number 10 Policy Unit had urged the need for a tape (without distinguishing between markets) and persuaded Thatcher of the need for adequate disclosure to satisfy Gower. Meanwhile, the Treasury had assumed that 'since both gilts and equities were to operate within the Stock Exchange there would be a presumption of uniformity of treatment unless there were good reasons to the contrary'. Once

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[222] See Kynaston, *Club No More*, p. 682, for appointments made jointly; see Lawson, *Memoirs of a Tory Radical*, p. 245, for Norman Tebbitt leaving the decision to the Governor, following the resignation of Cecil Parkinson as Trade Secretary.
[223] The Bank argued that gilt dealers derived profits from taking positions in the market (as opposed to profiting much from the bid offer spread). As the market was 'homogenous', 'information on a tape about trading in a particular gilt stock could affect the market as a whole'. If prices were disclosed, a trader's position would be revealed, and the market could move against the dealer before they had unwound their position and prevented losses. This would inhibit large deals. There was also a risk that a tape would encourage broker dealers to deal at market maker prices, rather than using the secondary market. This would 'weaken the centre'. See 'Note of a meeting held at 5.30pm on Thursday 18 October 1984 in Sir Peter Middleton's room, HMT', 'Proposed new arrangements in the gilts market', T448/468, TNA.
[224] 'Note of a meeting held at 5.30pm on Thursday 18 October 1984 in Sir Peter Middleton's room, HMT', 'Proposed new arrangements in the gilts market', T448/468, TNA.

persuaded by the Bank, the Treasury sought a number of 'possible intermediate positions' before concluding there should be a tape for equities and not gilts. For presentational purposes, the decision was taken by the Chancellor, but the Bank's arguments prevailed.[225]

Moreover, the incident concerning the tape revealed Treasury/DTI tensions and over-lapping responsibilities. In a note of a conversation with the Permanent Secretary at the DTI, Frank Cassell reported being asked whether the Chancellor 'regarded himself as being in the lead on these questions'. Cassell had said the Chancellor 'obviously was on gilt-edged, but on equities would have thought the DTI should take the lead'. Middleton and Cassell were in agreement, they did not want to give the impression 'that the Treasury wanted to make the running here', and this appeared to be something of a 'relief' to the DTI.[226] The episode confirmed the Treasury's dominance, but also showed statecraft operating between departments and institutions, as opposed to being simply a tool for the executive.

'The Changing World of Financial Services': Understandings of systemic risk

In the context of Big Bang and the Gower Report, the Financial Services Act was designed to 'establish an effective and flexible regulatory framework in which the City [could] operate', and to deal with financial fraud.[227] Unless specific exclusions applied, all publicly offered securities and official listings would be covered by the Act, as would investment business. The issue of what came into and fell outside the scope of the Bill stimulated widespread debate. The Treasury and Bank worked closely on areas of shared interest to influence the Bill's remit and therefore the SIB's reach.[228] Thus 'offers of gilts by the Bank of England and

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[225] Ibid.
[226] F. Cassell to P. Middleton, 'The Tape', 31 October 1984, T448/468, TNA.
[227] Extract from *Hansard*, 'Second Reading of the Financial Services Bill', 14 January 1986, in T448/367, TNA.
[228] General correspondence, T448/367, TNA. Bank /Treasury interests included, for example, provisions for insider dealing in the gilts market, and the exclusion of wholesale money market operations. See also R. Lomax to D. Peretz, 26 March 1986, 'Regulation of wholesale

National Savings' were excluded, and contentiously, Lloyd's was excluded by amendment to draft legislation.[229]

A fourteen-page memo from Treasury official Howard Davies to the Chancellor gave leading professionals' responses to new market structures and regulatory change. Tellingly, the information emanated from Lawson's request for a 'more detailed record' of a conference on 'The Changing World of Financial Services' held in Oxford in November 1985.[230] Part sponsored by the New York Stock Exchange and with the cream of the City in attendance, it provided the Treasury with an excellent opportunity to understand City concerns, and equally meant City elites could hear from the Treasury, both formally and (with two pages documenting Davies's 'corridor chat') informally. The conference was one of many such events, as WCP conferences confirm. But here the Chancellor's interest, and thus the 'cheerfully breache[d] Chatham House Convention' rule, made explicit the importance of such spaces.[231] Essentially, the temperature could be taken on regulation, conflicts of interest and other issues, including privatisation and wider share-ownership.[232]

In particular, Lawson was informed that Win Bischoff of Schroders welcomed the introduction of new financial instruments (specifically, ILGs) and 'rapid and far reaching market liberalisation' as a 'particularly imaginative' response by the Government to broad deregulatory forces. Bischoff observed increased risks from volatile exchange rates, the 'sources and consequences' of which were 'still not well understood by investors', and suggested these could be mitigated using the future and options markets currently 'under

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money and foreign exchange markets', T448/368, TNA. These markets would come under Bank supervision.

[229] See *Hansard*, Financial Services Bill, Second Reading, HC Deb, 14 January 1986, vol. 89, cc. 938-1024.

[230] 'The Changing World of Financial Services', Conference sponsored by the New York Stock Exchange and Templeton College, Oxford, 22-23 November 1985, T448/367, TNA.

[231] H. J. Davies to Chancellor, 2 December 1985, 'The Changing World of Financial Services', Conference 22-23 November 1985, T448/367, TNA.

[232] Because 'radically different views' on the latter issues were given in confidence, they were not to influence 'beauty contests' going forward.

development'. Such hedging, and the likelihood that investors would 'churn their portfolios more frequently' in the absence of fixed commissions, would provide new sources of investment revenue.

Other reports included the majority belief that 'local markets would retain a very large part of dealing in their own stocks'; that delegates were unwilling 'to grapple' with 'fundamental issues' such as 'the implications of the efficient market hypothesis or the structure and operations of their institutions'; and the general hostility toward Sir Kenneth Berrill and the SIB's progress on Self Regulatory Organisations (SROs). Overall, the conference report granted Lawson unmediated assessments of change and systemic risks associated with reforms. Thus, when Lawson argued in 2010 that financial and mathematical modelling had created systemic risks in the financial system, this was not something he had recently come to appreciate. In 1985 he was forewarned about 'mechanistic formulae' which could be used to predict market movements and about 'large sums' which could be made by 'betting against the market consensus'.[233] He then experienced this at firsthand in the 1987 financial crisis.

In 2010, in the wake of the GFC of 2008, Lawson argued there should be a separation of commercial and investment banking, as had been the pattern in the US until 1999 and the UK until Big Bang.[234] This was 'essential' to avert the 'systemic risk' inherent in the dual capacity integrated model. Because it was 'only a commercial banking crisis that pose[d] a systemic risk', such as that experienced in 2008, Lawson argued it was 'folly' for 'core banks' to be 'brought down' by 'highly risky investment banking activities.' Nor could risk be prevented by 'judicious regulation' of investment banking; this was a 'chimaera' because of the unworkable conflict between risk-taking bankers on the one hand and regulators on the

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[233] H. J. Davies to Chancellor, 2 December 1985, 'The Changing World of Financial Services', Conference 22-23 November 1985, T448/367, TNA.
[234] Lawson, *Memoirs of a Tory Radical,* p. 635. The Glass Steagall Act was repealed in 1999, ending the separate functions in the USA.

other. Insufficiently zealous regulators were ineffective, while over-zealous regulators risked 'overkill'. 'Fireproofing' by separating functions would enable investment banking to take risks, while separating out 'the core commercial banking system' to ensure it was 'thoroughly sound and adequately capitalised at all times.'[235]

This was an extraordinary retrospection from a chief architect of Big Bang, not least because as Chancellor, Lawson was part of the debate about volatility associated with dual capacity. Technically, Lawson had thought it possible to abandon minimum commissions and retain single capacity. In 1979 he noted, 'incidentally', that he 'agree[d] with the Bank's distinction between the minimum commission and the single capacity system, and its desire to protect the latter'. He was just not sure what could be done 'at this stage'.[236] The stage had shifted with the 1983 Goodison-Parkinson Accord and Lawson was supremely well-placed to act on his reservations. In Andrew Smithers' assessment too, it would have been possible practically to have retained single capacity; the difficulty lay in the politics.[237]

Demonstrably, however, dual capacity granted the Government autonomy over funding and monetary policy.[238] Far from acquiescing to the market, Lawson made choices to achieve a form of economic hegemony (insulated from the market, as far as possible). The inevitability of international capital, which was a thesis partly of the Government's own making, has obscured this. Equally, from a statecraft perspective, the logics of the link

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[235] Ibid.
[236] Nigel Lawson to Chancellor, 'Stock Exchange and Restrictive Practices', 25 July 1979, T386/684, TNA.
[237] Interview, Andrew Smithers.
[238] Dual capacity enabled government debt to be sold by auction, something which had not been possible under single capacity, see Goodhart 'The Bank of England 1970-2000', p. 361. Auctions gave government more control over the timing and quantity of gilt sales. In a test of auctions, ILGs were associated with smoother sales, less likelihood of gilt strikes, and reducing liquidity in the banking system, see Oliver and Rutterford, '"The capital market is dead"'; Allen, *Government Debt Management and Monetary Policy*. Although monetary targets were dropped as a form of financial discipline in favour of shadowing the exchange rate by the time of Big Bang, auctions and the significant increase in capital did then impact on the money supply. However, the effects could be sterilised through open market operations in the money market.

argument obscured the benefits of dual capacity to government, absolved it from responsibility for imposing the market system, and ensured maximum support from practitioners. Only detailed archival analysis of historically specific reform conditions makes this visible.

Moreover, in Conservative tradition, Lawson himself emphasised the importance of domestic politics and the nation state in addressing the 'global phenomenon' of financial liberalisation and re-regulation. He explicitly rejected the need for global regulators to hold global markets to account after the 2008 crisis, arguing instead that national governments had 'the overriding duty…to do what [wa]s necessary to protect their own people'.[239] Clearly, the domestic was always important, and international pressures were always mediated at the level of the nation state.[240]

Furthermore, Lawson criticised the way financial risk had been assessed since the 1980s. In particular, how finance theory and mathematical modelling imposed scientific rational behaviour theory on markets, which, after all, were 'about human behaviour'. Markets are socially constructed, and Lawson was correct in his assertion that 'economics is not a science'. He was, however, familiar with the efficient market hypothesis in 1985.[241] By subsequently denouncing financial modelling for exacerbating rather than diminishing risk, Lawson state-craftily re-allocated blame, seeking to absolve Thatcherism from responsibility. After all, if scientific modelling introduced an unacceptable element of risk in financial markets, then the Government that knowingly introduced volatility in the first place, believing volatility could be contained, becomes correspondingly less accountable.

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[239] Lawson, *Memoirs of a Tory Radical*, p. 636.
[240] See Cooper, 'Globalization', pp. 91-112, for the ongoing importance of the nation state; see Sluga, *Internationalism,* for nationalism and internationalism working in parallel.
[241] The efficient market hypothesis formed part of the conference report that Lawson commissioned in 1985.

Finally, 'Americanization' was not seen as a systemic risk to UK financial services precisely because the Government and Bank took steps to contain the reach of American conglomerates by promoting and strengthening British concerns ahead of Big Bang.[242] David Walker was particularly 'defensive' of UK interests.[243] International competition was welcomed on the basis that sufficient British firms were well-placed to face competition. Thus, despite the Government opening up the City, and its free market rhetoric, competition was not welcomed unreservedly, but managed carefully. As Warburg's David Scholey noted, 'the people who were in political leadership at the time were as British nationalist as anybody'.[244] Ultimately, steps to defend British interests proved wholly inadequate and, therefore, the analysis that they were afforded sufficient protection is called into question. Whether a very conservative culture impeded clear-sighted analysis is considered as part of the ethnographic approach to the Bank taken in the Chapter Two, alongside archival evidence.[245]

However, the determination to protect British interests is a finding that complicates the competitive deregulation thesis and also shows that 'Wimbledonisation' occurred by accident rather than design.[246] Retrospection on Big Bang sometimes suggests the location of the marketplace was more important than the nationality of the players. While this argument has merit in terms of financial sector contributions to UK GDP, it suggests a preconceived outcome based on rational choice. Restoring actors' intent and showing the process of change avoids any such distortions of the historical record.

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[242] J. O. Kerr, PPS at the Treasury, 'Record of a discussion on Stock Exchange issues at No. 11 Downing Street at 3.30pm on 5 October' 1983, 15A91/4, BOE; Letter and paper, D. A. Dawkins to D. M. Bell, 26 September 1983, 'Ownership of UK Securites Industry', 15A91/4, BOE. See Chapter Two for 'stark choices' but also remedial action taken.
[243] Interview, Sir David Walker.
[244] Interview with Sir David Scholey, Broadgate, London, January 2018.
[245] This is appropriate given the Bank's operational responsibilities although, equally, the Government's analysis is called into question.
[246] For competitive deregulation see Moran, *Politics of the Financial Services Revolution;* for Wimbledonisation see Augar, *Death of Gentlemanly Capitalism*.

Conclusion

In June 1986, Thatcher had 'an opportunity to question those directly concerned with *stage managing* Big Bang'. She was in no doubt about the stakes; if Big Bang

> *goes off successfully, it will be seen as a showpiece for Government policy on deregulation and increased competition; if it leads to scandals and liquidations, it will be labelled the unacceptable face of popular capitalism.*[247]

Thatcher acknowledged the risks: 'Will we see boom and bust?' was met with a handwritten 'who knows?'.[248] To questions '[a]re there too many players (e.g. in the gilts market)?' and 'can we expect to see failures from bad judgment', she responded 'yes', 'yes'. Asked '[w]ill high salaries plus fierce competition from the Americans and Japanese induce firms to take excessive risks?', Thatcher wrote 'some may well'. Significantly, regarding the 'cost of capital', Thatcher rated 'the *effects on the City's ability to raise funds* for industry and Government' as 'beneficial'. This advantage, achieved by the introduction of dual capacity, was the prize.[249]

It was subsequently argued '[n]o reform captured the spirit of the Thatcher era more completely than the "Big Bang."'[250] The term became synonymous with free market international capitalism, which it was understood both to derive from and to promote. This chapter has not refuted the imperatives of international capitalism and technology, but it has found them to be of secondary order. It has consequently pushed back against teleological global explanations to privilege domestic considerations in driving change. This is perhaps unsurprising; national governments' priorities lie foremostly in the domestic sphere and the

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[247] Brian Griffiths and David Willetts, No. 10 Policy Unit, to Thatcher, 'Big Bang', 3 June 1986, T486/214, TNA.
[248] Rothschild had specifically warned of the risk of a 'boom-and-bust cycle, "like the secondary banks"', see J. Footman, note to the Deputy Governor, 23 November 1983, 15A19/4, BOE.
[249] Italics denote Thatcher's emphasis. Thatcher acknowledged the authorities would need to 'watch out' for 'embarrassing fraud cases'.
[250] Gideon Rachman, 'The end of the Thatcher era', *The Financial Times*, 27 April 2009, https://www.ft.com/content/98ef04fe-3357-11de-8f1b-00144feabdc0 (accessed 5 February 2019).

Thatcher government, concerned for the survival of capitalism at home, was no exception. While on the one hand, it championed ‘a strong London equity market’ which attracted capital and contributed to ‘mak[ing] the world safe for popular capitalism’; on the other, the Government could not allow its monetary policy and credibility to be derailed by City markets.[251]

Free market competition was integral to Thatcherite philosophy and played a vital role in shaping reforms, but it was only part of the story. Recognising where monetary policy and City structures intersected is also essential to comprehending Big Bang reforms. Autonomy over domestic politics shaped reforms but this only becomes apparent when the Government’s commitment to controlling the quantity and timing of gilt sales is revealed. Transformations in capitalism were thus shaped by national economic considerations and statecraft. By showing the Government’s options and series of informed choices based on domestic considerations, these findings fundamentally disrupt the ‘inevitable’ march of international capital thesis. Narratives of Thatcherism actively embracing international capitalism and hyper-globalization as part of free market ideology or competitive deregulation are thus problematized. Restoring intent to the debate, by following the reasoning of key actors and institutions and the (evolving) options available to them, allows the debate on Thatcherism and international capitalism to be recast.

The Thatcher government capitalized on breaking the postwar consensus. It forged a new consensus around the logics of modern capitalism, embedding Thatcherism in the process. By showing that decision-making was governed by matters other than global imperatives, new space is opened up to consider the options available to New Labour.[252] New Labour’s own understandings of those options come into focus when the rationale behind

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[251] For making the world safe for popular capitalism, see ‘Draft [Bow Group] Speech, The Big Bang and Beyond’, p. 14, T486/213, TNA.
[252] For options available to New Labour see Hay, ‘Credibility, Competitiveness and the Business Cycle’, p. 40; Heffernan, *New Labour and Thatcherism*.

financial deregulation is problematized and TINA disappears.[253] Important questions arise as to whether Labour had credible alternatives to convergence, or whether, once introduced, reforms really were too difficult to unwind. This opens new avenues of enquiry for future research.

Demonstrably too, questions arise about the volatility of capital markets. The Thatcher government understood that auctions brought volatility to the marketing of gilts. It reasoned there was a tradeoff between market volatility and government autonomy; that volatility could be contained by having more capital in the system; and ultimately that government was made less not more vulnerable by introducing a system of greater volatility to capital markets. This had important consequences for subsequent financial crises and twenty-first century capital generally. Connecting the Thatcher government with subsequent events in the history of capitalism provides new ways of evaluating Thatcherism and Conservative economic management more generally. Quantitative analysis and comparative research on market volatility is required in order to properly assess the Thatcher government's role in subsequent events. However, it would appear that an administration concerned with the existential threat to the survival of capitalism was implicated in a real threat to its economic underpinnings in 2008 and, by extension, the rise in populism which threatens capitalism's political validity today.

[253] TINA refers to Thatcher's rhetoric, 'There Is No Alternative'. It is generally understood to mean there was no alternative to a neoliberal free market economy.

Chapter Two

The Bank of England

First of all, let me express my profound relief that you, Mr Chairman, as well as the Stock Exchange, are still with us…you have ridden the storm…

Governor of the Bank of England,
Speech at the Stock Exchange Christmas lunch, 17 December 1986.[1]

We wanted London to continue to develop as an international financial centre. But it wasn't the only [objective]. We wanted efficient and effective capital markets for the British economy, and we wanted a particularly strong robust gilt-edged market for the operation of monetary policy.

Ian Plenderleith, February 2018.[2]

From the heart of the City-Bank-Treasury nexus, the Bank played a central role in the making of the financial revolution. This chapter focuses on the institutional practices and preferences which informed the Bank's approach, and the role of key individuals mediating between City and government. It shows what was perceived to be at stake, visions for the future, interventions and compromises. Significant planning for reform and the Bank and Treasury's role in masterminding change is apparent. Thus, while Chapters Three and Four will show that reforms were not implemented in a vacuum and were shaped by practitioners, this chapter emphasises the authorities' roles. In particular, how the central aspects of reforms were identified by the Bank, and how the Government and Bank insisted on matters of substance and directed reforms.

The Bank and government promoted a narrative of practitioner-led financial reforms which was sustained by historians who argued the Government had 'no plan' for the City,

[1] From file 7A320/6, BOE.
[2] Interview, Ian Plenderleith, former head of the Bank's Gilt-edge Division.

and the Bank no 'blueprint' for change.[3] In reality, both under-played their roles, while simultaneously promoting practitioner involvement and insisting that reforms were practitioner-driven. By showing the Bank's role in detailed planning, in its own capacity and as tasked by the Government, this chapter challenges conclusions that the Big Bang was an 'unintended consequence' of government action. The Bank and government worked in unison and such claims are unsustainable.

Equally, like Chapter One, this chapter disrupts the 'death of gentlemanly capitalism' thesis. There was no question of simply allowing British firms to fall into foreign hands. Rather, 'stark choices' were assessed and the 'balance of disadvantage' was weighed alongside the 'risk of "pursuing a policy of no change"'.[4] By showing the process of adaptation, resistance, compromise and change, the chapter counters suggestions of a *laissez faire* attitude by the authorities. Analyses of risk may have been inadequate, but the aim, undeniably, was to protect British interests.

The issue of control disrupts assumptions about the reason for reforms (and sheds light on the Bank's relative power within the nexus at this time). In particular, the desire to make London a world financial centre was a late-stated objective, while the need for increased capital was a more qualified argument than is generally allowed.[5] Key was retaining a central securities market within the Exchange and therefore central control of the market by the authorities. The danger of alternative outcomes confirms the contingent nature of reforms (notwithstanding planning by the authorities), and the perceived threat to the survival of the central market. In addition to an efficient and effective domestic equities market, the management of government debt and execution of monetary policy was at stake.

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[3] Michie, *London Stock Exchange*, pp. 593-594; Kynaston, *Club No More*, p. 631.
[4] Paper, 'Ownership of UK Securities Industry', 31 August 1983, 15A91/3, BOE.
[5] See Kandiah, 'Witness Seminar 1, "Big Bang"'.

The significant intervention in and shaping of 'the market' demonstrated throughout the chapter confirms the constructed nature of markets (even international financial markets), as opposed to their 'spontaneity'.[6] Findings therefore inform scholarly debates about the nature of neoliberalism. In particular, the 're-tasking' of the state and the requirement for (ongoing) 'regulatory restructuring' is observed. Equally, as the application of neoliberal ideas met with material interests in the domestic spaces and specificities of British policy making and the City, the 'grounding' of neoliberalism within, and the localised nature of, the Thatcherite project becomes apparent.[7] Findings also contribute to our understanding of Thatcherism by underscoring the Government's adaptability and political pragmatism. Despite an overarching philosophy centred on competition and free markets, the Government was as flexible as the markets it championed - rendering any attempt to seek evidence of a blueprint for the City as misapprehended.

Structure

To show the significance of the Bank's culture, history and standing in the City, and how this was material to the reform process, the chapter takes a deliberately ethnographic approach. It is structured as follows: first the Bank is situated in relation to financial reforms and the Thatcher government. Its history and culture are then discussed for the bearing these had on reforms. An examination of the gilts market follows, where the Bank's responsibilities to the Treasury are weighed against its reputation as the market's man. The focus then shifts to the securities market. Given the complexity of material, a chronological approach is taken through the reform process. First, challenges to the market are discussed, and what was at

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[6] Mirowski, '*Serious Crisis*'; Pryke review; G. Hodgson, 'Hayek, evolution, and spontaneous order', in P. Mirowski (ed.), *Natural Images in Economic Thought: Markets Read in Tooth and Claw* (Cambridge, 1994), pp. 408-447.
[7] See Peck, *Constructions of Neoliberal Reason*; Peck and Tickell, 'Conceptualizing Neoliberalism, Thinking Thatcherism'.

stake from the Bank's perspective. The Bank's requirement for a controlled regulated market then underpins a section on its vision for the future: a revised central unified market. Thereafter the chapter shows how influence was exercised; measures to bolster the Exchange, crucially information systems, but also how sites of meaning were exploited; and the interventions which secured the reform agreement between the Government and Exchange. Next, discussion of the Bank's role between 1983 and 1986 centres on outside ownership and international capital. The section shows international pressures were relatively late considerations and the compromises they inspired. A brief section on the Bank's perspectives on, and hand in, mergers and acquisitions and cultural change follows. Finally, the Bank's partnership with the Treasury is discussed with regard to how reforms were centrally directed before the chapter concludes.

Situating the Bank in the late twentieth century: The Bank, Thatcherism and Big Bang

The City-Bank-Treasury nexus was conceptualised as a means of emphasising the ties between discrete institutions which shared a common desire to preserve stable forms of money.[8] It alludes to strong relationships embedded within the institutions, which were capable of withstanding particular frictions or personality clashes. This is important as several accounts point to antagonisms between the Government and the Bank and suggest the operational independence and stature of the Bank was diminished under Thatcher. Forrest Capie acknowledged the Bank's 'large measure of independence from government "both in operations and in policy"' in the 1960s but saw its freedoms 'severely eroded' from the

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[8] Ingham, *Capital Divided*; Williamson, 'The City of London and government in modern Britain', p. 7.

1970s.[9] This was due to 'the growing politicisation of monetary policy' (in particular the publication of monetary targets and concern about how those targets were met).[10]

Similarly, David Kynaston emphasised the different beliefs about what should determine the workings of monetary policy; tensions were exacerbated by the 'hopelessness of the personal chemistry' between the 'canine' prime minister and 'feline' Governor. The 'canine'/'feline' binary, which was applied to Margaret Thatcher and Governor Gordon Richardson respectively by their contemporaries, gave their relationship a battle of the sexes type frisson. A preoccupation with unwomanly economic concerns masculinised Thatcher, while the Governor, whom Thatcher found 'vain…and unwilling to take a strong, readily comprehensible line', was feminised. Thatcher's 'instinctive prejudice' against Richardson and the Bank meant 'Government/Bank relations in the early 1980s were as bad as at any time' since the 1960s (under Labour). Relations between the Bank and ministers 'stabilise[d]', but 'greater tensions' between the Bank and the Treasury were attributed to a 'continuing degree of personal friction' between Gordon Richardson and his former school contemporary Sir Douglas Wass, Permanent Secretary at the Treasury.[11] Thus, contrary to customary expectations, old school ties disrupted rather than cemented relationships.[12]

Charles Goodhart, former Chief Adviser at the Bank, also asserted the 'predictable breakdown' of the Government/Bank relationship over monetary policy in this period. The Bank was 'in Thatcher's bad books'; Governor Richardson was not 'one of us'; his successor, Robin Leigh-Pemberton, although appointed by Thatcher, was no 'monetary expert'; while

[9] Capie, *Bank of England*, p. 773, quoting Lord Cobbold, 'Some thoughts on central banking', Stamp Memorial Lecture, 1962.
[10] This is an interesting observation in the context of neoliberal beliefs about the operational independence of central banks and the formation of clear rules which should have prevented monetary policy being politicised.
[11] D. Kynaston, *Till Time's Last Sand: A History of the Bank of England 1694-2013* (London, 2017), pp. 574-575.
[12] See P. Joyce, *The State of Freedom: A Social History of the British State since 1800* (Cambridge, 2013).

Lawson 'was supremely confident in his own monetary (and fiscal) expertise'.[13] For Goodhart, the Bank nevertheless retained important 'oversight of the structural operation of financial markets', and played a 'major advisory role in guiding the structure, strategy and (occasionally) top appointments in the City'. While this meant the Bank assumed an important role in the 'strategic decision-making processes' surrounding Big Bang, Goodhart denied the Bank took 'the initiative for change'.[14] Tellingly, indeed defensively, he described the Bank as reactive, as 'taking the initiative for change…might be perceived as overstepping its appropriate role'.[15]

The above accounts suggested the Bank's independence and authority largely depended on the incumbent government. An alternative perspective was that the 'balance of power' between the Bank and the Government in practice lay in the personal authority of the Governor. In 1873 Walter Bagehot observed that the balance 'varies very much with the character of the Governor... A strong Governor does much mainly on his own responsibility, and a weak Governor does little.'[16] Stephen Fay supported this argument and rejected the notion of a diminished Governor under Thatcher. Richardson, he contended, was 'in his prime' and 'exuded authority' in the early 1980s.[17] Philip Williamson saw the dilemma that '[f]or some historians the Bank of England is part of the City, for others an instrument of the government', as part of the conundrum of the Bank's multi-functional role. He concluded that the Bank's autonomy and influence varied in accordance with 'the actions of the Treasury and the elected government' of the day.[18]

This chapter's analysis of the Bank's role highlights constructive relationships, including with government. It suggests an issue by issue approach is required to account for

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[13] Goodhart, 'Bank of England', p. 355.
[14] Ibid.
[15] Ibid., p. 365-366.
[16] S. Fay, *Portrait of an Old Lady: Turmoil at the Bank of England* (London, 1987), p. 30.
[17] Ibid., p. 12.
[18] Williamson, 'The City of London and government in modern Britain', p. 14, p. 17.

areas of tensions (like monetary policy), without obscuring relatively harmonious work on other strategic objectives. It points to the culturally informed nature of market reforms and finds a preoccupation with local circumstances which were perceived to threaten the survival of the central UK securities market. The focus was on the survival of that market, as opposed to managing or attracting international capitalism. Clearly, matters were interrelated but attention to international pressures and foreign ownership was delayed until after reforms were agreed. The chapter's findings therefore problematise dominant narratives underpinning financial deregulation. They also show, ironically, a significant degree of protectionism in the shaping of ostensibly neoliberal free market reforms.

Pointing to change: From postwar Bank to Big Bang and beyond

Established by Royal Charter in 1694 to meet government funding requirements, the Bank of England was initially a privately-owned bank which was effectively granted a 'banking monopoly over the kingdom'.[19] Situated on Threadneedle Street from the 1730s, by 1797 the Bank was personified as 'the Old Lady of Threadneedle Street'; cartoonist James Gillray depicted the prime minister William Pitt the Younger as pillaging from her as the Old Lady sought to protect her assets.[20] Alluding already to her established position and the dangers of 'political ravishment', the cartoon highlighted the dilemma faced by the Bank in maintaining its integrity while satisfying the needs of the government of the day.

This would be an ongoing tension. Even when it was nationalised in 1946 the Bank studiously sought to maintain a significant degree of independence and it was regarded as

[19] See https://moneyweek.com/402300/27-july-1694-the-bank-of-england-is-created-by-royal-charter/ (accessed 11 December 2018). It was nationalised in 1946 and granted operational independence for monetary policy in 1997.
[20] https://edu.bankofengland.co.uk/knowledgebank/who-is-the-old-lady-of-threadneedle-street/ (accessed 11 December 2018).

largely successful in doing so, at least until the Thatcher period.[21] In acknowledgment of economic battles over the centuries, in the late twentieth and early twenty-first centuries, reference was made to 'battle plans', while 'periods of crisis [we]re known as "war" and relative normality [as] "peacetime"'. It was noted that in 'recent times, "war" has been more common'.[22] Rather like Cazenove then (see Chapter Four), the Bank drew on analogies of war in its conduct of economic strategy. This implied that the Bank contextualised problems in relation to its long history, and simultaneously drew strength, and a sense of camaraderie, from heroic feats of the past.

The Old Lady occupied an ample three-and-a-half-acres on Threadneedle Street. The building was completed by Sir John Soane in 1833 in the neoclassical style. It was at once palatial and anchored in classical antiquity. When the Bank was extended in the 1930s and Soane's work was largely destroyed, the remodelling by Sir Herbert Baker was famously described as 'the greatest architectural crime, in the City of London, of the twentieth century'.[23] A virtual model of Soane's building was created in 2016 and spoke to nostalgia and an ongoing sense of loss for an architectural gem.[24] The Old Lady was, nevertheless, an imposing structure and the personification of authority. '[E]legant and decorated Parlours that housed the offices of Governors and the most senior staff' formed the core of the building.[25] There were also numerous fine dining rooms, meeting rooms and private offices. In the lead

[21] Capie, *Bank of England*, p. 773.
[22] D. Conaghan, *The Bank: Inside the Bank of England* (London, 2012), p. 4.
[23] Art historian Nikolaus Pevsner in his series on the *Buildings of England*, see http://www.engineering-timelines.com/who/faber_O/faberOscar5.asp (accessed 11 December 2018). The Soane exterior wall was retained, and domed roofs were reconstructed.
[24] M. Blunden, 'Demolished Bank of England buildings are brought back to life in virtual reality', *Evening Standard*, 25 October 2016, https://www.standard.co.uk/news/techandgadgets/demolished-bank-of-england-buildings-are-brought-back-to-life-in-virtual-reality-a3377876.html (accessed 29 December 2018).
[25] Capie, *Bank of England,* p. 40.

up to Big Bang, actors acknowledged the importance of these spaces in facilitating crucial deeply private merger and acquisition talks.[26]

The art historian Nikolaus Pevsner was as scathing about the Bank's New Change Building as he was about the Old Lady's reconstructive surgery. Built near St. Paul's in the late 1950s in 'traditional rather than modernist style', the New Change Building was 'shockingly lifeless and reactionary', its courtyard 'disastrously bleak'.[27] David B. Smith entered it as a Cambridge graduate in 1968, and saw New Change as a metaphor for 'how the Bank was really stuck in a social time warp'.[28] He recalled the Bank's 'very strict' dress code and the forty-five minutes spent on it on the first day, including 'all the things that you could be sent home for wearing - i.e. brown shoes, bow ties, coloured shirts'. The Treasury, by contrast, was 'very relaxed' and rather 'scruff[y]'. This contributed to a culture at the Bank which held the Treasury in a 'certain disdain' and derived from the unwelcome nationalisation of 'a private institution and a very proud institution', and also from the 'inevitable tensions' between the Bank's funding of government debt and Treasury forms of economic management. In addition,

> *the Bank always had the rule, that to eliminate the scope for errors they had to pay about thirty-five per cent more than the going market rate, at any given level…so the bank officials were significantly better paid than the Treasury officials, albeit drawn from much the same pool of Oxford, Cambridge and LSE graduates.*

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[26] Interview, Sir David Walker; interview, Sir David Scholey.
[27] N. Pevsner, *The Building of England-London, Vol.1* (Penguin Books, 1957), p. 164, in E. Hennessy, *A Domestic History of the Bank of England, 1930-1960* (Cambridge, 1992), p. 395. The New Change building was on Bread Street, on the former 'site of the first C15th Hall of the Worshipful Company of Salters. The building was demolished in 2007', http://www.londongardensonline.org.uk/gardens-online-record.php?ID=COL046 (accessed 11 December 2018).
[28] Interview with David B. Smith at the Oxford and Cambridge Club, Pall Mall, December 2017.

New (debatably meritocratic) graduate in-take aside, the rest of the Bank was 'very lumpen' with a 'minor public-school ethos.' Men from the home counties would tend to be 'grade time-servers' and would be over-taken by new fast-track graduates. There was also

> *a third stream of supplementaries; people who could not go onto the career ladder, and these were mainly ex-colonial district officers at the end of Empire, some of them quite young still, had been found positions at the Bank.*

This was a question of 'doing the right thing' by those who had served, and an analogy was drawn with the duty to find a home for Mullens at the time of Big Bang, when the role of the Government Broker was taken in-house at the Bank.

Smith also described a still evident 'pre-war ambience' in the late 1960s. By this he meant 'the standard mode of discourse… was very pidgin P.G. Wodehouse… "old boy, old fruit, old bean", that sort of thing'. Altogether, the institution was 'very male' and 'very hierarchical' in structure. Consequently, 'it was very very difficult to think independently.'[29] This observation pointed to an institutional mindset and the development of institutional men through 'people's daily habituation' - a practice which has been described by Patrick Joyce as a means to reproduce elite forms of power.[30] It also explained a neoliberal critique of institutions like the Bank from some of the fringes of Thatcherism which challenged tradition and sought change.[31]

Ian Plenderleith, former head of the Gilt-edge Division, emphasised how the Bank's 'considerable influence depend[ed] a bit on the individuals', while also pointing to the institutional norms which ensured that lines of communication between the Bank and the Treasury were performed strictly in accordance with seniority, so

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[29] Interview, David B. Smith.
[30] Joyce, *State of Freedom*.
[31] For critiques of the Bank see D. Needham *UK Monetary Policy from Devaluation to Thatcher, 1967-82* (Basingstoke, 2014); A. Hotson, 'Review, UK Monetary Policy from Devaluation to Thatcher, 1967-82', *Economic History Review*, 68:2 (2015), pp. 743-745.

the Governor would meet with the Chancellor, and to some extent the Permanent Secretary at the Treasury; and then there were sort of lines of contact at different levels…the kind of things I'd be talking to the Treasury about would be operational detail and I'd be talking to the kind of desk level people at my level.[32]

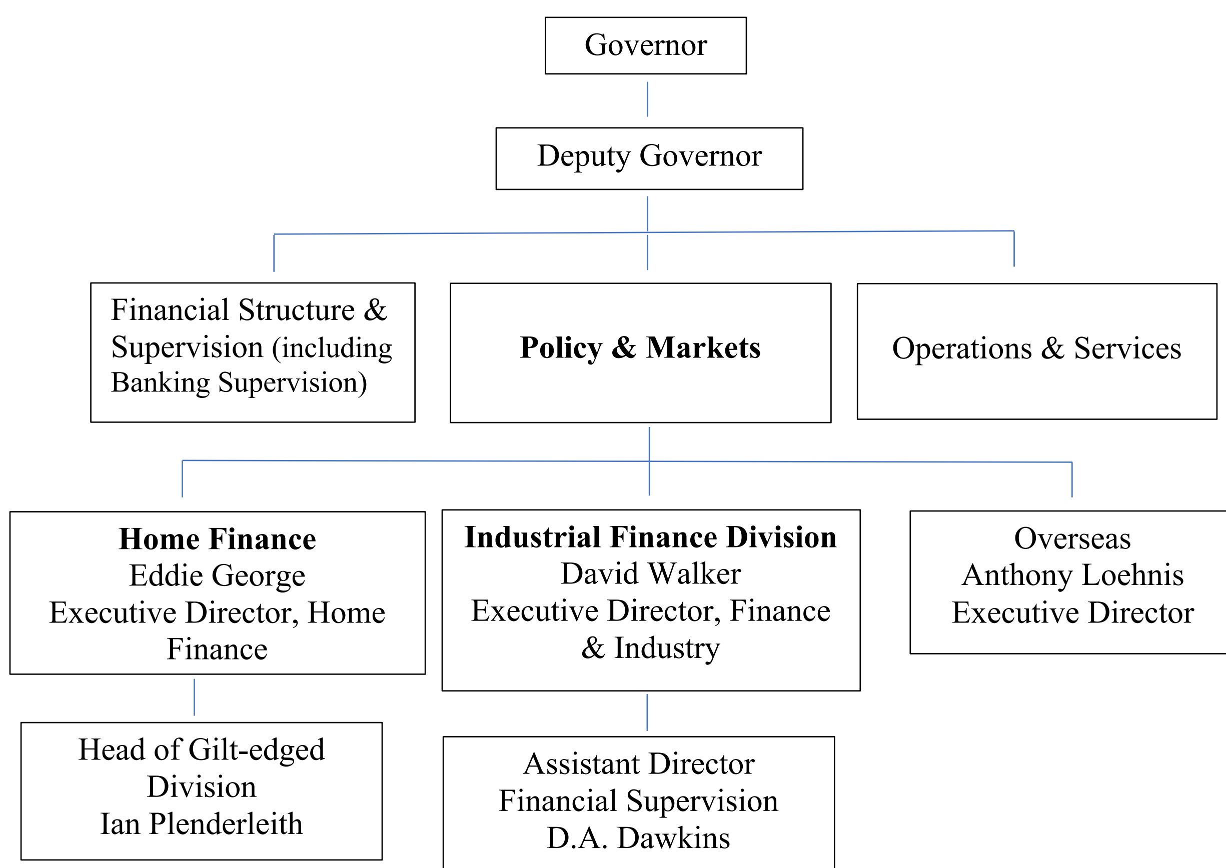
As Historical Institutionalism methodologies suggest, these observations imply that the institutionalised nature of the Bank/Treasury relationship contributed to shaping change; that the institutions were themselves dynamic, rather than simply responsive to events.[33]

The Court of the Bank of England, as the executive was known, captures the sense of grandeur and institutional formality accorded to the Bank's governing body. The Court met on Thursday mornings, was addressed by the Governor, and executives would contribute when invited to do so. Appointments to the Court were made by the Crown, and while 'in effect, this meant the prime minister, advised by the Chancellor', it was accepted that 'in practice, the Governor's wishes should carry very special weight'.[34] Selection methods were 'distinctly opaque' with 'traditional informal contacts and connections remaining important.'[35] In 1980 when the Bank was re-organised, the Governor was likened even then to an 'Eastern potentate'.[36]

From 1980, the management structure consisted of the Governor supported by the Deputy Governor, and thereafter Executive Directors with executive responsibilities for the main operational areas. In reality, at that time 'services' were effectively 'downgraded', while 'Policy and Markets' operations were elevated. The idea was 'to strengthen the analytical parts of the Bank and improve their focus on policy issues and their links with

[32] Interview, Ian Plenderleith.
[33] See Thelen, 'Historical Institutionalism in Comparative Politics', for institutions determining interests and policies, as opposed to simply formulating or implementing policy.
[34] Capie, *Bank of England*, p. 369.
[35] Ibid., p. 36; See https://www.bankofengland.co.uk/about/people/court-of-directors (accessed 11 December 2018).
[36] Capie, *Bank of England*, p. 829; also Kynaston, *Time's Last Sand*, p. 595.

market operations'.[37] This was part of creating an 'alternative centre of excellence for forecasting and analysis capable of rivalling the treasury.'[38] Within the newly strengthened Policy and Markets arena, by 1982 David Walker was Executive Director for Finance and Industry, responsible for the development of City markets (other than gilts). Eddie George was Executive Director for Home Finance, responsible for monetary policy and market operations, including the gilt-edged market.[39] Both had been Assistant Directors in their divisions from 1980-1982.



2.1 Simplified diagrammatic structure of the Bank on the eve of Big Bang.[40]

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[37] C. Dow, *Inside the Bank of England: Memoirs of Christopher Dow, Chief Economist 1973-84* (Basingstoke, 2013), p. 20.
[38] Ibid. p. 21.
[39] Capie, *Bank of England,* pp. 826-827. The third area was Operations and Services, which incorporated the Banking Department, Chief Cashier and Registrar, and Corporate Services.
[40] Adapted from Capie, *Bank of England*, p. 827, and *Bank of England Annual Report, 1983*.

The 1980 reorganisation was driven by two major changes in the Bank's function as well as the Governor's desire for reform. First, the abolition of exchange controls in 1979 required a much smaller administrative function which moved to the newly formed Operations and Services section. Second, the Banking Act of 1979 (precipitated by the secondary banking crisis of the early 1970s and associated 'lifeboat' bank rescues) marked a shift from informal oversight to more formal supervision of banking. The Financial Structure and Supervision section became the banking sector's 'watchdog'.[41] Restructuring also allowed the Bank to reconfigure senior posts by re-deploying some and elevating others according to the Governor's wishes and priorities.[42]

In 1980 the Bank's function was to manage the national debt, 'a task involving repeated new issues and redemptions of gilt-edged stock, as well as routine payments, and transfers'.[43] It acted as banker to the Government and commercial banks; managed cash flow and the money supply; intervened in the money markets and foreign exchanges; advised government; oversaw the City, monitoring its wellbeing, and from 1979 formally supervised the banking system. It also monitored the 'financial health' of the UK's industrial sector and played an international role alongside other central banks.[44]

In 1958 the then Governor, Cameron Cobbold, informed the Radcliffe Committee on the Working of the Monetary System that the Bank was 'a bank and not a study group'.[45] According to Charles Goodhart, the Bank's Chief Adviser from 1980-85, this was 'an

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[41] M. Reid, *All-Change in the City: The Revolution in Britain's Financial Sector* (Basingstoke, 1988), p. 206.
[42] Dow, *Inside the Bank,* pp. 20-21. The role of Chief Cashier was effectively downgraded as an 'empire' was dismantled and the Chief Cashier, John Page was made responsible for the Banking Supervision Division.
[43] Reid, *All-Change*, p. 206.
[44] Ibid.
[45] Goodhart, 'Bank of England', p. 340.

aphorism which senior management used quite frequently and approvingly' when he joined the Bank in 1968.[46] It was taken to imply

> *that the heart of the Bank then lay in its operational links with financial markets and institutions, and not its contribution to macroeconomic analysis and policy.*[47]

By 2003 arguably the reverse was true. Goodhart noted the shift to an 'enhanced' role in 'macro-monetary policy-making' and a 'diminished' one as a 'market operator in the City'.[48]

The shift centred on the Bank being formally granted operational independence for monetary policy by the Labour government in 1997.[49] At the same time, day to day management of gilts went to the Treasury and banking supervision soon shifted to the Financial Services Authority.[50] Nevertheless, the Bank remained responsible for financial stability (as the lender of last resort, operator of the payments system, and as an operator within the main financial markets).[51] Moreover, in 2004 Governor Mervyn King insisted the Bank remained 'a bank and not a study group' because of its broad and sustained relationships, 'high degree of personal contact', and the value attached to its 'line of communication' with the financial sector.[52] Clearly, the Bank's established power and influence was perceived to reside still in the strength of its networked relationships, as this chapter argues was the case during the Big Bang period.

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[46] Ibid.
[47] Ibid.
[48] Ibid.
[49] Although, in practice, the Bank had been operationally independent following the ERM crisis in September 1992, as Chancellor Ken Clarke had deferred to the Monetary Policy Committee. Gordon Brown formalised that practice.
[50] Kynaston, *Club No More*, pp. 774-775.
[51] It also shared regulatory responsibility with key institutions and continued to share information, often in the time-honoured way of making appointments to governing boards.
[52] Mervyn King, Mansion House speech, 16 June 2004, https://www.bankofengland.co.uk/-/media/boe/files/speech/2004/mervyn-king-mansion-house (accessed 29 January 2019). King acknowledged that questions arose about the Bank's 'traditional role in the City', as its focus had shifted from day-to-day regulation to monitoring monetary and financial stability.

In the transitionary Big Bang period, the Bank's key objective was to ensure regulated and disciplined markets. Central control under the auspices of the Exchange was a means to achieve this, using enhanced central information systems and self-regulation. Central control of securities markets was more important than strengthening London as a world financial centre or even the capital requirements of Exchange firms, although clearly these factors interconnected.[53]

David Walker and Eddie George, who became Executive Directors on the same day in 1982, were both instrumental in shaping City-wide reforms. The difference was that, whereas Walker was interested in the overall 'efficiency and effectiveness of the financial system', George had a 'much more operational interest', centred on 'executing monetary policy, by selling gilts in the appropriate amount to control the money supply' and 'fund[ing] the Government borrowing requirement at minimum cost'.[54] This meant, essentially, that Walker was interested in broad outcomes and objectives, while George was necessarily interested in process and operational detail. Accordingly, the gilts side was 'very focused on developing… what we thought the new model of the gilt market should be like.'[55] Overall, the Bank had

> *a terrific interest in the structural implications for the changes in the market; directly in the gilt market, because that was one of our main operating markets; at one remove in the equity market where our interest was as a central Bank seeing that there were decent liquid properly regulated markets. And if there were changes, we wanted to be involved in the process of understanding what they were and satisfying our self that it was a sensible change. So that was natural, and it grew out of the normal working relationship. It was certainly intensified...leading up to Big Bang.*[56]

[53] See Paper, 'The Future of the Stock Exchange', 4 November 1981, 15A91/1, BOE; 'Stock Exchange: Development of a Main Alternative Option', J. R. E. Footman, Industrial Finance Division, to Dawkins, 22 November 1982, 15A91/1, BOE, discussed below.
[54] Interview, Ian Plenderleith.
[55] Ibid.
[56] Ibid.

The Gilts Market: Responsibility to the Treasury or the market's man?

The relationship with government differed according to the Bank's various functions. The gilts side was the key interface between the Bank and the Treasury. Ian Plenderleith regarded the Treasury as the 'shareholder' and the job 'to carry out the Government policies in our area of competence'. From this perspective the Bank was 'very clearly on the official side - the Government side of the divide between the Government and private markets'. But it was never 'happy' to be called 'an instrument of government and it would certainly insist on being called an instrument with its own brain'. It had its own 'functions' and charter, 'so we had a degree of governance, independence. We were responsible to our court…not to ministers or parliament'.[57]

Ian Plenderleith insisted even when its role was 'essentially advisory', 'the Bank could be pretty powerful in the advice it gave or the arguments it made'. On monetary policy it would 'propose the number and sort of gilts it should try and sell' at monthly meetings and 'the Treasury would agree'. The Bank had 'considerable…room for manoeuvre.'

> *It was up to us…to manage the market…the Treasury was interested…but wouldn't generally second guess us…The relationship was pretty good…backed by a lot of individual contact… At the end of the day, it was the Treasury's responsibility, but the Bank had considerable operational flexibility.*[58]

Correspondence from 1982 illustrates the relationship in operation, but highlights some of the disagreements between the parties over the mechanism for selling gilts (the benefits of 'auctions versus taps'). Treasury planning was evident from the February 1981 paper produced by its '"occasional" group on funding', which the Bank was asked to supplement by producing a report on the techniques for selling gilts.[59] From the Treasury's perspective, as Douglas Wass noted, auctions offered 'greater control over the quantity sold'.

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[57] Ibid.
[58] Ibid.
[59] Letter, Douglas Wass, Permanent Secretary at the Treasury, to Bank Deputy Governor, Kit McMahon, 15 March 1982, T521/43, TNA.

However, that was tempered by 'less price stability' and the 'adverse consequences for the jobbing system'.

The Bank had 'often told' the Treasury that jobbers were 'not highly capitalised' and 'could not be expected to run sizeable books, particularly of long-dated stocks, *if the assurance they now have about the price at which the Bank will sell them in the market were… removed*', [Bank emphasis]. As a result, the Treasury had concluded

> *In a sense the assurance which the Bank offers about price, together with the Bank's willingness to buy back stock or to lend it in certain circumstances, performs the function of the capitalisation they lack.*[60]

Thus, in seeking to understand exactly what the Bank did 'to preserve the jobbing system' and how the system might develop, the Treasury indicated that mechanisms existed to overcome capital shortfalls. Capital requirements as the driving force for reforms need to be seen in the context of capital arrangements which worked, even if they might not necessarily have endured.

The Bank's initial response was to advise that the whole issue needed 'tackling more deeply and broadly' than was 'implied by coming at it initially from the point of view of marketing gilt-edged'. Rather, 'important prior questions' about the continuance or otherwise of the single capacity system arose.[61] The review of gilts would therefore be part of Walker's wider review of the efficiency of markets and the effectiveness of regulation, to encompass the OFT case and Gower review of investor protection. As discussed in Chapter One, this essentially linked two parallel but inter-related concerns about the future operation of the equity and the gilts markets.

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[60] Ibid. Italics denote underlining by the Bank.
[61] Letter, Kit McMahon to Douglas Wass, 24 March 1982, 15A91/1, BOE.

The Bank thus asserted operational independence while signalling intent to remove the Exchange from court proceedings and uphold self-regulation. Moreover, by linking the sale of gilts to the OFT case rather than immediately address market functionality, the Bank exerted pressure on the Government whose ability to conduct monetary policy and fund its borrowing requirements had been threatened by gilt-edged strikes.[62] As such, this manoeuvring can be seen as part of the 'campaign' to end the RPC case which stepped up when Walker became an Executive Director.[63]

The Bank acknowledged that 'modest capitalisation' of the jobbing system constrained 'our freedom to experiment with new selling techniques', such as American style auctions. However, '[i]n saying this…we have not intended to give the impression…that the jobbing system is undercapitalised in some absolute sense - it probably is not for its present role'.[64] Nor, it was emphasised, was the Bank against institutional change. It did not seek 'to preserve the jobbing system for its own sake' but regarded the merits or otherwise of the auction system as a 'quite separate point'. Such a system if used 'aggressively… would produce…price instability and hence less marketability than other arrangements that took more account of market conditions.'[65] 'Against this background', the Deputy Governor wondered 'whether the emphasis that you give to the question of capitalisation does not go rather far.' Admittedly, better capitalised jobbers could 'absorb greater losses and so take on more risk', but why would they unless the 'risk-reward position' improved? They were more likely to minimise risks and markets would become less liquid as a result. Thus

[62] Wass had asked how the system might develop in the absence of the OFT case, or if the RPC found against the rule book. Left unspoken was the Treasury's sensitivity regarding the operation of the gilts market following gilt-edged strikes which on occasion had directly threatened the Thatcher government's ability to meet monetary objectives and the borrowing requirement from 1979.
[63] See Kynaston, *Club No More*, pp. 623-634.
[64] Letter, Kit McMahon to Douglas Wass, 15 June 1982, T521/43, TNA.
[65] Ibid. To 'sell a required quantity of stock irrespective of market conditions, would produce more short-run price instability and hence less marketability than other arrangements that took more account of market conditions.'

the various facilities which the Bank provides to the gilt-edged market should not be seen as a prop to undercapitalised jobbers. The purpose of the facilities is to aid the marketability of gilt edged, and we would almost certainly need to continue providing comparable facilities, perhaps on a larger scale, if the nature of the market-making mechanism were to change.[66]

This confirmed, first, that jobbers' relative lack of capital was routinely overcome through a managed process; and, second, that, for the Bank, lack of capital was not the central concern. In terms of selling gilts, auctions dealt in quantity, whereas 'tap sales' allowed the Bank to sell government debt in small tranches and to turn sales on and off, like a tap. Gordon Pepper argued this amounted to the Bank controlling the market.[67] The ability to control the process of marketing gilts and thereby meet its funding objectives was the Bank's central concern at this juncture. Only following its comprehensive review of markets did the Bank begin to support auctions as a means of providing a 'more robust structure'. Thereafter, Big Bang enabled 'larger players' to operate as market makers, take on stock at auction and subsequently distribute it, as under-capitalised jobbers had been unable to do.[68]

In terms of the development of the gilts market, Ian Plenderleith confirmed that the 'interest' on the gilts side was to have

committed gilt-edge market makers who were prepared to make committed two-way markets to clients in…adequate size so that there was an active trading market. Because the more active the trading market the more easy it was for us to sell new gilts at a cheaper price.

Essentially, liquidity made the cost of borrowing cheaper. As this obtained for equities and gilts, the Gilt-edge Division, under Eddie George, 'ran very consistently with the general direction of reform' of the Stock Exchange, led by David Walker.[69]

Although George was the acknowledged architect of reform in the gilts market, Walker regarded him as responsive to what was happening on the equities side, cautious

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66 Letter, Kit McMahon to Douglas Wass, 15 June 1982, T521/43, TNA.
67 Interview, Gordon Pepper.
68 Interview, Ian Plenderleith.
69 Ibid.

rather than revolutionary.[70] This was a view upheld by Warburg's Andrew Smithers who, at interview, explained that 'Eddie was all against the proposed changes in the Stock Exchange', particularly ending single capacity, for the 'very correct reason' that going to an 'American system' of dual capacity would cause 'appalling conflicts of interest'. At a 'key' dinner ('as it's easier to have discussions of length outside business hours'), Smithers, who regarded restrictions as a 'disaster for Britain', claimed to have personally influenced George:

> *I said, look the Stock Exchange has cost the British economy zillions in jobs and money because of its restrictive practices. And this was a revelation to Eddie and he really rocked back, and he changed his attitude.*[71]

The Government Broker, by tradition the senior partner of brokers Mullens, was the intermediary between the Bank and the market. His role was 'to raise new money for the Treasury or "lengthen the debt" by issuing long-dated paper and buying in shorter issues'.[72] The Government Broker would attend the Court of the Bank on Thursday mornings and then appear on a bench on the floor of the Exchange to announce interest rates. Practitioners' vivid recollections of the Government Broker addressing the market in his silk top hat pointed to the importance of hierarchy and tradition in working practices and their role in upholding authority.[73] From a Bank perspective, the Broker was 'privy to all [its] plans for gilt-edged operations' and was thus on the Bank's 'side of the dividing line' with the market.[74]

Some in the market regarded the Bank as more the representative of the City than the instrument of government. Andrew Smithers, for instance, regarded the Bank as the dominant

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[70] Interview, Sir David Walker.

[71] Interview, Andrew Smithers. The dinner was attended by a select few from Warburg's - David Scholey, Simon Cairns and Smithers - and Bank executives David Walker, Eddie George, and Anthony Loehnis.

[72] See *The Telegraph*, Obituaries, Sir Nigel Althaus, 21 August 2007, https://www.telegraph.co.uk/news/obituaries/1560840/Sir-Nigel-Althaus.html (accessed 13 December 2018). Officially the role was to 'reduce the national debt'.

[73] Joint interview with Francis Boff and Steven Raven, Claygate, January 2018.

[74] Interview, Ian Plenderleith.

adviser to government on City affairs in this period, and emphasised the lesser role of the Treasury.[75] Equally, Gordon Pepper described the Bank as 'the market's man' based on its 'knowledge of the psychology of the stock market…the gilt market and discount market'. Moreover, because the Bank 'never ever put the economic argument for raising interest rates because of the money supply…they were just treated as the market dealer'.[76] But even as 'the market's man', Pepper argued,

> *Margaret had no confidence at all in the Bank as a market nose. I didn't help there. Because I explained on occasions look, for goodness sake, it's the gilt market talking. Look, if interet rates go up, they'll make money out of you. Tell them where to go.*[77]

The Bank's development of the Central Gilts Office (CGO) (book entry system) and the 'Assured Payments system' (to settle transactions and limit risks) was a major technological contribution underpinning reforms. The objective was to ensure gilt market makers would receive money for trades done, even if a party to the transaction defaulted. The means to underwrite the system was to persuade the banks to provide 'an open-ended' guarantee of all trades. Plenderleith admitted this was 'a bit of a tall order', even though the banks were offered a lien over the gilts they were funding.[78]

> *It took a long time, because I remember the last negotiating session, I actually asked them to come and bring their sleeping bags, because it was a Friday, and if we didn't agree by 5 o'clock we were going to stay there all night and over the weekend, we'd got to get it agreed.*

He reassured the banks by promising to intervene to stop Assured Payments and 'limit their exposure' if things went wrong.

> *They called that the Armageddon button, which enabled them to sell it to their management. And they gave me a little plaque with a brass bell on it called the*

[75] Interview, Andrew Smithers.
[76] Interview, Gordon Pepper.
[77] Ibid.
[78] Interview, Ian Plenderleith: 'So that if a counterparty defaulted, the market maker would get his money from the bank, and if the bank wasn't recompensed it could step in and take over the gilts, which would collateralise its exposure. And then sell them in the market'.

> *Armageddon button afterwards, which was very sweet of them, which I've got on my desk at home.*[79]

This spoke to the strength of relationships with the City and the power of 'persuasion frankly…because there's no point us trying to impose something like that on the market. Frankly, it won't play ball, even though yes, of course, the Bank has a certain stature'. Personal relationships based on trust and also a dose of humour 'help[ed] a bit too', but Plenderleith 'always felt…it's force of argument and intellectual clarity that really matters. If a thing isn't really thought through, then you'll never persuade people to do it.' This echoed David Walker's intellectual approach to reform and confirmed the importance attached to detailed planning at the Bank. Plenderleith emphasised the importance of building the force of argument; telling 'a strong story'; 'iterative dialogue'; and 'win[ning] hearts and minds'. The 'complicated process' also depended on 'integrity and trust, that they actually believe that you're working in their interests.' Cultural capital was thus employed, but the Bank was 'hopefully generating some as well, by making them see that what you're suggesting is actually a good idea and in their interests'.[80] This was a classic form of governance by the Bank and confirmed the constitutive role of culture to modernising reforms.

The intellectual approach to reforms was arguably complicated by Thatcher's own personal relationships with the Bank. Gordon Pepper noted her antipathy toward the Deputy Governor Kit McMahon, who was considered Keynesian, and her friendship with his successor, George Blunden, whom he described as 'Margaret's spy in the Bank of England.'[81] Blunden was Thatcher's personal choice for Deputy Governor; he believed inflation was a 'deadly sin', was 'a stickler for the Bank's traditions', and was just what

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[79] Interview, Ian Plenderleith. He noted the impression in Kynaston, *Time's Last Sand*, p. 619, was that the Armageddon Button would halt Big Bang, which was not the case. It would halt Assured Payments.
[80] Interview, Ian Plenderleith.
[81] Interview, Gordon Pepper.

Thatcher thought 'the Bank needed'. However, Blunden's 'distinctly old school' reputation almost certainly cemented (already embedded) conservatism within the Bank during a period of otherwise revolutionary change in the City. Leigh-Pemberton was Thatcher's choice for Governor in 1983 and from 1986, when Blunden became deputy, the two were regarded as a 'well-functioning double act with substantial mutual empathy and a robust impatience with over-intellectualising'.[82] Thus, with her imprint on both appointments, Thatcher arguably played a role in upholding conservatism at the Bank when an intellectual approach (as advocated by Walker and Plenderleith) was required and which, if enhanced, may have contributed to better analysis of the impact of foreign ownership on the City.

Thatcher's communications with Blunden were confirmed by Adam Ridley, who also threw light on the Treasury's expectations of the Bank.[83] When asked whether the Government had considered the impact of exchange control abolition on the Stock Exchange, Ridley responded, '[t]he Bank of England hadn't?' Pressed about the Government, he affirmed 'I was going to say the Bank of England. Because there's an interesting underlying question about who's responsible for what…'[84] Certainly the Treasury made routine requests for advisory papers from the Bank and personal networks between the institutions were crucial. Ridley 'had various friends over there' and would 'never disclose' some 'absolute confidences' which would go with him 'to the grave'. Again, trust and emotion furthered business practices.

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[82] George Blunden had worked for the Bank since 1947. He played a key role in resolving the secondary banking crisis of the 1970s and in banking supervision thereafter, including implementing the 1979 Banking Act. He also played an important part in the reorganisation of the Bank which became effective in 1980. Having retired in 1984, Blunden was 'summoned from retirement to bolster the Bank', on Thatcher's recommendation, after the Johnson Matthey bank bail out by the Bank in 1985 dented the Bank's reputation with government, see also p. 174. Blunden acted as Deputy Governor from 1986-1990. See 'Obituary, Sir George Blunden', *The Times*, 7 March 2012.

[83] Interview, Sir Adam Ridley. As a former Special Adviser to Geoffrey Howe, Ridley spoke of 'senior people in the Bank who used to occasionally talk to Mrs T., George Blunden was one.'

[84] Interview, Sir Adam Ridley.

On the securities side, Walker, who began his career at the Treasury, was regarded by some practitioners, like Pepper, as primarily a Treasury man; 'I would call him a senior government official or civil service official…Treasury first. Bank second'.[85] Walker was personally recruited by Gordon Richardson and made his career in banking/ regulation. But he agreed that his background at the Treasury 'helped, (oh it helped)' in securing reforms by allowing him to carry people with him. He referred to great friendships and close working relationships with key individuals, underscoring the importance of his cross-sector network.[86] In so doing, Walker attested to the role of strategic policy networks in promoting and achieving change.[87]

The Securities Market: Local imperatives and global challenges

In defence of its rule book and to protect single capacity, the Stock Exchange argued that fixed commissions and single capacity were intrinsically linked as negotiated commissions would spark dual capacity. It associated dual capacity with mergers; the participation of outside financial institutions; conflicts of interest; and the risk of 'off market trading' (for example, if research was conducted by financial services outside the Exchange as part of the 'unbundling' of broker services). In short, the Exchange argued that a new trading system, new players and new forms of investment represented a fundamental risk to the central market, threatening market efficiency and liquidity.[88]

Although fixed commissions were anti-competitive and difficult to defend, by acknowledging the link argument, the Bank recognised the threat to single capacity. It took seriously the 'certain…movement towards increased trading outside the floor of the Stock

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[85] Interview, Gordon Pepper.
[86] Interview, Sir David Walker.
[87] See Pemberton, 'Policy Networks'; Hall, 'Policy Paradigms'; Hall, 'Role of Interests, Institutions and Ideas'.
[88] Paper, 'The Future of the Stock Exchange', 4 November 1981, 15A91/1, BOE.

Exchange' which would make the Exchange 'a much less attractive place in which to float new issues'. As such, the sale of gilts to fund government debt, and equities to fund business would be adversely impacted. Moreover, a central exchange provided a 'central point' where price levels were transparent, and rules and regulations applied. Conversely, it was noted, a shift in trading outside the Exchange posed 'severe problems' for regulation and financial monitoring. Accordingly, the Bank's strong preference was for a rule change which allowed 'newly structured entities' to operate within rather than outside the Exchange. By late 1981, the viability of the Exchange was thus linked to its ability to perform a central regulatory function which would satisfy the Bank's concern for prudential standards under a new trading system.[89]

By then the Bank had evaluated US trading systems and was able to envisage a new market system.[90] The conclusions it drew from the US study were two-fold. First, given the different trading systems and 'clearly diffuse' structure of US markets, there was nothing to support the view that any particular trading arrangement was 'sacrosanct'. This implied that the single capacity jobbing system could be challenged - and thus directly undermined the Exchange's legal defence in the RPC. Second, the benefits of a central unified market were confirmed, as in the US the SEC was 'engaged on a programme' of trying to bring together its diffuse systems 'to create a national market system which would be able to maintain stable and orderly markets'.[91] The 'irony' that the US sought a national market just as the UK was 'having to contemplate the possibility that our central market may to a greater or lesser extent disintegrate in the next decade' was not lost on the Bank.[92]

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[89] Ibid.
[90] Ibid.
[91] Advantages included 'maximum capacity for absorbing trading imbalances' and the ability to 'centralise all buying and selling' in the best interests of investors.
[92] Paper, 'The Future of the Stock Exchange', 4 November 1981, 15A91/1, BOE.

Clearly then, the Bank was alert to the dangers facing the Exchange and by late 1981 had studied different trading models, weighed objectives, and was planning for the future. Regulated orderly markets were the uppermost consideration and rested on the survival of the central market.

A vision for the future: The unified central regulated market

Walker sought to end the RPC case in favour of administrative enquiry. Ending adversarial proceedings would allow practices and systems to be determined on their merits and for the Exchange to move forwards. Conversely, the RPC case required a defence of the entire rule book, was protracted and stasis-inducing. While exploring the means to end the case, Walker and his team also considered alternative ways in which the Exchange might operate. This exercise was designed to either help reach an out of court settlement; inform evidence given during a trial; or shape an alternative trading mechanism if the courts found against the Exchange. Walker's approach was thus informed by immediate local imperatives, but there was a second strand to his work. The visionary exercise permitted the Bank to shape the Exchange and influence future trading systems, taking account of growing internationalism and technological changes.

The Bank's objectives and priorities for the market were clarified in August 1982 when Walker outlined the 'Main Alternative Option' (MAO) for the Exchange.[93] The 'maintenance of a unified market' was the 'cornerstone' of the Bank's vision. It rested on 'all deals first hav[ing] to be offered on the floor of the market'.[94] In terms of defining the market, this implied the central exchange itself was the market, made up of the body of

[93] Memo, 'Stock Exchange structure and the RPA reference', p. 7, David Walker to Deputy Governor, 24 August 1982, 15A91/1, BOE.
[94] The Bank simultaneously made enquiries of City firms and banks about the circumstances, if any, in which they dealt outside the Exchange. The responses indicated that outside trading was relatively uncommon within the Bank's circle, despite the availability of instruments like American Depository Receipts which could bypass the Exchange.

practitioners who constituted it. Similarly, Ian Plenderleith conjured the market and alluded to its social construction when he explained the Bank would

> *go out and talk to the Stock Exchange and the market to explain to them our thinking. One of the things that the market did do was tell us what was going on or what they were thinking about the whole time which was very helpful. And as far as we could give them any helpful steers we would do so. Although a lot of the time you just listen and take note.*[95]

As the MAO was developed, Douglas Dawkins helped conceptualise the central market in terms of what it should provide, namely *liquidity* and *scrutiny*.[96] Liquidity assumed market-makers would deal efficiently by offering continuous two-ways prices in large amounts of stock, which was best achieved if all deals were brought to the market and offered to market makers.[97] In terms of scrutiny, anomalies and abuses could be more easily detected if all business came to the central market and involved members of the Exchange - insiders rather than outsiders.[98] For the Bank, the central market ensured that regulatory authority resided with the authorities/self-regulatory organisation. It avoided a vacuum and also offered a measure of investor protection. The MAO demonstrated that *control* - of the central market and of methods of regulation - trumped concerns about precise trading arrangements, confirming that precise trading arrangements were not 'sacrosanct', whereas prudential regulation was.[99] Control also trumped money - the need for outside capital was not the locus

[95] Interview, Ian Plenderleith.
[96] 'Redesigning the Stock Exchange', Dawkins to Walker, 20 August 1982, 15A91/1, BOE.
[97] It was assumed those dealing outside the central market would cherry-pick less risky business, depriving market-makers of profits and making them less likely to perform only riskier business. Continuous trading and liquidity would be impaired.
[98] 'Redesigning the Stock Exchange', Dawkins to Walker, 20 August 1982, 15A91/1, BOE. A fragmentated market was harder to monitor; wider bid spreads, reduced liquidity in secondary markets, and higher costs for new issues and portfolio management were associated risks.
[99] Draft conclusions to paper on 'Stock Exchange Project', 4 November 1982, 15A91/1, BOE.

at this early juncture, even though the need to achieve a more robust model for funding gilts proved an important consideration.[100]

In his first address to the Court of the Bank in April 1982, Walker emphasised the importance of regulatory control in the context of the Gower Report. Gower had been asked to examine investor protection, consider statutory requirements and recommend legislative changes, including in response to EC directives.[101] Following Gower's interim Report, Walker professed he 'had difficulties with parts of the diagnosis and still more with the prescription' because what Gower proposed amounted to a 'largely statutory-based framework for self-regulation, which…would not…be as flexible or effective as better self-regulation.'[102] Walker therefore recommended an immediate 'strengthening in self-regulation', that it might be complemented rather than displaced, 'thus weakening or largely removing any case for extensive legislation'. The Court concurred but emphasised 'the City's response to Gower should, however, be constructive'. It was noted

> *the Bank would have a delicate task in seeking to ensure that, on the one hand, the risk of intrusion by statute was minimised and, on the other, an appropriately vigorous self-regulating initiative by the City was promoted.*[103]

In respect of the Stock Exchange itself, although 'it [wa]s relevant that… [it had] largely escape[d] stricture from Gower', the pressure resided in replacing a system which had inbuilt protections with one that did not. Thus 'any new system which [did] not offer the inbuilt protection of single capacity w[ould] need to meet an exacting specification.'[104] In retrospect, Warburg's Sir David Scholey, a fellow Director at the Bank, noted Gower's far-reaching review of financial services, his role as 'architect' of the 1986 Financial Services

[100] J. R. E. Footman to Coleby, 15 November 1984, enclosing extracts from the 'Minutes of the Court', 8 November 1984, 3A161/199, BOE.
[101] Pimlott, 'The Reform of Investor Protection in the UK', p. 141.
[102] Court of Directors Minutes, 22 April 1982, https://www.bankofengland.co.uk/-/media/boe/files/minutes/1982/court-1983.pdf (accessed 22 November 2018).
[103] Ibid.
[104] Memo, David Walker to Deputy Governor, 24 August 1982, 15A91/1, BOE.

Act, and the radical implications of a shift from supervision to regulation.[105] Contemporaneously, the Bank sought to moderate the shift to statutory regulation by upholding and strengthening self-regulation.

Influencing others: The MAO as Ammo

Against the background of the RPC case and the Gower Review, the MAO allowed the Bank to 'marshal our arguments', map out new ground, 'establish a position in it', and thereby influence others.[106] It 'enhance[d]' the Bank's 'capacity to influence future discussion in a sensible direction - whether with Ministers, the Stock Exchange or the OFT.' But although influence was sought, the need to exercise it discreetly was emphasised. Input from the Stock Exchange was essential - its advice and expertise would be drawn upon. But there should be no 'dual institution report' and the Bank's 'independence of position' should be stressed.[107] This policy of discretion was institutionally embedded in understandings of the Bank's proper role.[108]

In a *Quarterly Bulletin*, Richardson's successor Governor Robin Leigh-Pemberton subsequently stressed the practitioner-led nature of reform and the importance attached to the new trading system having been 'proposed by the market itself' as a result of 'consensus among members.'[109] The notion that the Bank played an important role in shaping reforms was thus publicly resisted: 'We in the Bank came to the debate armed with no blueprints but with some clear broad objectives, shared with government.'[110] This narrative, which has been

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[105] Interview, Sir David Scholey.
[106] Memo, David Walker to Deputy Governor, 24 August 1982, 15A91/1, BOE.
[107] Ibid.
[108] See Goodhart, 'Bank of England', p. 355.
[109] 'The future of the securities market', *Bank of England Quarterly Bulletin*, June 1984; see Chapter One for dissent amongst Stock Exchange firms (requiring of government intervention).
[110] Ibid.

largely accepted by historians, underestimated the role of the Bank and hence the scope and nature of its power and influence.[111]

The disavowal of influence also fed a narrative of a lack of planning by the authorities for Stock Exchange reforms.[112] Notwithstanding the Governor's assertion that the Bank had set only 'broad objectives', those objectives were the outcome of careful deliberations centred on 'redesigning the Stock Exchange' and determining 'the future' of the market. They led to a green paper on 'The Future of the Stock Exchange' in February 1983.[113] Moreover, Walker tellingly and deliberately distinguished between means and ends. He argued the market structure was simply an outcome, not an end in itself, and that objectives which had been achieved using restrictive practices might equally be achieved under a different system.[114] From this perspective, a practitioner-led contribution to new market arrangements achieved vital buy-in from the City, but the City was only determining the means to ends pre-determined by the Bank. The Bank's 'clear broad objectives' thus acquire a new importance, while its disavowal of a blueprint becomes disingenuous; there may not have been a blueprint for a trading system, but to look for one missed the point. Furthermore, the Bank's approach directly correlated with the Government's: in 1983 the Minister, Alex Fletcher, stressed 'one thing we didn't have was a blueprint, a master plan as to what shape the City should take. We thought that was best left to the financial institutions themselves'.[115] This narrative of an enabling government, which had removed hampering regulations, also devolved responsibility from government to 'the market'.

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[111] See Kynaston, *Club No More*, p. 631.
[112] Michie, *London Stock Exchange*, pp. 593-594.
[113] Redesigning the Stock Exchange', Dawkins to Walker, 20 August 1982, 15A91/1, BOE; Paper, 'The Future of the Stock Exchange', 4 November 1981, 15A91/1, BOE; 'The future of the securities market', *Bank of England Quarterly Bulletin*, June 1984; Kynaston, *Time's Last Sand*, p. 593.
[114] Memo, David Walker to Deputy Governor, 24 August 1982, 15A91/1, BOE.
[115] 'Fletcher: paramount need to put more punch into City', *The Scotsman*, 4 January 1983, in 15A91/1, BOE.

Information flows: The 'key to survival'

By November 1982 Walker's division already assumed a new market system would be introduced, based on dual capacity 'with safeguards, the most important of which w[ould] be information flows.' The Exchange's 'key to survival' would be its ability 'to seize the initiative in setting up information and dealing systems' for the new market. This resonated with practitioner Steven Raven's initiative, forged with government, to use technology to overcome the threat posed by the International Securities Regulatory Organisation (ISRO) to the central market, which is discussed in Chapter Three.[116] As a result of that initiative, ISRO went from being the 'enemy at the gates' to representing the Exchange's 'transformation from a national to an international institution…a stupendous achievement for which the whole City [wa]s in [the Exchange's] debt'.[117]

The Bank reasoned that if the Exchange could 'control whatever replaces or augments the trading floor', it would have 'a continuing basis on which to regulate the market.' This

> *reflect[ed] the belief that the Stock Exchange should take steps to remain the prime regulatory body (even if operating under a Securities Act), and should oversee the transition to whatever follows single capacity.*[118]

Allied to this, 'some pre-judgement of the shape of the new system' was required, 'so that the regulators c[ould], in a sense, get there first.' John Footman articulated these points and was adamant that in a technological age the 'new securities market c[ould] not simply be left to evolve' as would have been the case historically. Crucially, 'regulation c[ould] not follow behind'. Thus if a computer-linked dual capacity system was likely, 'the Stock Exchange must ensure that it controls the hardware from the start, just as it now controls the trading

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[116] ISRO was the self-regulatory organisation designed to represent foreign securities firms excluded from the Exchange. It was in direct competition with the Exchange and highlighted the problem of central market fragmentation by circumvention.

[117] Governor's speech at the Stock Exchange Christmas lunch, 17 December 1986, 7A320/6, BOE.

[118] 'Stock Exchange: Development of a Main Alternative Option', J. R. E. Footman, Industrial Finance Division, to Dawkins, 22 November 1982, 15A91/1, BOE.

floor.'[119] Significantly, Footman's views, which required intervention in the market, were upheld, demonstrating how even world trading markets were shaped locally. A 'less interventionist' attitude from Andrew Threadgold, at the Bank's Economics Division, was challenged. Threadgold argued that the 'abolition of the [Stock Exchange] cartel, and competitive pressures' should be sufficient to ensure an efficient (i.e. liquid) market, and that regulation should be allowed to evolve thereafter. He 'remained unrepentant' for these unpopular views but was prepared to concede

> *a role for the authorities in aiding and abetting the creation of a comprehensive market quotation and information system (probably in conjunction with the existing exchange).*[120]

The Bank's insistence that the new market structure should be underpinned by central information systems and disclosure provided by the Exchange protected the latter as an institution. The development of information systems became a major aspect of the Exchange's Big Bang preparations. Ironically, although promoting information and disclosure placed the Bank close to Thatcherite ideals, it acted to ensure the Exchange survived rather than for politically ideological reasons. Protective measures undermine the 'death of gentlemanly capitalism' narrative that the Bank (or indeed the Government) was insufficiently protectionist.

Threadgold was unusual at the Bank for advocating a pure approach to free markets based on little other than unleashing 'competitive pressures'. His views and language about abolishing the Stock Exchange 'cartel' were remarkably similar to John Redwood's, as discussed in Chapter Four. More generally, although the Bank supported competition, its paternal culture and interventionism precluded it from sharing this space, and on the gilts side

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[119] Ibid. As the 'key to survival from the Stock Exchange's point of view would be to seize the initiative in setting up information and dealing systems', Footman was emphasising the importance of controlling the software as well as the hardware.
[120] Memo, Threadgold to Footman, 'Stock Exchange: Development of a Main Alternative Option (your note of 22.11.82)', 23 November 1982, 15A91/1, BOE.

there was even a concern there might be too much competition.[121] As this section shows, uncovering the intentions of key actors and demonstrating how markets were shaped, by whom, to what extent and for what purposes, provides new ways of evaluating institutions as well as neoliberal reforms.

Bolstering the Exchange: Harnessing cultures of belonging and significant spaces

The danger that the Exchange would cease to be an authoritative self-regulatory body was heightened if 'the central floor were to lose its attraction' and trading developed outside the Exchange. In that event, the Bank feared *'membership of the Stock Exchange would lose much of its relevance',* in which case '*some additional statutory measures would be necessary to ensure an adequate level of regulation*' (Bank's emphasis). The Bank therefore sought to highlight the Exchange's 'continuing attractions' and discussed means to ensure the floor remained the 'appropriate forum for the conduct of securities business, at least in the short term'.

It was suggested that the floor could be represented as a 'substantial investment, not only in bricks and mortar but also in dealing systems and expertise.' Accordingly, brokers who operated on the floor might 'continue to *provide a "feel"'* for the market, unavailable to 'outsiders'. Jobbers might 'benefit from the "feel of the market" and the ability to gauge supply and demand and to judge the activities of competing market makers.' The floor also 'provided the basis for selling a "best execution" service' to those outside the Exchange, by offering transparency. Central services offered by the Exchange including the transaction settlement system, advocacy, professional services, and association with a recognised body were all 'valued benefits' to be promoted. As was the *'higher esteem with the public'* that

[121] For paternalism, see Kynaston, *Time's Last Sand*, pp. 554-555; for gilts, J. R. E. Footman to D. T. R. Carse, 17 January 1983, 'Stock Exchange', p.15, preparation paper for Carse to Plenderleith on 'Stock Exchange Structure', 15A91/1, BOE.

members of a professional association, backed by a compensation fund, gained compared with non-members. Looking further ahead, the Bank predicted that pressure to move away from the central floor could be contained - so long as the Exchange retained responsibility for information and dealing systems. However, the stakes were high; if the Exchange failed to do so, 'a *parallel and unregulated market*' would develop, jeopardising its survival.[122]

At interview, Ian Plenderleith confirmed the 'main interest' in whether the floor would survive the introduction of screen-based trading. To him, it seemed 'unlikely' there would be a physical trading floor for part of the day, and screen-trading thereafter.[123] However, because the floor of the Exchange was 'the only trading system', the demand for space continued up until Big Bang. Plenderleith recalled the 'terrific [gilts] dress rehearsal' for the electronic systems two or three weekends before Big Bang:

> *We wrote everybody a position and had a series of dummy events through the morning and they all traded away furiously. And I remember it being terrifically exciting when I saw the prices actually moving on the screen, thinking oh God, this does actually work. But the great thing was they were all excited, it was a Saturday morning, we sort of crammed a day into a Saturday morning, and they were all so excited about that they went off to the pub to celebrate and forgot to come back to do the settlement in the afternoon. So, we sent a very stern message saying that's not good enough and everybody's coming back next Saturday and we're going to do it all over again, but this time you're not going home till you've settled, because we wanted to test the settlement system as well. And happily, we did manage to do that as well and decided it worked ok.*

That the Bank should evoke the Stock Exchange floor as a tangible benefit of on-going membership was fitting because it held particular meaning for practitioners who had forged their careers on it. As discussed in Chapter Three, interviewees recalled the pressures of dealing there; how they had developed coping strategies and manoeuvred the floor, often walking miles each day; and how a sense of camaraderie was forged with peers which often resulted in life-long friendships. These friendships were cemented by the Stock Exchange

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[122] Footman to Dawkins, 'some further thoughts on Stock Exchange regulation', 17 December 1982, 15A91/1, BOE. Italics denote Bank emphasis.
[123] Interview, Ian Plenderleith.

clubs, such as the ski club, or the choir. Characters from the floor, pranks and hilarities were recalled. The meaning attached to the space was thus highly significant, particularly at a time of radical change when a way of life was threatened. The Bank's hope, that practitioners would be reluctant to relinquish the 'feel' of the market and that the Exchange would remain attractive to them, was thus well-founded. Nicholas Goodison observed that right up to Big Bang demand for space on the floor was over-subscribed.[124] The Bank's Gilt-edged Division, moreover, thought 'enforcement of a practical floor would prevent excessive competition' because the number of gilt market makers would be limited according to the physical space.[125] This brought to mind the 1399 traders permitted on the Stock Exchange floor and the 'outcry' by insiders when outsiders walked in to the Exchange. Interviewees recalled a hunting cry of '1400' where-after the unassuming culprit would be chased, tipped into a large wicker basket and 'de-bagged'. Even in 2018 retired practitioners meeting in their local Waitrose might call out '1400' in a *what are you doing here* sort of greeting and an acknowledgement of a shared past.[126]

Reaching an accord: From vision to intervention

When Lord Cockfield was appointed as Trade Secretary in April 1982, Walker advised Governor Richardson that an 'early initiative with the new Secretary of State [wa]s required.'[127] Walker had engaged his network in Whitehall, and Philip Brown at the Department of Trade in particular, to seek a non-judicial outcome for the Exchange.[128] As

[124] Interview, Sir Nicholas Goodison.
[125] J. R. E. Footman to D. T. R. Carse, 17 January 1983, 'Stock Exchange', p.15, preparation paper for Carse to Plenderleith on 'Stock Exchange Structure', 15A91/1, BOE.
[126] Interview, Francis Boff and Steven Raven.
[127] Memo, Walker to Governor, 'The RPA Reference and Gower', 17 May 1982, 17A120/3/2, BOE.
[128] Interview, Sir David Walker; see memo, Walker to Governor, 'The RPA Reference and Gower', 17 May 1982, 17A120/3/2, BOE, for reference to a 'sequence of conversations' with Brown. Philip Brown was Departmental Secretary at the Department of Trade. He was

former Trade Secretaries had declined to intervene, and because officials had professional obligations to their departments, the political sensitivities in doing so were acute. Walker had therefore 'taken this issue as far as it can be taken with the senior DoT hierarchy without creating for them an obligation to put their own assessment and advice in to Ministers first'. He imagined Cockfield 'could be induced to be sympathetic by [the Governor's] effective deployment of the arguments'. This was where the MAO came in. With the OFT case a ticking 'bomb' for the City, Cockfield should be persuaded to 'disconnect…a time-fuse'; he should be reminded that good self-regulation had 'the substantial merits of flexibility, operation by practitioners and minimum need for involvement by government'. Recent progress in raising standards and possibly 'much of the existing self-regulatory fabric would be eroded if the Stock Exchange, the fount of self-regulation, were to be subject to statute'. Indeed, persisting with the court case and an inflexible approach to competition policy by the Government risked 'driv[ing] out self-regulation altogether'. Cockfield might consider whether a 'very large extension of state intervention' was 'really what Government want[ed] to achieve or risk'.[129] In pressing all the advantages to the state of self-regulation, the Bank's foremost concern with regulatory outcomes comes to the fore, as opposed to concerns about alterations to the means of trading.

By August 1982 Sir Nicholas Goodison was advised that 'the initial approach' to Cockfield had received 'a negative response.' As a consequence, the Chancellor was 'now

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renowned for having 'devised a durable form of insurance regulation' which lasted from the early 1970s until the Financial Services Authority was created in 1986. He also master-minded the 1982 Insurance Companies Act. Brown belonged 'to the traditional British school of financial services regulators', which meant he preferred disclosure and reserve powers of intervention to a 'heavy-handed inspectorial approach'. See A. Duguid, *On the Brink: How a Crisis Transformed Lloyd's of London* (Basingstoke, 2014), p. 161.This sensibility and experience meant Brown was recruited into Lloyd's of London in the late 1980s, see Chapter Five. It also suggested a pragmatic approach which made him eminently suitable for Walker's networked approach to problem solving.

[129] Memo, Walker to Governor, 'The RPA Reference and Gower', 17 May 1982, 17A120/3/2, BOE.

proposing a tripartite meeting between the Governor, Lord Cockfield and himself'.[130] Richardson and Howe had already reached an understanding, on the basis of which the Governor had sought and received assurance from Goodison that 'the Stock Exchange Council could quickly be brought to agree to a commitment [to reforms] of the kind proposed in a situation where the reference would be lifted'.[131] This mattered because demonstrating 'a degree of accommodation by the Stock Exchange' made intervention 'politically and otherwise more acceptable.'[132] Despite the setback with Cockfield, the Bank 'had no intention of abandoning its attempt to get the case withdrawn' but advised Goodison 'the omens were not good.' The Treasury 'shared the Bank's view about the desirability of withdrawing the case' but were 'convinced that primary legislation would be necessary' and 'political objections' would make this 'a very unattractive option'. Accordingly, the Treasury 'appeared to be placing their hopes in reaching an out of court settlement through "without prejudice" discussions'. A way forward, which would satisfy the Treasury of Goodison's serious intent, was for him to hold without prejudice discussions with the DGFT, Sir Gordon Borrie.[133]

Walker was in 'no doubt' that compromise talks between the OFT and the Exchange which 'led to some form of generally acceptable out of court settlement' was 'what Ministers would prefer'. Indeed, 'they would see it as a means of making the problem… go away'.[134] Nevertheless, initiating 'without prejudice' talks presented a 'major difficulty'. Having secured Goodison's agreement, Walker again prevailed on the 'good offices' of DoT officials, including Philip Brown, to 'seek to persuade Borrie to offer informal and without prejudice discussion'. The outcome was 'disappointing', and Walker reported 'we are

[130] Note for record, 'Stock Exchange and RP Court', 6 August 1982; memo, David Walker to Deputy Governor, 24 August 1982, 15A91/1, BOE.
[131] Letter, Gordon Richardson to Geoffrey Howe, 24 June 1982, 15A91/3, BOE.
[132] Ibid.
[133] Memo, David Walker to Deputy Governor, 24 August 1982, 15A91/1, BOE.
[134] Ibid.

advised…that Borrie would not react well to being pressurised - even by Ministers - into being more forthcoming.'

However, demonstrating the determination to intervene in legal process, Walker insisted neither he, nor the DoT, excluded the possibility the Bank itself might

> *at some stage talk to Borrie. But this touches numerous sensitivities and would require careful consideration; we are, for the moment, a long way from being ourselves ready for any such discussion.*[135]

In addition to demonstrating the effective network between the Bank, the Treasury and DoT officials, the episode provides fascinating insights into how the Bank worked. For instance, it took care to use indirect mechanisms to further goals unless and until direct intervention was required. Pragmatism was also evident, as Walker was disinclined towards the tripartite meeting between the Chancellor, Secretary of State and the Governor, scheduled for September 1982, although 'if the Chancellor wishes to have it, so be it.'[136] Quite simply, because there was no immediate prospect of ministers intervening, Walker intended to use the 'delay' to develop the MAO as an 'alternative vision' for the Exchange. This would strengthen the Governor's hand 'on substance rather than procedure'.[137] In the best traditions of his institutional training at Whitehall and the Bank, Walker thus advocated detailed preparation as a means to best influence outcomes and advised Goodison 'the time [wa]s not yet ripe' for 'without prejudice' discussions.[138]

At interview, Walker reflected that Borrie was a 'good man' who was obliged to lead the 'attack' on the Exchange. He was 'a real pain in the neck for regulators, but a considerable, a very considerable fellow'. In language reminiscent of the adversarial legal proceedings they faced, Walker concluded that 'actually I trumped him in a way. I say I, it's

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[135] Ibid.
[136] Ibid.
[137] Ibid.
[138] Ibid. Walker noted that Goodison would be 'saddened' but would understand.

not I, but what happened trumped him'. The acknowledgment of the stature of the man, the office of DGFT, and the irregularity of stopping a case before the courts, lent Walker's feat epic proportions. As discussed in Chapter Three, he and Goodison took 'the same view' and were determined to 'break through this thing'. The language of heroes (Goodison was 'a hero' of all this) and the epic proportions suggested an often-told story, particularly as alternative perspectives, borne out by the archive, were not recognised. After more than thirty years, asked about the need to preserve the central market, Walker was

> *not sure I recognise that…it never occurred to me…I probably couldn't contemplate that we wouldn't win this thing and that it [fragmentation] would happen in the Stock Exchange.'*[139]

The inconsistency with the official record (and indeed with Goodison and Plenderleith's recollections about the 'great threat' of fragmentation) is consistent with methodologies which associate elite histories and/or well-known events with embedded narratives.[140] Retrospectively, the central market was not the most pressing issue. Moreover, this may have been exacerbated by the secrecy surrounding the Bank's intent, planning and degree of influence, as the need to protect the central market and retain regulatory control was not the dominant narrative coming from the Bank.

The development of the MAO as the 'alternative vision' for the Exchange was achieved on the basis that the Bank would be an 'amicus curiae' in the RPC case.[141] As it 'could not necessarily be committed to supporting the whole of the Stock Exchange case' (because, for example, it could not reasonably defend fixed commissions), the Bank would propose an alternative to the current system as a constructive way forward. This also

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[139] Interview, Sir David Walker.

[140] See Perks and Thomson, *Oral History Reader*, p. 4, pp. 88-90.

[141] '"Friend of the court", a person who is not actually involved in the case as a party but who brings a matter to the attention of the court. Usually the issue involves the public interest', W. J. Stewart, *Collins Dictionary of Law*, (2006); memo, David Walker to Deputy Governor, 24 August 1982, 15A91/1, BOE.

accorded with the Bank's sense of 'duty to the Exchange and perhaps to the legal processes' if, having considered alternatives to single capacity, 'we were able to offer evidence which would almost certainly change or be the catalyst for change of the course of events'.[142]

Personal relationships remained important. Both Walker and Goodison regarded Howe as a key ally, and Walker confirmed 'getting [him] around on the proposition there could be an override of the court process was very significant'. This applied because of Howe's authorship of fair-trade legislation and because 'engagement with government' through the Chancellor offered the realistic possibility that an offer by the Exchange to reform itself might end the RPC case. Walker saw this as critical in helping Goodison 'carry the Stock Exchange council and membership' in the direction of reform;[143] while Goodison confirmed it was a crucial lever over the membership.[144] As a step sequence it had political significance, because the Government needed 'to be able to say that the Stock Exchange had changed its position.'[145] Only a concession from the Exchange could justify the Government's U-turn on intervention and interference in legal process.

Disquietude about 'adversarial court proceedings' as the means of examining the Stock Exchange rule book was shared in correspondence between Philip Brown at Trade and Douglas Dawkins in January 1983.[146] Shortly thereafter, in February 1983, Cockfield approached the Governor to discuss the RPC case.[147] Walker credited Brown with 'persuad[ing] Arthur Cockfield - I don't think it was too difficult for him' as Cockfield was a

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142 Memo, 'The Stock Exchange: The OFT Challenge and the Future', C. E. Condren to Stevens and Dawkins, 22 January 1982, 15A91/1, BOE.
143 Interview, Sir David Walker.
144 Interview, Sir Nicholas Goodison.
145 The view subsequently expressed by Lawson as the incoming Chancellor in June 1983, MTFW, PREM19/1005 f111, 23 June 1983, 'City: Treasury record of conversation (Chancellor, Trade & Industry Secretary, Governor of the Bank of England) *[confirms 6 May decision to exempt] [declassified 2013]*', https://www.margaretthatcher.org/document/137163 (accessed 8 December 2018).
146 Letter, D. A. Dawkins to P. A. R. Brown, 19 January 1983, 15A91/1, BOE.
147 Paper, 'Stock Exchange', D. Walker to Deputy Governor, 14 February 1983, 15A91/4, BOE.

‘sort of enlightened businessman’ who ‘took wise decisions’. When he did engage, Cockfield ‘got it in a Nano-second…on the basis of discussions with…Brown’. Given that he prepared and rehearsed these arguments, Walker might reasonably claim influence here.

Ahead of the February meeting, Walker argued it was ‘more than ever desirable to get the case extracted from the RP Court’. He also sought assurances of ‘limited specific changes’ from the Exchange which would amount to ‘desirable development over time’. Having ‘given a good deal of thought to this’, Walker thought concessions might include ‘independent determination’ of minimum commissions; a ‘loosening up of membership rules’; and the abandonment of unlimited liability membership requirements. He stressed,

> *the Bank must be hesitant about itself proposing specific changes in market and regulatory practice and, in a sense, thrusting these on the SE Council and Lord Cockfield as the basis for a deal.*

Rather, the Stock Exchange council might be recomposed to incorporate market users and lay members, who could undertake a review. The ‘merit of this approach [wa]s that it avoid[ed] commitment to any particular blueprint for change’, while allowing the views of market users to be heard and ‘for a schedule of major issues’ to be ‘discussed and decided within a reasonable time’.[148]

Walker’s prevarication, in the wake of detailed planning, confirmed his preference for evolutionary rather than revolutionary change, which would be discounted by Lawson, as discussed in Chapter Three. The Bank’s desire to disavow a ‘blueprint’, its work below the radar, and preferences for City committees to resolve City affairs also stand out. Use of committees and informal structures manifestly constituted a ‘very clever system where the Bank didn’t have to get its hands dirty, but through intermediaries, and intermediate institutions, it could get the information’ or influence events.[149]

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[148] Ibid.
[149] Interview, David B. Smith.

The Bank's preference to end the court case and then see 'organic and managed' change was set out at a Bank/Treasury meeting in March 1983, chaired by Sir Douglas Wass.[150] Like the Bank, the Treasury expected to be a witness in the RPC case, had prepared and discussed evidence accordingly, and hoped to avoid court proceedings by removing the OFT case from the court. However, it was 'necessary to develop a justification' for doing so, and an explanation for 'the delay in doing so, for presentation to Ministers and publicly'.

The close relationship between the Bank and Treasury on this matter was emphasised by the need to bring in the Department of Trade, to 'establish whether [it] agreed with the Treasury and the Bank about the action required to stop the proceedings'. Agreement in principle was reached in May 1983, between the Chancellor, Lord Cockfield and the Governor (with Brown and Walker in attendance alongside Peter Middleton).[151] Ending proceedings could be justified if substantive restrictive practices were either approved, amended or abolished on satisfactory terms.

Having made 'good solid progress' with key ministers, Walker confessed his 'heart sank' when the cabinet was reshuffled following the 1983 general election. Also, in June 1983 Governor Richardson was succeeded by Robin Leigh-Pemberton, the 'Tory grandee' from Kent for whom 'Margaret had a soft spot', according to Gordon Pepper.[152] With Howe and Cockfield succeeded by Nigel Lawson and Cecil Parkinson respectively, Walker observed a 'combination' in whom Thatcher 'placed great confidence'.[153] Intellectually, Lawson 'got' the reforms 'in a Nano-second. The only argument… was that he wanted to go faster.' Meanwhile, Parkinson discussed proposals with Thatcher and briefed her about the

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[150] Note of meeting, 'The Stock Exchange and Restrictive Practices Reference', 24 March 1983, 17A123/1, BOE.
[151] MTFW, PREM19/1005 f113, 6 May 1983, 'Treasury record of conversation (Chancellor, Trade Secretary, Governor of the Bank of England) *[possible abandonment of Stock Exchange RPC case] [declassified 2013]*', http://www.margaretthatcher.org/document/137162 (accessed 18 December 2018).
[152] Interview, Gordon Pepper.
[153] Interview, Sir David Walker.

political implications of a negotiated settlement. For her part, Thatcher 'was fully committed to primary legislation if that proved necessary', which it did.[154]

The pace of reforms was dictated by Lawson who 'was adamant we had to do it all at once'. Walker recalled 'it was exactly the same' as the argument about ending exchange controls in 1979, 'and I was wrong, and he was right, exactly the same argument'. Walker explained that traders would anticipate rule changes and respond to them, for example by reducing commissions,

> *And there was no way you could police it and say you're breaking the rules, because these were the rules of a restrictive practices club, who was going to enforce them... And Nigel said no, no, if we're going to do it, let's do it all in one go. And that's what led Douglas Dawkins… [to say] that's a big bang… [and hence the term was introduced].*[155]

Thus, when it was reported in December 1983 that the Stock Exchange had 'almost certainly' decided, on behalf of its members, to proceed by way of a Big Bang, the matter had, in fact, been determined by the Chancellor.[156]

From Accord to Big Bang: Compromise on international capital and foreign ownership

In July 1983 the Goodison-Parkinson Accord set out the agreement (subject to ratification by Exchange members) that the Government would intervene to end the RPC case and the Exchange would implement reforms. Minimum commissions would be dismantled by the end of 1986, and changes to the Stock Exchange council would introduce lay members, with the

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[154] MTFW, PREM19/1005 f97, 12 July1983, 'City: Parkinson minute to MT ("Stock Exchange & Restrictive Practices Court")*[seeks permission to negotiate a settlement] [declassified 2013]*', https://www.margaretthatcher.org/document/137164 (accessed 1 August 2019); note for the record, 'Stock Exchange', 3 August 1983, 15A91/3, BOE.
[155] Interview, Sir David Walker.
[156] D. A. Dawkins, Note for the record, 'Meeting with the Stock Exchange', 15 December 1983, 15A91/5, BOE.

'number and method of selection' to be agreed with the Bank.[157] As discussed in Chapter Three, single capacity would continue, although the Government could amend the provision 'in light of the evolution of the market'.[158] Monitoring arrangements by the Bank and the DTI were confirmed and the agreement ratified. Thereafter, the Bank focussed immediately on 'modifications' to the constitution of the Stock Exchange council. The 'weight' which the Bank attached to 'securing an appropriate leavening of the Council' was indicative of its use of committee appointments to exercise control in the City.[159]

Ownership and international capital became agenda items after the July Accord. In August 1983 Douglas Dawkins wrote to colleagues saying, 'I for one feel ill-equipped to deal confidently with questions relating to the international competitive position of the Stock Exchange and of the UK securities industry as a whole'. Would they, as a 'mind clearing exercise…please see what can be done about providing answers' to some initial questions: first, 'is there any indication of the UK share in the world securities market and what has been happening to that share?'; second, 'in what ways might we expect Stock Exchange members in particular to increase their share of the world market?'; third, 'what sort of business ought they to be going after?'; fourth, 'what stops them doing it at the moment?'; fifth, 'if Stock Exchange members increase their share, might it be at the expense of other UK houses?'; sixth, 'for what reason might foreign ownership of Stock Exchange members or other UK intermediaries in securities trading be unwelcome to us?'[160] These questions generated considerable activity but, coming after the Goodison-Parkinson Accord, show how little international competition featured in the Bank's initial thinking, even in the domestic market. They confirm that even though the Bank was concerned with market efficiency and

[157] An appeals process on Stock Exchange membership, and rules to allow non-members to serve as non-executive directors of corporate member firms, were also agreed.
[158] The Resolution of the Council of The Stock Exchange, 22 July 1983, 15A91/3, BOE.
[159] Letter, Robin Leigh-Pemberton to Nigel Lawson, 'Stock Exchange', 12 August 1983, 15A91/3, BOE. The intention was to achieve a 25 per cent lay membership.
[160] D. A. D. to Footman, 'Stock Exchange', 10 August 1983, 15A91/3, BOE.

effectiveness, it acted in response to local rather than international pressures. This chapter's ethnographic approach has underlined the Bank's institutional conservatism, but findings that international competition barely featured in initial thinking suggest insularity was a part of that conservatism. The implication is that 'Wimbledonisation'- by accident rather than design - can be attributed to the characteristics of an historical institution as well as to the influx of foreign competition.[161]

By late September 1983 a paper which set out the 'present state of thinking in the Bank' about the ownership of the UK securities industry was shared with government departments.[162] The Bank anticipated a 'growing pressure for relaxation of membership rules', especially around outside ownership of Exchange firms. Rules which did not permit 'more than 20% of a firm's business to come from, or 29.9% of a firm's profits to go to, any given outside interest' were thus far unchanged. A relaxation of membership rules which admitted 'a variety of UK financial institutions' would also 'open the Exchange to large and powerful foreign banks and securities houses.' Moreover, moves towards dual capacity would 'provide a trading environment congenial to many foreign firms.' The Bank noted

> *while an injection of additional capital resources and new expertise into the Stock Exchange would no doubt be welcome, the prospect of a very high level of foreign penetration in the domestic securities market raise[d] difficult questions.*

Problematically, though, if the Exchange did not 'modify its rules' on capacity and ownership, the Bank envisaged trading 'outside the Stock Exchange framework'. It confirmed that under single capacity, member firms could 'operate efficiently on low levels of capital', especially as there were mechanisms to boost liquidity.[163] But while 'this system

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[161] See Pierson, 'Increasing Returns', for path dependent characteristics of historical institutions. For Wimbledonisation see Augar, *Death of Gentlemanly Capitalism*.
[162] Letter and paper, D. A. Dawkins to D. M. Bell, 26 September 1983, 'Ownership of UK Securites Industry', 15A91/4, BOE.
[163] These included money broking arrangements which 'helped to provide the resources for market making'. Money brokers were member firms authorised by the Bank to 'arrange loans

has worked well, and continues to do so', the Bank noted 'at a time of rapid change the level of capital resources may become more important, and in a dual capacity environment may become crucial'. Thus, capital became increasingly significant when the resources of UK firms began to compare unfavourably with those of foreign institutions. This was a symptom of reforms rather than being the driving force for change. It mattered when dual capacity was the consequence of negotiated commissions and when new entrants were encouraged into the Exchange to avoid trading outside it.

The paper on ownership was 'not clear' that 'foreign domination' was the only possible outcome or 'even a likely outcome' of a relaxation of Stock Exchange rules (as UK clearing banks and insurance companies would also be new suitors). But 'at the extreme' the Bank recognised the 'possibility…a large proportion, possibly a majority, of Stock Exchange business could fall to overseas-controlled firms.' It also recognised 'this outcome would probably be regarded as a Bad Thing'.[164] Arguing that objections mostly centred on dual capacity (which would encourage foreign ownership) rather than foreign ownership per se, the paper largely discounted concerns about foreign ownership.[165] Characteristically, those it did acknowledge related to regulation; first, to 'financial supervision' and 'market practice',

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of stocks and money to the jobbers', see 'Ownership of UK Securites Industry', p. 5, 15A91/4, BOE. There was also 'a variety of rules [to] deal with the instances where market capacity [wa]s not sufficient, for example, the put through rules which allow[ed] a broker to find a counterparty for a transaction so long as he obtain[ed] the jobber's approval and agreement to price'.

[164] Letter and paper, D. A. Dawkins to D. M. Bell, 26 September 1983, 'Ownership of UK Securites Industry', section on 'Consequences of foreign involvement on the Stock Exchange', 15A91/4, BOE.

[165] Problems, such as the reduced quality of investor protection, and trading 'away from the market floor', could be resolved with the introduction of information systems. By contrast, foreign entry would only be stemmed by the preservation of single capacity, because the terms of entry were unattractive to foreigners. Arguments that foreign firms would be less inclined than British firms to support UK industry, or to make continuous markets in all conditions, were discounted on the basis that all firms, irrespective of nationality, were driven by profit-motive.

and how foreign ownership might affect rules which attempted 'to preserve a centralised market'; and second, to market making in gilts, where rules would need to satisfy the Bank.

The Bank found remedy in the 'powers the authorities have to influence developments'. It argued the Stock Exchange had 'the power to withdraw recognition'; and the authorities had the means to 'indirectly influence market structure and membership': Stamp duty privileges, for example, could be maintained for those on the floor of the Exchange, giving them a competitive advantage over outsiders. Meanwhile, the Bank's gilt-edged jobbers could continue to enjoy their current 'privileges', which 'represent[ed] a deterrent to potential new entrants unless they could enjoy similar privileges'. These were examples of the way soft power was traditionally exercised, and how outcomes were influenced almost imperceptibly.

The Bank saw 'no prospect of building an explicit ring fence around the securities industry', because attempts at exclusion would fragment the market by causing non-members to trade outside the market. Accordingly, the Exchange should be 'encouraged to develop within its present structure and within (largely) UK ownership'. Rules changes should seek 'to enable member firms to respond to international competition' by linking with other UK firms, including non-member institutions who could provide new capital. A deliberate policy of encouraging UK non-member firms to take a 29.9 per cent interest in member firms should take immediate effect, with a view to them taking control when rule changes permitted. This was a policy of pushing UK interests, and was designed, in particular, to encourage UK merchant banks to buy into the securities industry.

In conclusion, the Bank outlined 'two quite distinct threats' facing the Stock Exchange. First 'in the absence of any change in…rules, overseas markets and trading systems will capture its business' by circumventing it altogether. Second, in the event of a change in rules, livelihoods of individual members were threatened, as

the likelihood is that trading in securities would then become…efficient, but in the process a significant proportion of business would fall into foreign hands. Foreign firms are larger and better capitalised than most Stock Exchange firms and could dominate the UK market…

As 'it may not be possible simultaneously to avoid both groups of problems', the Bank argued that a

rather stark choice may have to be made between, on the one hand seeing the Stock Exchange lose yet more market share and dominance, and on the other seeing large parts of it fall into non-member, possibly foreign, hands.[166]

These findings complicate the 'death of gentlemanly capitalism thesis', which suggested the Bank and the Government gave insufficient thought to the consequences of deregulation and effectively allowed the UK securities industry to die. Not only did the Bank observe all likely outcomes of reform and make recommendations based on 'the balance of disadvantage', but it also attempted to protect UK interests.[167] In September 1983 it recommended an immediate 'policy stance towards…UK participants…of at least benign neutrality', and in practice vigorously pushed UK solutions.[168] The merger between Warburg, Rowe and Pitman, Akroyd and Smithers, and Mullens was the British flagship. David Walker was regarded as a 'marriage broker' between UK firms and at interview confirmed 'I was defensive, protective, come on guys, where is the UK in all this? Come on, can we have a UK solution'.[169] The Treasury too was involved in making an early 'case for discreetly encouraging some UK banks to take stocks in stockbroking firms'.[170] While the removal of

[166] Letter and paper, D. A. Dawkins to D. M. Bell, 26 September 1983, 'Ownership of UK Securites Industry', 15A91/4, BOE.
[167] Ibid.
[168] An 'attitude warmer than one of benign neutrality toward acquisitions of 30% stakes in Stock Exchange member firms by merchant banks in particular', was subsequently advocated. See D. Walker, note to the Deputy Governor, Stock Exchange, 14 September 1983, 15A91/4, BOE.
[169] Interview, Sir David Walker.
[170] J. O. Kerr, PPS at the Treasury, 'Record of a discussion on Stock Exchange issues at No. 11 Downing Street at 3.30pm on 5 October' 1983, 15A91/4, BOE.

the 29.9 per cent ownership restriction and 'liberal entry' to the Exchange was seen, 'paradoxically', as 'the only way of preserving a central market', every attempt was made to bolster the British presence.[171]

On the gilts side, the Bank was sympathetic towards British merchant banks who 'were very worried that the Americans would swamp the market…and capture all the business in the new issue market' before they could compete evenly.[172] It therefore 'imposed some limitations on the lead management of sterling issues' which favoured British houses. Ian Plenderleith regarded such protectionism as part of an 'evolutionary process' of 'allowing the new structures to arise'. Lead management structures bought 'time for the British houses to get organised'. This approach was typical 'of central banking involvement in structural change'; compromises were needed, and the point was 'not trying to stop the change, but… just trying to slow the pace of it'. In terms of the degree of intervention, Plenderleith's comments are instructive:

> *I used to say to people, we've established these restrictions on lead management, we've held the line on them for a year or two or three, and that's bought some time. But actually, we have to recognise that we're in an untenable position, we can't hold that for a long time, it's a restrictive practice. And actually, what we're finding is, we're standing our ground there and the water sort of flows past us gradually, as people find ways around. And that's fine because we have slowed the process. The art is that just as the ground around you is going to be completely demolished, you jump to the bank and let it all flow through.*

This illustrates why to look for 'plans' as opposed to a broad philosophical approach is to underestimate the ethos, the actual interventions, and the informality which governed the approach. Moreover, while the Bank 'hoped there would be some major British players', Plenderleith argued 'we didn't actually hope that to point of excluding any international players'. London was an international market and 'we wanted [foreign firms] to come and

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[171] D. A. D., Note for record, meeting with the Stock Exchange, 10 November 1983, 15A91/4, BOE.
[172] Interview, Ian Plenderleith.

play in London'.[173] On this point individuals advocated different degrees of protectionism and Leigh-Pemberton and Walker were regarded as more protectionist than George or Lawson.[174] Early protection was an important intervention, but ultimately it did not involve 'operating a protectionist system for British firms'.[175]

Mergers, acquisitions and cultural change

David Walker 'categorise[d]' the City into three groups: the 'we don't want to get into bed with anybody else group', (our model's working well, we'll adapt); the 'couldn't wait to get the loot from the foreigner' group, ('And I say couldn't wait, I'm being unpardonably censorious about that, but people like Philips and Drew, the partners were just very keen to take the money. And they did'); and 'then there were others who were really interested in exploiting the opportunity to get into bed with a jobber and become market makers'.[176] The prime movers in the latter category were the Warburg consortium and the other 'great grouping' was Barclays, de Zoete and Wedd Durlacher (subsequently BZW). Walker described the sell-outs, like Vickers da Costa to Citigroup, as 'really sad', but admired the 'imaginative creative people like Barclays and Warburg. They had problems on the way, but they created something.'[177] Ian Plenderleith was another to use the bed metaphor, which suggested it was common parlance at the Bank.[178]

Walker rejected the notion of being a marriage broker, as 'that wouldn't have been appropriate', but he did 'provide space' at the Bank, even lending his own room, and

[173] Ibid. Equally, there was 'uncertainty' over 'what is British? I mean, Barclay is a British bank, but that depends on the nationalities of its shareholders…'
[174] Kynaston, *Time's Last Sand*, p. 616.
[175] Interview, Ian Plenderleith.
[176] Interview, Sir David Walker.
[177] Ibid.
[178] Interview, Ian Plenderleith. As noted in Chapter Three, 'one of the hilarities of life then was you had to remember who was about to get into bed with who…because it was quite important to keep it confidential till they announced it'.

they'd come and talk to us…they all came to talk to the Bank… what do you think if we talk to so and so… I think some talked to the Governor, mainly to me. But they did [the deals] themselves.

Because firms visited the Bank anyway, sensitive talks could be conducted in relative anonymity - 'it was the only place they could come, everyone knew that Warburg came to the Bank, Akroyd & Smithers came to the Bank….' The Bank also placed Mullens into the Warburg consortium through a sense of obligation to the firm which had conducted the role of government broker since the late eighteenth century. David B. Smith regarded this as a 'feudal sense of obligation', it was about

not letting down people who served you more than well for generations…it's all being terribly English…and I think people would object to it being described as feudal because we didn't think about it that way, it was just we don't want to let these chaps down, sort of thing. It was rather fuzzy and grey. It went back to the military background: your first duty as an officer is to look after the well-being of your men. It was an ethos that's gone from modern life.[179]

Authority directed reforms: The constructive Bank/ Treasury partnership

In October 1983 the Chancellor asked the Bank to 'prepare papers', and address '*some of the longer term questions* concerning the development of the Stock Exchange'. They included 'alternative forms of investor protection…to replace single capacity'; 'whether arrangements for continuous market-making would be needed'; 'what would constitute a desirable "central" or unified market after the end of single capacity'; and what rule changes 'might help the development of strong UK operators able to compete effectively with foreign securities houses.'[180] Clearly, far from having 'no plan', the Government was involved in planning, usually in conjunction with the Bank and reforms were authority as opposed to practitioner-driven. As the Governor wrote on Lawson's letter, '*This letter gets somewhere*

[179] Interview, David B. Smith.
[180] J. O. Kerr, PPS at the Treasury, to M. C. McCarthy, PS to Secretary of State, Department of Trade and Industry, 'Stock Exchange', 17 October 1983, 15A91/4, BOE.

near saying that it is for the Bank to work out the changes required, as opposed to the S/E Council doing this, subject to our monitoring.'[181]

A meeting in December 1983 confirmed the analysis. After discussing the Bank's work to date, 'Ministers agreed that the Bank should continue to work on the preliminary framework for a market structure in consultation with the Treasury and the DTI.' Tellingly, ministers were not 'yet ready to give an indication of their thinking to Nicholas Goodison…[and] [t]hey thought the Stock Exchange should clear its proposals for any new structure with Ministers'.[182] Subsequently, in July 1984, ministers noted members of the Exchange may decide to adopt a '"last trade" tape' dealer system themselves, but if not, 'this issue…does require Government to make it known that such a tape is necessary'.[183] This accorded with the messages conveyed to WCP conferences by the Minister Alex Fletcher, as discussed in Chapter Three.

It was also agreed that officials should make key points 'known to The Stock Exchange in the informal context of the Stock Exchange Monitoring Group'. First, that investor protection would be best met by disclosure, in particular a best-execution rule, an audit trail, and immediate publication of the price and volume of transactions 'as they are carried out'. Second, that ministers did not favour a 'tiered market' and would 'regard it as acceptable only if it is unavoidable'. Third, that membership fees must not bar new entrants. Fourth, that international reciprocity would be welcomed. Finally, rule changes which permitted 100 per cent outside ownership of Stock Exchange firms were to be welcomed.

Not only does the degree of superintendence confirm government-shaped reforms, but the way the Government's message was disseminated through informal networks is revealed. The Stock Exchange Monitoring Group was comprised of individuals (unnamed in official

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[181] Ibid., Governor's emphasis.

[182] Note for the record, 'Stock Exchange', 19 December 1983, 15A91/5, BOE.

[183] DTI paper on the 'Stock Exchange Reforms', with covering letter R. Thompson, PS at DTI, to D. Peretz, PS to the Chancellor, 10 July 1984, 15A91/6, BOE.

records) who were able to move across the nexus and influence outcomes. Similarly, the Governor's Advisory Group was constructed to advise on the regulation of financial services in the wake of Gower. It was known informally as 'the Posse', a term conjuring a group of good citizens, or vigilantes, who exuded power and authority. Again, conferences provided the requisite degree of informality.

The effectiveness of the Bank's mode of operating and its own preferences were noted at a Bank/Treasury/ DTI meeting in July 1984 where it was 'confirmed that the Bank should maintain its traditional means of influence, rather than itself becoming a formal regulatory authority'.[184] From its position of oversight, it provided 'significant input' to the FSB 1986.[185] Subsequently, Lawson spoke of the 'early defects' of the new regulatory system being considerably improved when 'the Government and the Bank replaced [Kenneth] Berrill as SIB chairman in 1988 with the Bank's David Walker'.[186] The appointment and its wide-spread approval followed from Walker's standing in the City and his preference for self-regulation; in effect his appointment promised a 'less onerous system of regulation' than under his predecessor.[187] Thus, Gordon Pepper's description of Walker as 'Treasury first' perhaps under-estimated his role as a 'markets-man', and his effectiveness across the nexus.[188]

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[184] Note of meeting 11 July 1984, 15A91/6, BOE.
[185] See Kynaston, *Time's Last Sand*, p. 603.
[186] Lawson, *View From No. 11*, p. 402.
[187] D. Gowland, *Regulation of Financial Markets in the 1980s* (Aldershot, 1990), p. 242; H. Lawrence, *Money Rules: The New Politics of Finance in Britain and Japan* (New York, 2001), p. 91.
[188] Interview, Gordon Pepper.

Conclusion

The removal of restrictive practices 'pose[d] a severe and possible terminal threat to the Stock Exchange and to the system of securities trading that it represent[ed].'[189] So concluded a January 1983 analysis by the Bank of the RPC case. Well ahead of the Accord, and after two years of deliberations, the 'most fundamental' of the Bank's concerns was the probable challenge to the Exchange's authority and the consequent erosion of its regulatory capacity. This risked an 'unregulated and undisciplined' market. While, clearly, the survival of the central securities market was at stake, so too was regulatory control of capital markets per se.

The remedy was to strengthen self-regulation and develop central information systems, managed by the Exchange, to underpin the market system and uphold the status of the Exchange. Hence the Bank did not seek to avoid change but to manage it; the central issue was *control*; and deliberations were centred on the immediate and the local - the RPC case and the Gower review of investor protection. From the Bank's perspective, the need to introduce more capital and the desire to strengthen London as a world financial centre, often cited as the rationale for financial deregulation, were of secondary concern. Meaningful engagement with the issue of foreign ownership only came after the Goodison-Parkinson Accord when reforms had been instigated. Although the Bank sought an efficient and effective market, there were established measures to meliorate jobbers' relative lack of capital. This meant capital requirements, although undoubtedly relevant, were not uppermost in the Bank's thinking. Regulatory control and orderly markets were.

Leading up to Big Bang, the Bank's preoccupation with regulating for an orderly market meant it assessed and attempted to mitigate risk. In so doing, it significantly shaped reforms which were ostensibly practitioner, that is, market driven. The chapter has shown how the Bank used and generated cultural capital in the reform process, and deliberately drew

[189] 'The Future of the Stock Exchange', p. 19, 'Summary: the impact of deregulation', revised paper, 31 January 1983, 15A91/1, BOE.

on cultural understandings of spaces like the Stock Exchange floor. Its findings resonate with Philip Mirowski's observations about the cultural rather than spontaneous nature of markets and purposeful state intervention in building and supporting markets.[190] Despite delays for reasons of statecraft, the Government was prepared to intervene in legal process on behalf of the market and introduced primary legislation to do so.[191] Less formally, the Government and the Bank made countless interventions to introduce and shape market reforms.

This study has also shown how established networked relationships - personal and institutional - eased the reform process. It has found more constructive relationships between the Bank and the Treasury than are usually recorded in this period. These become evident in respect of the strategic City interests discussed, as opposed to areas relating to the conduct of monetary policy (where undoubtedly there was friction).[192] This suggests that broad conclusions about the Government/ Bank relationship should be avoided and a nuanced case-by-case examination of the relationship is more fruitful.

Evidence has pointed to knowledge of likely reform outcomes, balances being struck, and protective measures. These findings challenge the 'death of gentlemanly capitalism' narrative which contended that the UK-owned securities industry was allowed to die by authorities ignorant of the consequences of reforms, and unprepared to support British firms as they began to compete with foreigners. There was an intense level of scrutiny of firms, especially in the gilts market:

> *The Bank wanted to keep very close observation on what the firms were doing, both from a prudential point of view to make sure they were sound, and from an operational level in the sense that the information on their positions was extremely interesting in understanding what was happening in the market.*[193]

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[190] Mirowski, *Serious Crisis*.
[191] See Restrictive Trade Practices (Stock Exchange) Act 1984.
[192] For monetary policy friction see D. Needham, 'Britain's Money Supply Experiment, 1971-73'. These findings are further complicated by another area of tension, the Johnson Matthey Bank rescue 'debacle', during which Chancellor Lawson inadvertently misled the House in 1984, see Lawson, *Memoirs of a Tory Radical*, pp. 246-248.
[193] Interview, Ian Plenderleith.

Moreover, just as other chapters point to the persistence of gentlemanly practices in parts of the City, so this is upheld here. City elites secured privileges in the gilts market, thereby excluding others; they borrowed space from the Bank to secure deals; they moulded Stock Exchange reforms through informal links (such as the Stock Exchange Monitoring Group); and they shaped regulation by acting as the Governor's Posse.

In respect of Thatcherism, clearly there was planning by the Government and by the Bank on its behalf, and that planning took account of local, historically specific conditions. Yet to seek a blueprint is misconstrued and the Bank and the Government were disingenuous to each disavow one. Overriding objectives were sufficient, well thought through and strenuously imposed. Meanwhile, the official discourse of practitioner-led reforms served to obscure the invisible hand of the authorities.

Chapter Three

The London Stock Exchange

> *History is made because particular people are in particular places at particular times and they have particular talents… And then you've got to think of their temperaments. I mean there are some people who when they come under shellfire they are finished. Others think well I'd better last this out. Or I've got to last this out, or I'd be much too ashamed if I didn't … From my own point of view, I've also never liked the idea of failure…So, you're set a problem, you solve it, and if you're in a public position, it's incumbent on you even more to solve it…And if you don't think you can solve it then you should go and give way to somebody who can. And that all makes history.*

Sir Nicholas Goodison, 2018[1]
Chairman of the Stock Exchange, 1976-1988

Sir Nicholas Goodison's reflections on the logics of leading the Stock Exchange to reform testify to the importance of people, processes and responses. With an analogy to war, and for raising questions about who led men, came under shellfire, experienced shame, became a problem-solver or got to act with honour, his reflections also raised cultural issues. Most strikingly, though, from someone who believed absolutely that reform was inevitable, the contingent nature of reforms comes across.[2]

On 27 October 1986, Goodison was on the floor of the Stock Exchange when computerised trading was introduced as a major component of Big Bang reforms. He recalled the 'very bad luck' that the 'sheer demand' to test the new Stock Exchange Automated Quotation (SEAQ) system led to its brief breakdown in front of the world's press. Otherwise he had surprisingly little recall of what he did that day. He imagined he would have been

[1] Interview, Sir Nicholas Goodison.
[2] Ibid.; See Goodison in Kandiah, 'Witness Statement 1, "Big Bang"'. Goodison regarded Stock Exchange reform as inevitable after the abolition of exchange controls by the incoming Thatcher government in 1979.

‘exhausted’. He thought he would have followed his ‘normal routine, which was “Chairman’s Room” at 11.30, and so on…no doubt [he] called at the old [family] firm’, Quilter-Goodison. Most notably, he did not recall celebrating, and wished he could say Big Bang was ‘an entirely constructive achievement’ as opposed to a ‘defensive move’.

> *It’s rather like a maze, you’ve got this problem and how do you actually get to the centre, because…it was a real problem trying to fit the market logic, the logical outcome if you followed the dictates of the market, with the habits and traditions and rules of a whole generation… I wish I could tell you it was obvious from the start what the solution was, but I can’t …It takes time to realise what the forces are, and it was very brave of the Stock Exchange Council to accept what I call ‘the deal’….[with the Government].*

This chapter acknowledges exogenous pressures for change, including structural economic shifts and the impact of international free-flowing capital following the abolition of exchange controls in 1979. It recognises that for Goodison, these considerations made reforms inevitable and that, even if his perspective crystallised over time, this had important consequences for decision-making. Nevertheless, the chapter challenges the discourse of inevitability associated with the logics of the (anonymous) market.

To begin with, the market was unequivocally socially constructed. It consisted of Stock Exchange members who were frequently referred to as ‘the market’ (jobbers were known as ‘market-makers’). In a wider sense, the market also consisted of merchant bankers, institutional fund managers and others who formed part of Ingham’s ‘centre of commercial capital’.[3] As such, responses to market change were culturally informed and City culture had a bearing on outcomes. The chapter therefore demonstrates how exogenous pressures met embedded culture and tradition and were responded to and shaped accordingly. Records show that the Government and Bank were listening to practitioners and, while the City did not drive the reform process, neither were reforms simply imposed upon it. Contestation and

[3] See Ingham, *Capital Divided.*

pushback from within the market speaks of contingent outcomes, and neoliberal ideas which were not cleanly applied, even in supposedly favourable environments.

Equally, the focus on people and processes provides insights into concerns, shows attempts to shape reforms, and strategies in response to change. Motivation and intent are clarified. Cross sector networks were used to remarkable effect to gradually bring about reforms; come to shared understandings about the implications of change; ease the process; and shape the new City. Culture thus acts as a corrective to teleology by affirming the contingent nature of reforms. At the same time, anonymous free-market forces are de-mystified when embedded networks are revealed and the reform process is personalised. De-naturalising free market reforms allows them to be better understood.[4]

In the process of reforms, the City saw different sides and characteristics of Thatcherism; from more traditional conservatism and a preoccupation with statecraft, to free market predilections and the construction and protection of free markets. As a site where traditional conservatism and neoliberalism jostled, converged and essentially co-existed, fresh perspectives on the City contribute to understandings of Thatcherism and neoliberalism.

This chapter is structured as follows: first, given the socially constructed nature of the market and the culturally informed responses to change, an ethnographic approach is deliberately employed to understand the workings of the Exchange and the meanings attached to belonging. Thereafter, the international climate for liberalisation is considered. The focus then shifts to domestic circumstances and, in turn, how individuals secured the 1983 reform agreement with the Government. Next, the new trading system which emerged between 1983 and 1986 is considered, mainly from the perspective of practitioners. Drawing on contemporaneous records from the DFA, several sections focus on City responses to

[4] For de-naturalising and de-mystifying the market see S. Rockman, 'What Makes the History of Capitalism Newsworthy?', Review essay of M. Zakim and G. Kornblith (eds.), 'Capitalism Takes Command: The Social Transformation of Nineteenth-Century America', *Journal of the Early Republic*, 34:3 (2014), pp. 439-466.

change: one considers the central market; another the functional perspectives of jobbers, brokers and merchant bankers; another focuses on Barclays' particular strategy, before the lens widens for a broader City perspective. A section on regulatory reform briefly indicates ways in which practitioners shaped their regulatory environment before, as part of its conclusion, the chapter ends with a brief discussion of the City post-Big Bang. The key themes which emerge are the culturally informed and contingent nature of reforms; the high stakes which informed survival strategies; and the vital importance of the central (and therefore centrally controlled) market - above even outside capital considerations.

The workings of the Exchange

The Stock Exchange was the UK and Republic of Ireland's *central market* for the sale and purchase of stocks and shares.[5] Transactions took place on the floor of the Exchange building. Retaining this central strategic relevance was a key objective during the reform process, not only for the Exchange but also for the authorities. As discussed in Chapter Two, they observed the advantages central control brought, compared with the relative lack of control North American authorities exercised over their fragmented markets.[6]

The close relationship with government, dating from the seventeenth century, and the distinctions between the gilt and equity market, primary and secondary market, and stockjobbers and stockbrokers, was discussed in Chapter One. Those distinctions made the

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[5] The Exchange originated in 17th century London coffee shops and joint stock companies. As the central market for securities trading, from 1802 the Exchange developed rules and regulations to govern trading behaviour. The numerous exchanges which were set up across the country to support industrial enterprise in the 19th century merged with the London Stock Exchange in 1973 to form The Stock Exchange of the United Kingdom and Republic of Ireland. See *The Stock Exchange Official Year Book 1983-84*, p. xiii.

[6] Paper, R. C. Stevens to Governor and Mr Page, 'The Future of the Stock Exchange', 4 November 1981, 15A91/1, BOE.

Stock Exchange diverse.[7] Clearly firms also varied in size, by sector represented and in geographical interest. Accordingly, the Exchange was unified only by the Stock Exchange rule book and the physical trading floor, inside the Exchange building.[8]

The floor assumed enormous importance to practitioners. It was a place of initiation, camaraderie and belonging. In a convivial joint interview, former stockjobber Steven Raven and broker Francis Boff reminisced about their entry to 'a completely different world'.[9] Raven spoke of 'this amazing huge air of people milling about' and how 'very difficult [it was] to adapt' to 'the noise and the mystery of it all'.[10] Boff could 'still remember' his first day as a blue button (a junior/dealer's-assistant), the 'maelstrom' of people moving around and shouting, and the noise.[11] A fellow blue button had taken him to the middle of the floor and in a 'trick of the game' had 'then disappeared [laughter] and of course I didn't even know my way out…and I was, I was, completely, and I walked around for quite a long time…Just trying to find my way out [shudder]'.

Nicknames and jokes formed an important part of the culture. One of two brothers had been awarded the Victoria Cross in the War, the other the Military Cross, 'and the chap who got the MC was always known as the Coward'. His brother was not the Hero, 'he was just Jo Blogs'. Someone 'very very very short' was called 'the top half of a guardsman'. Then there was 'Sporting Sam', named after 'the Sunday Express cartoon figure…without a neck'. Sporting Sam had been in the Tanks Corps in the War and the joke was 'the lid had

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[7] *The Stock Exchange Official Year Book 1983-84*, p. xiii; 'The Stock Exchange at the Turning Point', The RAO Bridge Memorial Lecture, delivered by Sir Nicholas Goodison, 6 February 1985, p. 3, Stock Exchange General Papers, T486/211, TNA. In 1983 the Exchange comprised over 4,100 members, approximately 3,600 brokers from 214 broking firms, and 500 jobbers from 17 jobbing firms, 5 of which were 'substantial' in size. In addition to the Stock Exchange in London, in 1983 stock exchange floors were maintained in Dublin, Glasgow, Birmingham and Liverpool.
[8] Interview, Sir Nicholas Goodison.
[9] Interview, Steven Raven.
[10] Ibid.
[11] Interview, Francis Boff.

come down, and he'd been captured by the Germans, but then the Germans realised who they'd got, so they sent him back'. When Sporting Sam went on holiday the price of his firm's stocks would rise, when he returned, they would crash - it was 'hilarious'. 'Little innocent blue buttons' would be sent to a man called Charlie Bull to ask for 'a price and opinion of Cow and Gate [laughter]… of course, he used to go berserk and chase you off'. The practitioners recalled 'everyone took it'; indeed the 'one mistake you could make was if you didn't like it and you reacted', then it 'came back with a vengeance'. This observation suggested the assessment that a trader 'didn't mind' being called the Bog Rat - on account of 'some sort of…deformity' - may have been mistaken belief.

Other 'amusing' episodes included the occasional entrapment of 'some young dog' who had 'wandered' onto the floor. 'There were these huge wicker wastepaper bins, because there was a lot of paper flying around, and somebody would try and grab this chap and get him in there and get his trousers off'. On a Friday, as business wound down, if someone was about to be married 'they'd all gather around him and they'd…try to debag him, take his trousers down and put him in one of these wicker baskets, and parade around the house…' In similar fashion, if someone wore an offensive tie 'someone would come up behind you with a pair of scissors, grab you, and cut it. Just cut it off'; while anyone who 'stupidly' sat on a bench with a newspaper might have the paper set alight.

These sorts of incidents and experiences 'helped the spirit of the house'. Consequently, after the initiation ordeals, there was a 'sense of belonging…it just became like home really'.[12] 'Friendships and loyalties' built up between blue buttons lasted the course of careers as practitioners became partners and then senior partners. Steven Raven, who became a member of the Exchange council, regarded the friendships and camaraderie as 'the basis of all those mergers that went on…many years later' during Big Bang. So, the

[12] Interview, Francis Boff.

pranks were not just pranks, they helped build 'trust' and support. 'If you did something wrong, they would bend over backwards to help you. I found it absolutely marvellous'. The trust was 'very deeply ingrained', the network hugely supportive.[13]

During Big Bang, the Bank of England drew on the importance of this shared culture. It argued continued use of the floor of the Exchange might provide practitioners with a '"feel" for the market', unavailable to 'outsiders'. It did so as part of its objective to uphold the central market and the Exchange's regulatory function, as discussed in Chapter Two.[14] As even short-term continued use of the floor contributed to this aim, the Bank drew on the significance of the floor to insiders, othering outsiders in the process.

Practitioners discussed the hierarchies they experienced as, 'to a certain extent', an extension of school 'because there were an awful lot of boarding school people there'.[15] Old Etonians generally, but other major public schools too, dominated elite firms.[16] Yet the Exchange also comprised 'people from the East End and out in Essex as well' and, as suggested, those who had 'come back from the War'. As well as school ties, Gordon Pepper recalled 'established family ties' not least because 'the old City families were so interbred'.[17] At interview in 2018 Andrew Smithers, who worked at the merchant bank Warburg recalled having known another practitioner, Brian Peppiatt, 'most of my life'. Although they attended the same school Peppiatt was older, so the connection was more 'for family reasons, I remember going to his sister's coming out dance, for example, things like that'.[18]

These sorts of seemingly innocuous relationships mattered. Warburg's David Burton regarded the merchant bank's merger with stockjobbers Akroyd and Smithers, stockbrokers

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[13] Interview, Steven Raven.
[14] Footman to Dawkins, 'some further thoughts on Stock Exchange regulation', 17 December 1982, 15A91/1, BOE.
[15] Interview, Boff and Raven.
[16] Interview, Gordon Pepper; Thompson, 'The Pyrrhic Victory of Gentlemanly Capitalism', Part 1, pp. 296-296.
[17] Interview, Gordon Pepper.
[18] Interview with Andrew Smithers.

Rowe and Pitman, and the Government broker Mullens, as crafted by a handful of likeminded people, including Peppiatt, who dined with one another, went shooting together and to the opera. He suggested the degree of comfort allowed an agreement to be forged in principle between elites, with details to be worked out later.[19] Warburg's chairman, Sir David Scholey naturally pointed to the business rationale.[20] Nevertheless, as Andrew Smithers noted, the 'similarity of many interests' may have 'contributed to trust' (although a shared interest in opera was not a necessary condition for trust) and the analytical point was that 'trust was essential…absolutely vital for going down any of that type of organisation structure'. From a practitioner perspective, Big Bang acquisitions were made precisely 'because you want[ed] their culture'. It was all about 'an acquisition designed to incorporate a culture, so anybody could have messed it up without trust, and trust was absolutely fundamental'.[21]

The historian Ross McKibbin has noted the role of public schools in providing the 'social, sporting, and linguistic skills' required for '"national life"', and their role in forming 'lifelong solidarities'.[22] Add to this the relationships between City families and, as Gordon Pepper observed, 'at the end of the day, when the Big Bang came, familiy ties and who'd been to school with whom, became very important'. It was highly significant that 'the City knew each other very well'.[23] Trust, shared values and experiences helped practitioners navigate reforms and, on occasion, merge firms, functions and cultures.[24]

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[19] British Library, *Sounds*, Banking and Finance, David Burton, 12/23, http://sounds.bl.uk/Oral-history/Banking-and-finance/021M-C0409X0077XX-0012V0 (accessed 7 August 2016). The handful comprised Warburg's David Scholey; Brian Peppiatt and Tim Jones, Chairmen of Akroyd & Smithers; and Peter Wilmott-Sitwell, Chairman of Rowe & Pitman.
[20] Interview, Sir David Scholey.
[21] Interview, Andrew Smithers.
[22] R. McKibbin, *Classes and Cultures: England 1918-1951* (Oxford, 1998), pp. 238-239; see also Kynaston, *Club No More*, pp. 331-332.
[23] Interview, Gordon Pepper.
[24] Interview, Sir David Scholey.

The climate for liberalisation: Approaching Big Bang

In terms of the structural economic processes which informed change, 'the collapse of Bretton Woods, the move to floating exchange rates, and the freeing up of capital, [wa]s all part of one single story'; the objective of an exchange rate 'in equilibrium' was simply not met by the discrepancy between capital account controls and current account freedoms.[25] This observation by John Greenwood, Chief Economist for Invesco, recasts the abolition of exchange controls from a standalone act by the Thatcher government in 1979 (and a self-contained catalyst for Big Bang) into a response to the economic conditions of the 1970s.[26] The international context and longer time scale can be seen as part of the wider context from which Thatcherism emerged but, arguably, Thatcherism is less central and a more nuanced account is required.[27] This 'de-centring' is supported by Bank and Treasury studies into the economic case for relaxing exchange controls from the early 1970s.[28] Equally, after 1973, a move toward compliance with EEC directives on the free movement of capital was required.[29] If liberalisation of capital controls followed from the collapse of the Bretton Woods system, had begun under Labour, and was a requirement under EEC directives, the

[25] Interview with John Greenwood, Chief Economist for GT Management Asia from 1974 (subsequently Invesco), London, February 2017.
[26] For analysis of the 1970s see L. Black, H. Pemberton and P. Thane (eds.), *Reassessing 1970s Britain* (Manchester, 2013).
[27] Ranald Michie argues abolition of exchange controls led 'inevitably' to Big Bang because the free movement of capital exposed the UK's domestic securities market to international competition: Michie, *London Stock Exchange*, p. 544; David Kynaston argues abolition was a brave decision by the incoming government which took the country by surprise: Kynaston, *Club No More*, p. 585; see Hilton, Moores & Sutcliffe-Braithwaite, 'New Times revisited', on de-centering Thatcher; see Stewart, *Bang*, for an account which places Thatcher at the centre of the 1980s.
[28] For Bank and Treasury studies see Capie, *Bank of England,* pp. 766-767. For the Bank's early attempt to introduce monetarism in the early 1970s, see Needham, 'Britain's Money Supply Experiment, 1971-73'.
[29] The Treaty of Rome 1957 stipulated free movement of capital. Then existing UK exemptions were temporary and increasingly difficult to justify as the balance of payments improved with North Sea oil revenues.

possibility emerges that the process was blind to government.[30] Moreover if, as Tim Congdon argued, the free flow of capital which resulted from the abolition of exchange controls implied 'there would be a major deregulation of the banking system as well', then logically, deregulatory reforms were not only 'inevitable' but also government-blind.

The problem with these structural logics, however, is the obfuscation of individual agency, process, the cultural climate for change, and the abilities of governments to stem change. Congdon himself was an ideologue, committed to free market competition and shaping New Right ideas. He was part of the IEA; an independent adviser to the Conservatives in Opposition and early office; and subsequently one of Chancellor Lawson's 'Group Of Outside Independent Economists'(GOOIES).[31] The 'inevitability thesis' to which he subscribes diminishes his own and other actors' work. It nevertheless reveals the logic of their thinking and the interconnections between these reforms. Congdon was clearly a believer in the marketplace of ideas and the IEA's role in shaping process. He would not otherwise have used the IEA as a platform to insist, in 2017, that banking was too heavily regulated.[32]

It is not international imperatives for change which this thesis discounts, but the discourse of inevitability surrounding them that leaves no room for agency or contingency, including government choice.[33] Big Bang was a process which involved numerous actors and offered up a series of possible responses and variations on outcome. Moreover, even firms

[30] R. W. Miller and J. B. Wood, *Exchange Controls For Ever?*, Institute of Economic Affairs, Research Monograph 33 (1979), p. 19. The '25 per cent surrender' rule on investment portfolio funds was abolished by Labour Chancellor Denis Healey in 1978.
[31] See Lawson, *View From No. 11*, pp. 389-90.
[32] Institute of International Monetary Research - Institute of Economic Affairs 2017 monetary conference, '*Has Financial Regulation Gone Too Far? And do banks really need all the extra capital?*', held at the IEA, 8 November 2017, (author in attendance).
[33] See Thompson, 'The Thatcherite Economic Legacy', p. 43, for the counterfactual arguments that a Labour Government, or even a Conservative one led by Willie Whitelaw, would not have radically reformed trade unions, abolished exchange controls, or adopted Thatcherite macroeconomic policy; see Chapter One for the Thatcher government's ideological over-arching agenda.

responding to global imperatives did so informed by their own experiences and culture. For instance, Warburg's Sir David Scholey saw the Big Bang as part of the longer trajectory of Euromarkets; the May Day deregulation of the New York Stock Exchange in 1975; and the introduction of technology. At interview he spoke of the Stock Exchange 'losing its position and its business at a rate of knots' compared with New York, and how this was apparent for 'those of us who had been through May Day'. He spoke of mechanisms, like American Depository Receipts, to side-step regulations, which meant all 'major business' was being done elsewhere.[34] Certainly, the Bank was sensitive to this suggestion and made enquiries about the extent to which City firms circumvented the Exchange with 'off market deals in UK listed securities' before Big Bang.[35] Although it was satisfied this was not a regular occurrence, the growing likelihood only strengthened the objective to protect the central market.

However, Warburg had an early appreciation that the Eurobond market would 'morph into the Euro equity market', and of the implication that equities would by-pass the central market.[36] Its perspective was based on its established Euromarkets business and was distinct from 'most of the London merchant banks [who] had not paid much attention to this'. Warburg thus planned for change early and, based on an appraisal by Andrew Smithers, took a stake in the jobbing firm, Akroyd and Smithers. This both predated and predicated its wider Big Bang merger, as Akroyd's had an existing international dealing relationship with Rowe

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[34] Interview, Sir David Scholey: 'sizeable transactions for major companies were being done upstairs in the old Stock Exchange' rather than on the floor of the (central) Exchange, using instruments like American Depository Receipts which allowed the shares of non-US companies to be traded in US markets; interview, Tim Congdon: for Congdon, Big Bang was entirely attributable to these processes; see also Kynaston, *Club No More*, p. 696.
[35] See D. A. D. [Douglas Dawkins] note for the record, 'Stock Exchange: Barings', 31 August 1983, also enquiries to Hill Samuel, King and Shaxon, and Hambros, in 15A91/3, BOE.
[36] Interview, Sir David Scholey. Scholey credited Stanislas Yassukovich with this early perception, see 'History of the Eurobond Market, International Capital Market Association', https://www.icmagroup.org/About-ICMA/history/history-of-the-eurobond-market/ (accessed 22 July 2019).

and Pitman, the major brokering arm of the alignment.[37] Ultimately, Warburg's strategy was informed by its culture and reputation for being ahead of the game. It can be attributed as much to the agency of key actors responding to opportunities and threats, as to the structural changes in the market which they observed.

Like Tim Congdon, Gordon Pepper attributed the Big Bang to 'the revolution in information technology, exchange controls coming off throughout the world, and in particular the American banks becoming international'.[38] He could 'sum matters up' by recounting a conversation with a Stock Exchange official on the train one morning from Sevenoaks, when he admitted to using a Greenwell's account twenty times in contravention of Exchange rules.

> *Why? To stop Salomon's pinching our business. And that's very, very important. The American investment banks were starting to pinch our business in a major way, and we had to act to defend ourselves. And at that stage, as I told Bob, our corporate philosophy was firstly always to put our clients first ahead of ourselves. And secondly, to do nothing whatsoever to damage the integrity of the market itself, because the market itself was the goose that laid the golden eggs. And subject to those two things, to hell with Stock Exchange rules, I am not going to have someone pinching our business*.[39]

Pepper shared this story to express the reality of competitive international pressures. In so doing, he demonstrated the need to protect the central market within the Exchange. Problematically, on the one hand nothing must be done to damage it, but on the other, something had to be done to stop highly capitalised non-member firms like Salomon's from undermining the market by trading outside it, fragmenting it as they did so. These were conundrums which City networks collectively addressed. There were choices about how to respond to international pressures and a rationale behind evolving domestic responses to

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[37] Interview, Sir David Scholey; interview, Andrew Smithers; see also Kynaston, *Club No More*, p. 633. Kynaston gives the date of the Smithers recommendation that Warburg's acquire Akroyd and Smithers as 1978 but, at interview, Smithers concluded it was considerably later. Mullens was integrated as part of an agreement with the Bank, see Kynaston, *Club No More*, p. 654.
[38] Interview, Tim Congdon; interview, Gordon Pepper.
[39] Interview, Gordon Pepper.

change. Nor was the attraction of London's central market lost on practitioners and Exchange officials. They well-understood that a unified cohesive market was a significant attraction for expansionist American firms used to more diffuse markets.[40]

In similar vein, the abolition of exchange controls didn't just happen, nor was the City a disinterested party. In the context of floating exchange rates; EEC requirements; and the New Right's anti-Socialist agenda, a 'Policy on Freedom of Capital Movements and Liberalisation of Exchange Controls' was recommended to Geoffrey Howe in 1977.[41] Notably, it envisaged the City strengthened 'as a financial fund management centre'.[42] Equally, greater use of the City's financial services was cited in the IEA pamphlet to end controls which so profoundly affected Howe's decision-making.[43] Meanwhile, characterisation of the Exchange as a domestic backwater which enjoyed protectionism underplayed the mix of firms.[44] Internationally-focussed firms with overseas entities sought greater freedoms, and from the early 1970s operated competitively under local country rules. Goodison argued the requisite rule relaxation by the Exchange council for them to do so was an early indication of its willingness to contemplate change.[45]

Aled Davies has shown how the City's Committee on Invisible Earnings 'operated on behalf of a whole host of City interest groups' and by 1979 'had spent the previous decade

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[40] David LeRoy Lewis, former deputy chairman of the Stock Exchange, 'a new market structure compatible with negotiated commissions', *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, from 'The Douglas French Archive' (hereafter DFA), at the Cadbury Research Library (hereafter CRL), Conference No. 19, Box. 19.
[41] MTFW, Thatcher MSS (THCR 2/1/1/33), 13 October 1977, **'**David Howell to Sir Geoffrey Howe *(Conservatives should urge relaxing of exchange controls*)', https://www.margaretthatcher.org/document/111406 (accessed 13 August 2018). Howell was Shadow Minister for Business, Innovation and Skills. As a policy proposal, this was copied to Thatcher and Adam Ridley at the CRD.
[42] The 25 per cent surrender premium (applicable under capital controls) 'distort[ed] portfolio management and weaken[ed] the position of the City of London as a financial fund management centre'. The premium was lifted under a Labour Government on 1 January 1978, see Miller and Wood, *Exchange Control For Ever?*, p. 19.
[43] Miller and Wood, *Exchange Control For Ever?*, p. 68; Howe, *Conflict of Loyalty*, p. 141.
[44] See Kynaston, *Club No More,* p. 3, p. 697.
[45] Interview, Sir Nicholas Goodison.

pushing for the removal of exchange controls.'[46] Equally, Thatcher's economic adviser, Douglas Hague advocated for their relaxation on 4 May 1979, having expressly 'taken account of City views'.[47] In addition, Governor Richardson alerted Howe, as incoming Chancellor, to the 'persistent pressure from the merchants and banks for liberalisation'.[48] The picture is thus of an active campaigning City; significant parts of it were shaping change and thus the notion that the City was 'betrayed' or the victim of unintended consequences is problematic.[49]

Even subsequent opposition to change by smaller firms, threatened by the introduction of negotiated commissions, demonstrated the City's strength and activism. Their challenge to the Stock Exchange council and proposed market mechanism was significant enough to trigger government intervention in support of the Council, as discussed in Chapter One. Ultimately, both the City and the Government were engaged in a dynamic process; this was not about simply occupying a space where reforms followed naturally from international pressures.

As previously discussed, the local difficulty which preoccupied City and government was the OFT referral of the Stock Exchange rule book to the RPC in early 1979. Under fair trading legislation, the separation of capacity between jobbers and brokers, fixed minimum commissions, and entry restrictions to the Stock Exchange were among practices deemed restrictive, subject to a court ruling. The Exchange defended its undoubtedly monopolistic

[46] Davies, *City of London and Social Democracy*, p. 177.
[47] MTFW, PREM19/437 f263, 4 May 1979, 'Douglas Hague letter to MT ("Exchange Control") *[argues for relaxation of exchange controls] [declassified 2011]*', https://www.margaretthatcher.org/document/128051 (accessed 1 August 2018).
[48] MTFW, G3/372 f17, 11 May 1979, 'Governor of the Bank of England letter to Chancellor of the Exchequer ("Policy towards Exchange Control") *[urges "early and substantial move towards relaxation"] [declassified 2010]*', p. 2, https://www.margaretthatcher.org/document/113157 (accessed 38 August 2018).
[49] 'Some in the City saw "Big Bang" as an act of betrayal by the Conservative government', due to foreign takeovers, see Michie, 'City of London and the British government' p. 51; Michie, *London Stock Exchange,* p. 593-595; Bellringer and Michie, 'Big Bang in the City of London', pp. 111-137.

practices by promoting the virtues of the jobbing market mechanism. Namely, that it ensured continuous trading, prevented the conflicts of interest inherent in dual capacity systems, and was thus for the greater good.[50] Moreover, it established a 'link' between single capacity and fixed commissions, arguing if the latter were surrendered the former would be eroded.[51] Between 1979 and 1983 the OTF case tested the Government, the Bank and the Exchange. As discussed in Chapter Two, the preferred out of court settlement was difficult to secure; required ratification by a disparate membership; led directly to financial services reforms; and entirely changed the structure of the market. The measures the Exchange took to achieve these reforms, and some of the implications of change, are the subject of the rest of this chapter.

Achieving reforms

With the OFT case lodged with the RPC in February 1979, and unable to secure exemption from the Labour government, Goodison appealed to the Conservatives in Opposition and found Howe 'sympathetic'.[52] Having introduced fair trading legislation in the early 1970s, Howe might reasonably have been expected to support the legislative process.[53] However, as discussed in Chapter One, he had not anticipated its reach to the Exchange, considered the

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[50] MTFW, PREM19/1005 f5, 18 October 1983, 'Conservative Research Department briefing ("The Restrictive Trade Practices (Stock Exchange) Bill - Second Reading") *[declassified 2013]*', https://www.margaretthatcher.org/document/137179 (accessed 30 August 2018). Single capacity prevented a broker 'deriving any benefit from a transaction other than the commission he gets from effecting it. If the broker could sell stock on his own instead of having to buy it in the market from a jobber, he could be tempted to give biased advice and would be able to adjust the price, and benefit unfairly', p. 3.

[51] Brokers would be denied basic income and forced to become market makers to recoup losses. In turn, jobbers would seek direct access to clients. The market mechanism would be undermined. See B. Attard, *London Stock Exchange oral history: interview with David LeRoy-Lewis,* http://sas-space.sas.ac.uk/2596/ (accessed 1 August 2018); also, David LeRoy Lewis, 'A new market structure compatible with negotiated commissions', *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, DFA, CRL, Conference No. 19, Box. 19.

[52] Interview, Sir Nicholas Goodison.

[53] Interview, Sir David Walker.

RPC an inappropriate forum to determine market practice, and was concerned about disorderly markets in the event an adverse ruling left a vacuum in place of rules.[54]

Consequently, in the lead up to the 1979 election, the Conservative Research Department (CRD) and Exchange council members met to discuss the case, with Michael Portillo and Adam Ridley playing important advisory roles.[55] Portillo's advice to Howe on the technical ease but political difficulty in helping the Exchange confirmed the centrality of statecraft to Conservatism.[56] On the other hand, Ridley informed Thatcher of the 'real practical problem for us if the investigation takes its full course'. There was a likelihood

> *that the institutional changes required would damage the stockbroker/jobber mechanism and hence make the sale of gilts more difficult. This could constrain us seriously by making us seek a smaller PSBR than we would otherwise want.*[57]

Even though 'the results could be damaging', statecraft prevailed. Ridley recommeded no action was taken because, with a 'long and tedious' investigation anticipated, the matter was simply not pressing.

Political prevarication was justified by pointing to the Exchange's failure to apply for RP exemptions in 1976 when fair trading legislation was extended to services. At interview in 2017, Ridley quoted from 'an *incredibly* rude letter' which he had sent to Goodison, quite at odds with the usual deference accorded to the office of chairman of the Stock Exchange.[58] Ridley claimed the Exchange's 'ungarnished [that is, unsubstantiated] argument' for

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[54] P. E. Middleton to Douglas Wass, 15 December 1981, T521/43, TNA; M. A. Hall (PS to Chancellor Exchequer) to T. G. Harris (Department of Trade), 'Restrictive Trade Practices Act: Stock Exchange', 31 May 1979, T386/684, TNA.
[55] Meetings between Michael Portillo and Adam Ridley of CRD, and David LeRoy-Lewis and George Nissen of the Stock Exchange council, in the personal papers of Adam Ridley on the Stock Exchange. These papers remain in Ridley's possession and were shared at interview. The stated intention was to deposit them at the Churchill Archives Centre, Cambridge, where Ridley's other papers are held; interview, Sir Adam Ridley.
[56] Memo, Michael Portillo, CRD, to Geoffrey Howe, 17 January 1979, Ridley Stock Exchange file.
[57] Letter, Adam Ridley, CRD, to Thatcher, 12 February 1979, Ridley Stock Exchange file; interview, Sir Adam Ridley.
[58] Interview, Sir Adam Ridley.

exemption amounted to a 'flat assertion' which 'sound[ed] like special pleading'. He advised the Exchange to take a comparative approach, to justify its special case in relation to the workings of other exchanges. As the jobbing system was unique to the London Stock Exchange, the implication was that it could not be legitimized on that basis. The exercise was clearly also time consuming.

Asked in 2018 whether he recalled Ridley's letter, Goodison noted only

> *I got extremely used to people being rude about The Stock Exchange. There's something about The Stock Exchange. I think people saw it as a sort of high priest of capitalism or as a very preserved fortress for the benefit of its members and nobody else.*[59]

Retrospectively, Ridley defended the line taken on the grounds that the Exchange had 'completely failed to do their diligence'. It had taken his 'breath away... just how off the dial they were… they went on, I think, in a state of sort of 1940s or 1950s self-delusion'.[60] Whatever the justification, the approach bought time. It was politic for the Conservatives to delay. There was no political advantage in addressing the OFT case.

After the 1979 election, the issue immediately resurfaced. Goodison appealed directly to Thatcher;[61] Governor Richardson advised against a court case in favour of a Monopolies and Mergers Commission type enquiry;[62] and Howe expressed his 'strong view' that the Court was the wrong forum.[63] Notwithstanding expert pleading, intervention was rejected by John Nott, Secretary of State for Trade and Industry, on political grounds: The Government should not be seen doing 'favours' for 'friends in the City', or undermining competition

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[59] Interview, Sir Nicholas Goodison.

[60] Interview, Sir Adam Ridley.

[61] See memo, 10 May 1979 (in respect of Goodison letter of 8 May 1979), M. A. Hall to R. Gilmour, 'The Stock Exchange and the Restrictive Practices Court', in T386/684, TNA.

[62] Letter, 11 June 1979, from Jasper Hollom, Deputy Governor (on behalf of Governor Gordon Richardson) to Chancellor, proposing an 'alternative method of enquiry', T386/684, TNA.

[63] MTFW, PREM19/1005 f184, 31 May 1979, 'Treasury to Department of Trade ("Restrictive Trade Practices Act: Stock Exchange") *[Chancellor wants discussion after budget; MT still inclined to agree with Nott] [declassified 2013]*', https://www.margaretthatcher.org/document/137147 (accessed 30 August 2018).

policy.[64] Ironically, as a former Warburg banker (and subsequently the chairman of Lazards bank), Nott was regarded as a City man. Indeed, according to Sir David Scholey, politics formed only 'a small part of his career'.[65] Curiously, in 2018 Nott ascribed his decision to a personal 'prejudice' against the Exchange, formed whilst at Warburg.[66] Goodison, in turn, noted the 'jealousies' of merchant banks because they were governed unwillingly by the Exchange's listing function.[67]

These vignettes point to a multi-faceted, complex City and the various 'alleyways' which sprang from otherwise closely forged relationships. The easy affable relations between Goodison and Warburg's David Scholey, for instance, come across in a recollection by the former of being late getting from his office on Gresham Street to the Exchange:

> *The next morning David Scholey telephoned me from Warburg, whose office overlooked Gresham Street, and he said Nicholas, you must not be seen running down Gresham Street, it's worth 10 or 20 points [off the index, [laughter]].*[68]

The Government's decision-making around non-exemption in 1979 is discussed in detail in Chapter One. Generally understood to be politically motivated, it is now clear that, with years before a case would be heard, the matter was stalled until it became pressing in 1983.[69] Meanwhile, to assuage Howe's concerns about unruly markets and the effects of an adverse judgment on the PSBR, legislation was added to the Competition Bill 1980. This granted the Exchange a nine-month repreive to develop new rules before any rulings against

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[64] See I. Kerr, *Big Bang* (London, 1986), Euromoney Publications Plc, in association with Alexanders Laing & Cruikshank Holdings Ltd; Barings Plc; Dow Financial Services Ltd; Kleinwort Benson Ltd; Macfarlanes; Midland Bank Treasury, Samuel Montagu & Co Ltd and Greenwell Montagu & Co; Price Waterhouse; Shearson Lehman Brothers International, Inc., p. 31; Interview with Sir John Nott, London, 13 February 2018.
[65] Interview, Sir David Scholey.
[66] Interview, Sir John Nott.
[67] Interview, Sir Nicholas Goodison.
[68] Ibid.
[69] Ridley Stock Exchange file; interview, Sir Adam Ridley.

it were implemented.[70] As Chapter One demonstrated, there was another important element in the decision-making process which has not been well-understood: On taking office, the Government quickly appreciated the advantage in reviewing the stock market mechanism to better achieve monetary policy, and deferring decisions on the OFT case bought time for that review to take place.

Despite the Government's failure to intervene, Goodison was not deterred from working for a non-judicial outcome. He insisted, at interview, that it was not scrutiny per se but the adversarial process that he resisted. Furthermore, he explained how he found his position invidious; he was a chairman who needed to defend minimum commissions and someone who personally believed in competition. It was therefore an 'open question' whether he would have been 'willing to stand in the witness box' and defend minimum commissions. The issue made him 'extremely uncomfortable' and he 'wish[ed] you wouldn't ask me' about a dilemma which 'fortunately', he had never had to 'resolve'.[71] In the circumstances, Goodison had a strong incentive to reach an out of court settlement.

While the Exchange built its legal defence, Goodison cultivated networks to deliver a non-judicial resolution. This involved taking direct action rather than relying on the Bank as the traditional intermediary between government and City;

> *that didn't seem right to me…I took the view that if I wanted to talk with somebody the best thing to do was to write them a letter or ring them up and ask if they'd be willing to talk…I couldn't have got on without contacts at Westminster. I freely mingled with ministers when I needed to and then told the Governor what I'd been doing.*[72]

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[70] MTFW, PREM19/1005 f152, 18 October 1979, 'Department of Trade to No.10 ("Stock Exchange") *[proposed Nott statement embodying compromise; MT comment "a good compromise on practical grounds"] [declassified 2013]*', https://www.margaretthatcher.org/document/137157 (accessed 30 August 2018).
[71] Interview, Sir Nicholas Goodison.
[72] Ibid.

'Know[ing] a few ministers', and having an ally in Howe, meant Goodison could act autonomously and disrupt the traditional reporting channels. That said, Goodison described his relationship with the Bank as 'crucial' and 'very important to me'. Meetings with the Governor took place every Wednesday; Richardson was a 'helpful mentor and guide'; and Goodison 'shared with him all the major policies I was concerned with, and any disciplinary issues'. Richardson was 'always sympathetic' and 'extremely helpful in this matter of the RP court'.[73]

The Bank had its own 'close interest of course', which was the subject of Chapter Two. However, as the figurehead for the City, the Governor undoubtedly provided comfort to City chairmen in difficulties. Lloyd's of London was a case in point, discussed in Chapter Five. That this obtained almost irrespective of who was Governor speaks to the symbolic value and cultural authority of the role, beyond any practical help bestowed. Again, the meanings attached to offices and historical institutions of significance comes to the fore.

David Walker's 'very close' and 'constructive' relationship with Goodison was discussed in Chapter Two. It was built as a pragmatic and powerful response to the DGFT, Gordon Borrie, being 'formally on the attack' by 1980-1981; was based on the assessment that the need to respond to countless restrictive practices would 'take forever'; and concern that 'the market would fall apart under attack'.[74] The language of war signified that the survival of the central securities market was perceived to be at stake. Walker echoed Goodison's reference to performance under shellfire when he noted 'neither of us were the despairing type' under attack. He and Goodison ('a hero of all this') met two or three times a week and made progress by ensuring Governor Richardson was 'on board', and through maintaining a close relationship with Howe.

[73] Ibid.
[74] Interview, Sir David Walker; interview, Sir Nicholas Goodison.

This network was crucial, not only to eventually circumvent fair trading legislation drafted by Howe, but also because Goodison's 'only doubt was whether he could get [proposals] through the Stock Exchange council without the help of government'.[75] Furthermore, the network extended to important contacts in Whitehall. Walker's 'fantastic relationship' and work on strategy with Philip Brown at the DTI contributed to Brown, in turn, subsequently 'persuad[ing] [Arthur] Cockfield', the then Trade Secretary (and former businessman) in favour of an out of court settlement. Intellectually, Cockfield 'got it in a second' (as did Nigel Lawson).[76] The value of the network can perhaps be measured by the fact that Brown subsequently went to Lloyd's, where the network approach to problem solving was again demonstrated. There, alongside others, Walker was again a major asset.[77]

The Goodison-Parkinson Accord between the Government and Exchange in July 1983 was the product of Goodison's networking. It brought an end to the OFT case against the Exchange in return for reforms, including the end of fixed minimum commissions and measures to open up the Stock Exchange council to make it more accountable.[78] The credit accorded to Cecil Parkinson, who gave his name to the Accord as incoming Trade Secretary, was overstated. Following a sustained networked approach, the main parameters for

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[75] Interview, Sir David Walker; see also A. E. Walsh and J. Paxton, *Competition Policy: European and International Trends and Practices* (London, 1975), p. 147. As Minister of Trade and Consumer Affairs (and a prominent lawyer) Howe had been responsible for amendments to the RTPAs of 1956 and 1968; Government help was crucial even if it was expressed in the form of a lever to resume court proceedings if necessary.

[76] Interview, Sir David Walker.

[77] For more details see Chapter Five. Other key officials also moved from government to Lloyd's, see Duguid, *On the Brink*.

[78] In the absence of agreement from the DGFT, legislation was required to remove the OFT case from the courts, see MTFW, PREM19/1005 f36, 15 September 1983, 'Parkinson minute to MT ("The Stock Exchange & the Restrictive Practices Court") *[must exempt by primary legislation because OFT will not drop the case otherwise; MT consents] [declassified 2013]*', https://www.margaretthatcher.org/document/137176 (accessed 30 August 2018). See Chapter Two for the introduction of outside ownership. 100 per cent outside ownership was determined by March 1984, see Michie, *Stock Exchange*, p. 550, p. 561.

agreement were actually reached in May 1983, at a meeting between Howe, Peter Middleton, Lord Cockfield, Philip Brown, David Walker and Governor Richardson.[79]

At the meeting, it was 'agreed that a period of very private discussion with Stock Exchange representatives would be necessary to establish whether a settlement on these lines would be acceptable to them'.[80] Of course, Goodison's agreement was never in doubt, rather it was a question of whether he could deliver ratification by Stock Exchange members. The matter laid bare the inter-connected and dynamic nature of the reform process, as Goodison, in turn, required government pressure (including the threat to re-impose court proceedings if necessary) to carry the 4,500 disparate membership. What settlement of the OFT case really demonstrated was the Government, the Bank and the Exchange council working in unison to reach an accord, not the imposition of reforms on the Exchange.

Navigating reform

Although the Goodison-Parkinson Accord was ratified in July 1983, the implications and wider ramifications were unclear. The Government insisted on the end of fixed commissions but, in the first instance, stipulated that single capacity should be retained (subject to review).[81] This provided consistency with Lloyd's, which had moved from dual to single capacity in 1982, as discussed in Chapter Five.

Meanwhile, drawing on the well-rehearsed 'link argument', in the absence of fixed commissions the Exchange council deemed single capacity commercially unviable. It therefore anticipated dual capacity. Within the profession, opinion was divided over keeping single or moving to dual capacity and therefore the structure of the future trading mechanism.

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[79] MTFW, PREM19/1005 f113, 6 May 1983, 'Treasury record of conversation (Chancellor, Trade Secretary, Governor of the Bank of England) *[possible abandonment of Stock Exchange RPC case] [declassified 2013]*', https://www.margaretthatcher.org/document/137162 (accessed 30 August 2018).
[80] Ibid.
[81] The Resolution of the Council of The Stock Exchange, 22 July 1983, 15A91/3, BOE.

Differences often centred on (but were not confined to) size of firm, and whether changes in the equity market should be matched in the gilts market. These uncertainties feed into historiographical debates about whether reforms were practitioner-driven by those seeking to participate in international markets, or whether they were imposed on the City by the Government.[82]

Before Big Bang, the Stock Exchange was depicted as a monopolistic domestically focussed backwater. As discussed in Chapter Four, in 1984 John Redwood even likened the Exchange to a fairytale castle, populated by mighty barons who pillaged from subject people.[83] Reflecting on the old Exchange in 2017, Gordon Pepper rejected this;

> *I'd have said that the majority of the Stock Exchange and the great and good really did believe that the way the City was structured was in the national interest. I would say that the vast majority of people didn't see ourselves as a greedy inefficient cartel. We were proud of what we did.*[84]

On the one hand, Pepper recalled Salomon's 'pinching our business' and the need to compete and change, particularly 'in the electronic age'. On the other, he observed the argument for 'status quo', and insisted 'the Stock Exchange did not vote for the Big Bang…As far as most of the market was concerned it was imposed on them…by the authorities', particularly the Bank, 'because of change.' He squared this by crediting the more 'far-sighted people' with understanding the nature of change and responding accordingly.

> *It's only the likes of me realised that if you didn't change then Salomon's was going to pinch our business…And then the powers that be, the jobbers, senior partners saying look, if mimimum commission rules have gone the single capacity position of broker and jobber is going to collapse too. And basically, the argument was very simple. Minimum commission had gone. It was highly doubtful that we could preserve*

[82] For the former narrative see Talani, *Globalization*; Davies, *City of London and Social Democracy*. For the latter perspective see M. Moran, *Politics of the Financial Services Revolution*; Helleiner, *States and the Reemergence of Global Finance*; Swary, and Topf, *Global Financial Deregulation*.
[83] See MTFW, PREM19/1199 f210, 1984 June 11, 'Redwood minute to MT ("Tilting at Castles") *["fairytale" on reform of the stock exchange] [declassified 2014]*', http://www.margaretthatcher.org/document/134173 (accessed 14 March 2019).
[84] Interview, Gordon Pepper.

single capacity, therefore we have got to restructure our businesses, to protect ourselves against that eventuality, and that restructuring of the business guarantees that it does happen. And therefore it's change.[85]

This perfectly underscored the importance of perceptions and responses to change, alongside actually exisiting global imperatives. Pepper's words capture the dynamic nature of inter-connected processes. They also highlight the fact that local reaction (in this case business restructuring) to international pressures was a critical part of the process. Essentially, international competitive forces were mediated at the national level. In Historical Institutionalism methodology this speaks to 'tipping points' and 'punctuated equilibriums'; for the historian, it confirms that even processes regarded as 'inevitable' are contingent on historical conditions. Equally, geographical specificities underscore the domestically distinctive nature of particular neoliberal projects.[86]

For those seeking to make sense of reforms, WCP conferences offered a valuable space from as early as January 1984. Attended by brokers, jobbers, merchant and clearing bankers, institutional investment fund managers, and politicians alike, conferences were 'an important part of [the] process' of enabling 'every attitude and concept of the London financial scene' to be 'scrutinize[d] and consider[ed] afresh'.[87] Accordingly, 'distinguished friends and colleagues' (institutional investors might also be clients) used their networks to develop 'some real understanding of the practical consequences of the financial revolution' and seek 'some intellectual clarification of what [wa]s likely to happen'.[88] Moreover, with

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[85] Ibid.; see also letter from Pepper to David Walker, 14 September 1983, enclosing a memo to Greenwell partners on 'The Future Structure of the Securities Industry' dated 5 September 1983, for discussion with Walker at a scheduled meeting that Friday, 15A91/4, BOE.
[86] See Peck, *Constructions of Neoliberal Reason.*
[87] Nils Taube, Chief Executive J. Rothschild Investment Management, 'The New Role of UK Merchant Banks in the Securities Markets', *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, DFA, CRL, Conference No. 19, Box 19.
[88] Angus Grossart, 'Conglomerates - the Fall-Out and the Opportunity', *What Future For Financial Conglomerates?*, Conference held on 2-3 October 1984, DFA, CRL, Conference No. 23, Box 23.

Merger and Acquisition activity already underway, information also satisfied curiosity about potential partners and or competitor strategies. Equally, conference spaces were valid meeting places which mattered when, for commercial reasons, practitioners were sensitive about whom they were seen meeting with.[89]

Conference speakers captured the fluid nature of change and uncertainty following the Goodison-Parkinson Accord. In January 1984, Richard Lloyd, Chief Executive and Deputy Chairman of the leading merchant bank Hill Samuel, assumed delegates knew 'by heart' the changes and 'subsequent pronouncements' since the Accord. He imagined they inspired in colleagues 'a mixture of exhilaration and trepidation of the same sort as we experienced as children when playing a not dissimilar game of musical chairs'.[90] This sort of language was consistent with the sense of camaraderie and shared roots confirmed by other speakers. The musical chairs analogy also implied reforms would create winners and losers. In terms of gender, of 253 delegates, only ten were women and they represented the institutions and clearing banks as opposed to the elite merchant banks, or broking or jobbing firms.[91] The strong impression is of men coming together to better understand the implications of reform and offer constructive dialogue to build the new City. Lloyd asked delegates to 'deduce with

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[89] Conference subject matter reflected the preoccupations of practitioners. For example, in January 1984, the Minister, Alex Fletcher addressed delegates on 'The Future of the Stock Exchange'. Other talks were on 'new institutional alignments' (Richard Lloyd); 'changes in the pattern of business' (J. Dundas Hamilton); 'a comparison of single capacity with other market systems - do the same arguments apply in the gilt edged and equity markets? (George Nissen); 'a new market structure compatible with negotiated commissions' (David LeRoy Lewis); 'challenges facing stockjobbers' (Mark Ferguson); 'services for private clients' (Andrew Hugh Smith); 'the international dimension' (Sir Kenneth Berrill); 'the experience of Wall Street - some pointers for London' (Jason Bacon); 'the new role of merchant banks in the securities markets' (Nils Taube); 'the economics of stockbroking' (Michael Hughes); 'investor protection' (Peter Wills); and 'how investment managers may respond to negotiated commissions' (Peter Simon, Bruce Ackerman, George Dennis).
[90] Richard Lloyd, 'New Institutional Alignments', *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, DFA, CRL, Conference No. 19, Box 19.
[91] See delegate information/details of conference hosted at the Hilton Hotel, Park Lane, *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, DFA, CRL, Conference No. 19, Box 19.

me the types of institutional alignments which could occur' and at the same time tested 'tentative… presumpt[ions]'. To be able to do so in the presence of the Minister, Alex Fletcher, as well as Exchange officials testifies first, to the flow of ideas between the Government and City, and second, to the perceived value, to all parties, of ministerial feedback on practitioner assumptions and strategies.[92]

Equally, practitioners had the opportunity to criticise government dictums and promote alternatives. Whereas Richard Lloyd complimented the Minister on his 'responsiveness' since the Goodison-Parkinson Accord, Mark Ferguson, a partner at Pinchin Denny stockjobbers and member of the Exchange council, was unrestrained in his criticism of government. His complaints ranged from the subjection of the Exchange to the RPC process to inconsistent messages about reforms since the Accord. In particular, as a jobber, he lamented the shift from a government commitment to single capacity towards an acceptance of dual capacity. He spoke in a personal capacity, rather than for the Exchange council.[93]

Ferguson's complaint of having torn up and redrafted three conference speeches because of fresh ministerial announcements captured the rapid pace of change, the fluidity of the Government's position, and its pragmatism as it confronted realities on the ground. In the circumstances, it was hardly surprising that senior practitioners, who sought to shape the new City and who expressly observed government flux, should welcome an audience with the Minister. Or that, invariably, they asked the Government to play its part in making the City more attractive to investors, for instance by abolishing stamp duty.[94] Stamp duty on shares

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[92] Alex Fletcher was Parliamentary Under-Secretary of State for Corporate and Consumer Affairs.
[93] Mark Ferguson, 'Challenges facing Stockjobbers', *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, DFA, CRL, Conference No. 19, Box 19. Ferguson said his views were 'not necessarily' those of Pinchin Denny or the Exchange council.
[94] See Mark Ferguson, Andrew Hugh Smith, Nils Taube speeches, *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, DFA, CRL, Conference No. 19, Box 19.

was cut from 2 per cent to 0.5 per cent between 1984 and 1986, suggesting that the Government was sympathetic to City representations and that the City shaped change.[95]

In accordance with its overarching free market framework, the Government adopted a deliberately responsive approach so that policy could flex with the needs of the market.[96] It was apposite therefore that Ferguson should note 'the few guidelines' the Government had 'come out with'. They were, 'good investor protection… wider share ownership…[and] a strong central market'.[97] Thereafter, it was for practitioners to determine how the guidelines were met. As a consequence, attempts by historians to seek to identify a 'discernible plan' for the City misses the Government's flexible intent; its belief about where responsibilities best lay; its actual input into process; and its role in the construction of free markets.[98]

An assessment of the Government's record by another delegate included an acknowledgment that the abolition of exchange controls and commitment to wider share ownership 'could not be more favourable' to broking as a 'growth industry'.[99] This chimed with discourse on the structural economic shift to the service sector (away from manufacturing) which was exploited by the New Right. Government intervention to create and support free markets was recognised, ranging from the introduction of an advantageous new tax regime; greater incentives for investment in companies rather than houses for the first time in the post war period; the introduction of new monetary assets; and a 'spectrum' of

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[95] See 'Stamp duty on shares', *TaxPayers' Alliance*, https://www.taxpayersalliance.com/stamp_duty_on_shares_briefing (accessed 26 April 2019); similarly, Aled Davies credits the City for driving change, *City of London and Social Democracy*.

[96] See MTFW, PREM19/1461 f194, 1984 June 29, 'Redwood & Willetts minute to MT ("The City") *[overview of policy] [declassified Dec 2014]*', http://www.margaretthatcher.org/document/137012 (accessed 9 May 2019).

[97] Mark Ferguson, 'Challenges facing Stockjobbers', *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, DFA, CRL, Conference No. 19, Box 19.

[98] See Michie, *London Stock Exchange,* pp. 593-594.

[99] Michael Hughes, 'The Economics of Stockbroking', *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, DFA, CRL, Conference No. 19, Box 19.

legislation including the Building Societies Act. The Government was thus regarded as having purposefully initiated a 'financial revolution'.[100]

The 'changed' role of government was also noted, 'with share ownership being encouraged, stimulation of venture capital, and a trend towards changing the welfare state including individual pensions and private health care'. Comfort was taken from the twin observations, that these 'trends will be hard to reverse quickly' and that '[t]he balance between labour and capital…[wa]s being corrected, even if at some cost to the economy'. On the latter point, it was of considerable 'advantage to financial services companies' that what had been 'a powerful opposition to change' had been 'dilute[d]'.[101] This endorsement of Thatcherism by the City was based on a collision of ideological and material interests which made for a constructive and purposeful relationship.

A new trading system

In July 1983, the Exchange had agreed to 'dismantle by stages and with no unreasonable delay all the rules which prescribed minimum scales of commission, completing this by 31 December 1986'.[102] By January 1984, however, it was assumed there would be a big bang rather than gradually introduced negotiated commissions.[103] Moreover, without fixed commissions to cushion separate functions, the Exchange deemed single capacity unworkable for commercial reasons. In a speech in New York in October 1983, the Minister Alex Fletcher had declared he was 'ready to be convinced that this was the case, but if the…Stock

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[100] Ibid.

[101] Bernard Lardner, 'Winners and Losers in the Restructuring of Financial Institutions', *What Future For Financial Conglomerates?*, Conference held on 2-3 October 1984, DFA, CRL, Conference No. 23, Box 23.

[102] MTFW, PREM 19/1005 f5, 18 October 1983, 'Conservative Research Department briefing ("The Restrictive Trade Practices (Stock Exchange) Bill - Second Reading") *[declassified 2013]*', https://www.margaretthatcher.org/document/137179 (accessed 25 August 2018).

[103] Richard Lloyd, 'New Institutional Alignments', *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, DFA, CRL, Conference No. 19, Box 19.

Exchange does decide to change its single capacity system, comparable safeguards would have to be introduced' to ensure adequate investor protection. This was likely to involve electronic display equipment.[104]

This suggested a hands-off government which allowed practitioners to shape the new system so long as guidelines were met. Yet whilst this approach satisfied the DTI as the sponsoring department, the shift to a dual capacity mechanism was carefully studied by the Treasury and Bank as a means to deliver the Government's monetary policy and borrowing requirement. As discussed in Chapter One, the Treasury had a material interest in a dual capacity system for the sale of gilts and to regard the Government as disinterested in the market mechanism would be a mistake. Instead, the Government's relaxed stance can be attributed to the Exchange following the link argument to its logical conclusion. This fed the narrative of practitioner-led reforms preferred by the authorities, and absolved the Government from responsibilities, in accordance with small state objectives.[105]

Practitioners were not only familiar with the link argument, but it emanated from their governing body. Thus while uncertainty and dissent was apparent, the 'logic' of dual capacity was generally accepted by WCP attendees in January 1984.[106] Ferguson concluded there was no point in looking at jobbing and broking separately as, 'with a minister who does not appear to mind if single capacity disappears and says so in public, the Jobbing system would appear to be in grave jeopardy.'[107] Delegates were not inclined to favour an alternative type

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[104] MTFW, PREM 19/1005 f5, 18 October 1983, 'Conservative Research Department briefing ("The Restrictive Trade Practices (Stock Exchange) Bill - Second Reading") *[declassified 2013]*', https://www.margaretthatcher.org/document/137179 (accessed 25 August 2018).
[105] See Gamble, *Free Economy Strong State*.
[106] Richard Lloyd, 'New Institutional Alignments', *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, DFA, CRL, Conference No. 19, Box 19. There would be 'inadequate profitability for the continuance of disciplined acceptance of single capacity'.
[107] Mark Ferguson, 'Challenges facing Stockjobbers', *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, DFA, CRL, Conference No. 19, Box 19.

of single capacity specialist system (on New York lines), despite arguments from the author of the link argument, who sought to maintain single capacity.[108] However, lively conference discussion confirmed that the market mechanism was not settled in January 1984, not least because Eddie George, Executive Director at the Bank with overall responsibility for the Gilt-edged Division, still expected to retain single capacity in the gilt market. On this point, delegates found it 'inconceivable' that gilts and equities should be treated differently, a belief shared by the Chancellor.[109]

Equally, the campaign by smaller stockbroking firms to retain single capacity, noted in Chapter One, demonstrated the stakes still at play. Three representatives from small firms gained places on the Exchange council in elections in June 1984, dislodging established members. That one polled more votes than Goodison upset the Council and government alike.[110] To avoid the danger of a two-tier market emerging, the Chancellor personally intervened by signalling his dismay at the prospect to the Bow Group.[111] That this was considered a significant intervention, and the fact that Treasury records include an entire file on the Chancellor's speech, confirm the importance attached to the Bow Group and the power of dissemination through its network.[112]

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[108] David LeRoy-Lewis, 'A New Market Structure Compatible with Negotiated Commissions', *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, DFA, CRL, Conference No. 19, Box 19.
[109] See Kynaston, *Club No More*, p. 632, p. 647; See Richard Lloyd, 'New Institutional Alignments', *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, DFA, CRL, Conference No. 19, Box 19; for Lawson's position, see handwritten note, T. P. Lankester to Chancellor, 'Stock Exchange', 29 June 1984, T486/211, TNA. The Bank conceded the same trading system would be needed for gilts and equities.
[110] John Moore, City Correspondent, 'SE poll success for small firms', *The Financial Times*, 21 June 1984, in T486/211, TNA; F. Cassell to Chancellor, 'Stock Exchange: State of Play', 21 June 1984, T486/211, TNA.
[111] T. P. Lankester to Chancellor, 'Stock Exchange', 29 June 1984, T486/211, TNA. A two-tier market was envisaged whereby there was 'dual-capacity in actively traded stocks with the continuation of single capacity in inactively traded stocks'.
[112] See Barr, *The Bow Group.*

Meanwhile, there were plans for the Trade Secretary to meet Sir Anthony Grant MP and the 'rebel' stockbrokers 'to hear their misgivings about the [Stock Exchange] Council's plans'.[113] Grant (whose support for Lloyd's is discussed in Chapter Five) was undoubtedly a powerful ally of smaller firms struggling to survive, and his support for rebels was evidence of alternative networks working past or counter to those which promoted reforms.[114] This speaks to historian Philip Williamson's exhortation when examining City/government relations, to see the multiplicity of approaches and the flow of communications in various directions.[115] Ultimately, fielding the Chancellor and Trade Secretary in these instances spoke of purposeful government intervention in defence of free market strategy as well as the Government's material interest in the gilt market. It also reveals the City as a site where neoliberalism and traditional conservatism, and ideology and pragmatism converged, rather than simply a space where neoliberal ideas were applied.

The central issue

'The ideal market is where the business is in the market and that is what we must work towards'.[116] This statement by Mark Ferguson, united City, Bank and government in the shared objective of preserving a strong central market under 'the one umbrella of the Stock Exchange'.[117] As it was understood that the 'big battalion' would 'form at least part of the

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[113] F. Cassell to Chancellor, 'Stock Exchange: Next Steps', 3 July 1984, T486/211, TNA.
[114] Grant was a former vice-chair of the Conservative Party; had worked in the City; was a liveryman and a past master of the Guild of Freemen in the City; and an adviser to Barclays and Bowring insurance brokers. He spoke at length in the House in support of the Financial Services Bill 1986, see *Hansard*, Financial Services Bill, Order for Second Reading, HC Deb, 14 January 1986, vol. 89, cc 939-1024.
[115] Williamson, 'The City of London and government in modern Britain', p.21.
[116] Mark Ferguson, 'Challenges facing Stockjobbers', *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, DFA, CRL, Conference No. 19, Box 19. Ferguson argued those operating under separate DTI-approved licenses should come within the Exchange.
[117] Ibid.

City scene, whether as full members of the Stock Exchange or not', the idea was to open up the Exchange to ensure it was not bypassed.[118]

So again, while there was evidently international pressure, the responses to it were key and the 'strategic manoeuvres' of banks like Securities Pacific and Citicorp, as well as Warburg and Rothschild did not occur in a vacuum. The banks may have anticipated 'the day of the financial conglomerate in the UK', but Exchange members argued they would 'very much need stock market representation as part of that conglomerate' and they responded accordingly.[119] In particular, the attractions of the Exchange were advertised, with an emphasis on its self-regulatory role in contrast to alternative statutory regulation along onerous US Securities and Exchange Commission lines.[120] In the context of the 1984 Gower Report into investor protection this was a powerful argument.[121] Report recommendations led directly to the FSB 1986 which introduced the concept of self-regulation under a statutory framework, whereby practitioners would be authorised by SROs overseen by the SIB.

The importance attached to retaining the Exchange as the central market was conveyed at interview by Steven Raven. The former partner at Akroyd and Smithers was a member of the Stock Exchange council and chairman of its International Markets Committee. Because foreign securities firms were excluded from the Exchange up until the day of Big Bang, they proposed their own SRO, known as ISRO, as discussed in Chapter One. This was in direct competition with the Exchange.

Raven explained how he met Michael Howard, then Under-Secretary of State at the DTI, 'quite a lot' and 'got this blessing [from Howard]…to try and stop ISRO'. The solution

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[118] See Richard Lloyd, 'New Institutional Alignments', *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, DFA, CRL, Conference No. 19, Box 19.
[119] Ibid., p. 7.
[120] David LeRoy-Lewis, 'A New Market Structure Compatible with Negotiated Commissions', *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, DFA, CRL, Conference No. 19, Box 19.
[121] *Review of Investor Protection: The Gower Report*, 1984. (Interim Report 1982).

was to pre-empt ISRO by introducing new technology (the SEAQ system) for international trading a year ahead of its general release at the time of Big Bang. Those intending to join ISRO were invited to join the London Stock Exchange International Market instead. Most were recruited into the Exchange and were dual capacity trading through SEAQ International a year before Big Bang. Consequently, ISRO 'never got going'.[122] The achievement was decisive for the future of the Exchange:

> *if those boys had set up with ISRO as an international market, away from the Stock Exchange, they would have been far more powerful than we were, because if you look at the mergers which were going on, there was a big American broker in pretty well all of them*.[123]

Raven's testimony highlighted networked solutions by the Exchange and government, and the Government's purposeful (if discreet) intervention to ensure international trading was conducted centrally through the Exchange. The episode showed what was at stake and confirmed that a central market was a 'desirable end in itself'.[124] It also illustrates deliberate responses to international pressures and privileges the role of individuals and institutions in shaping change.

In order to attract capital to the jobbing system, rules which limited outside interests from owning more than 10 per cent of Stock Exchange firms were relaxed in 1982, permitting 29.9 per cent outside ownership.[125] The relaxation of rules, before it was stipulated they should be removed altogether, confirmed that attracting capital was of major importance

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[122] A merger between ISRO and the Stock Exchange was agreed in September 1986 and implemented after Big Bang. The merged operation was officially named The International Stock Exchange of the United Kingdom and the Republic of Ireland, but continued to be called 'The Stock Exchange', see https://www.bankofengland.co.uk/-/media/boe/files/quarterly-bulletin/1987/change-in-the-stock-exchange-and-regulation-of-the-city (accessed 8 May 2019).
[123] Interview, Steven Raven.
[124] Quotation from Sir Kenneth Berrill, chairman of SIB, in John Moore, City Correspondent, 'Big Stock Exchange reforms planned to boost membership', *The Financial Times*, Friday 1 November 1985, in T448/468, TNA.
[125] See Kynaston, *Club No More*, p. 621; Hilton, *City Within a State*, p. 68. Under takeover law, anyone who bought more than 29.9 per cent of a company had to launch a full takeover.

to member firms. Indeed, attracting capital is the commonly cited rationale for regulatory reform.[126]

By 1 March 1986, in preparation for Big Bang, 100 per cent outside ownership - including limited liability corporate membership - was permitted.[127] Outside ownership brought greater capitalisation. Yet while capital requirements were undoubtedly a major consideration in the reform process, Chapters One and Two discussed measures in place which allowed jobbers to operate effectively with the express support of the Bank. In particular, Chapter Two shows the Bank had a relaxed attitude to the capitalisation issue.[128] At WCP conference a former deputy chairman of the Exchange, who preferred 'restrained evolution rather than revolution', resisted lifting the 29.9 per cent restriction.[129] Equally, other WCP delegates spoke of 'the exaggerated need for capital',[130] and the ability of major jobbers to operate effectively with 'quite small capital bases and high amounts of leverage'.[131] Thus, while greater capitalisation was clearly crucial for some, for others, including the Bank, the argument was overstated. Overall, this thesis ranks the need to keep the market within the Exchange higher even than the need to attract capital to that market.

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126 Hilton, *City Within a State*, pp. 67-69; Augar, *Death of Gentlemanly Capitalism,* p. 113.
127 'Change in The Stock Exchange and regulation of the City', *Bank of England Quarterly Bulletin*, February 1987, https://www.bankofengland.co.uk/-/media/boe/files/quarterly-bulletin/1987/change-in-the-stock-exchange-and-regulation-of-the-city (accessed 27 April 2019).
128 Letter, Douglas Wass, Permanent Secretary at the Treasury, to Deputy Governor, Bank of England, 15 March 1982, T521/43, TNA; Letter, Kit McMahon to Douglas Wass, 15 June 1982, T521/43, TNA.
129 David LeRoy-Lewis, 'A New Market Structure Compatible with Negotiated Commissions', *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, DFA, CRL, Conference No. 19, Box 19.
130 Angus Grossart, 'Conglomerates - The Fall-Out and the Opportunity', *What Future For Financial Conglomerates?*, Conference held on 2-3 October 1984, DFA, CRL, Conference No. 23, Box 23. Angus Grossart referred to discussion during the first day.
131 John Chiene, 'Developing an Integrated Investment Banking Business', *What Future For Financial Conglomerates?*, Conference held on 2-3 October 1984, DFA, CRL, Conference No. 23, Box 23.

The issues are interwoven, but maintaining the central market was fundamental. After all, as Gordon Pepper insisted, 'the market itself was the goose that laid the golden eggs'.[132]

Helping the City help itself: Making sense of the City revolution

Faced with a financial revolution, the City came together to understand the nature of change. Though practitioners often advised businesses on corporate deals including restructuring, they were not necessarily best placed to understand the implications of change for their firms or to broker new alignments. Accordingly, there was a heavy reliance on accountancy and legal advice, as demonstrated by the Cazenove case study in Chapter Four.[133]

Eddie Ray, the Senior Partner at accountants Spicer and Pegler, was an expert on professional partnerships and tax, with close connections across City and government.[134] He was 'closely concerned' with Stock Exchange member firms and addressed WCP delegates drawing discreetly but 'directly from a number of [current] reorganisations', including Cazenove's.[135] As a renowned problem-solver, Ray was able to offer practitioners technical solutions.[136] He was also well-connected and subsequently described having 'a lot to do with politicians' and 'enjoy[ing] their company'. Some, like Cecil Parkinson, had worked 'under'

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[132] Interview, Gordon Pepper.

[133] See Cazenove papers, Spicer and Pegler memo, 'Cazenove & Co. Memorandum on Introduction of Outside Capital', 11 September 1984, CLC/B/039/MS3910, LMA.

[134] Ray was President of the Institute of Chartered Accountants in England and Wales; Chairman of the Parliamentary and Law Committee; a member of Chancellor's Tax Consultative Committee; a member of SIB; and a member of the Bank's Capital Markets Committee.

[135] Biographies of speakers, Eddie Ray, 'Tax and Accounting Problems in Forming City Conglomerates', *What Future For Financial Conglomerates?*, Conference held on 2-3 October 1984, DFA, CRL, Conference No. 23, Box 23; Spicer and Pegler memo, 'Cazenove & Co. Memorandum on Introduction of Outside Capital', second draft, 11 September 1984, CLC/B/039/MS3910, LMA.

[136] For those considering new alignments, the major differences between partnerships and corporations were outlined; tax implications arising from sales of partnerships were discussed; and ways to attract capital while avoiding capital gains tax were suggested. Rather than selling a percentage of their equity to a limited partner, for example, firms might 'simply want him to put up the appropriate capital and maybe a subordinated loan and take his share of the profits.'

him in Ray's capacity as President of the Institute of Chartered Accountants. As a member of the Chancellor's Tax Consultative Committee, he advised the Treasury on tax. He also advised the DTI on City matters; became a member of the SIB; and set up and ran the industry-wide Investors Compensation Scheme. Ray's standing and ability to be 'seen' when he 'rang up' senior people, including ministers, spoke of an authority and influence which mediated City government relations.[137]

Given the commercially sensitive nature of potential mergers, there was a reticence about being seen talking to likely targets. Nevertheless, 'one had friends' and, in fact, 'everybody was talking to everybody'.[138] Some practitioners recalled holding merger meetings in obscure restaurants, company flats, private homes, and of course at the Bank. For the Bank, 'one of the hilarities of life' was remembering 'who was about to get into bed with who'.[139] Its close involvement in merger activity was discussed in Chapter Two.

Through Phoenix Securities, the merchant banker John Craven offered an alternative boutique service which advised in 'about two-thirds of the major mergers and acquisitions'.[140] These included the merger talks between Greenwell's and Montagu's, which Gordon Pepper described as 'hairy', requiring detailed consultation between himself and Craven over a particularly fraught weekend.[141] In general terms, Craven spoke of encouraging partners to consider their strategic objectives but conceded 'top dollar' was often the focus.[142] This resonated with Tim Congdon's experience of the Messel acquisition by Shearson Lehman Brothers. Asked how he had felt about it as a junior partner, Congdon's

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[137] See BL, *Sounds*, Banking and Finance, Edward Ray, tapes 3 and 4, https://sounds.bl.uk/Oral-history/Banking-and-finance/021M-C0409X0078XX-0003V0 ; https://sounds.bl.uk/Oral-history/Banking-and-finance/021M-C0409X0078XX-0004V0 (accessed 1 May 2019). Ray speculated that the help he offered the Treasury and DTI was a contributory factor in his being awarded a CBE in 1988.
[138] Interview, Sir David Scholey.
[139] Interview, Ian Plenderleith.
[140] Kynaston, *Club No More*, pp. 635-636.
[141] Interview, Gordon Pepper.
[142] Kynaston, *Club No More*, pp. 635-636.

was a material response: ‘Well, much richer’. Congdon recalled how the firm had ‘taken’ the Great Eastern Hotel, next to Liverpool Street Station. The entire partnership was going to be kept ‘as long as is necessary…you’re going to sign on the dotted line’. In the event there was little debate, ‘we were all going to get much much richer…so obviously we were all queuing up’.[143]

For practitioners who sought to envisage what new market activity would look like and to respond accordingly, conference discussion was invaluable. If the market was going to ‘hinge around…a revised central stock market and…overseas markets dealt in via London’, then opportunities emerged.[144] It was noted that leading corporate finance brokers with sufficient capital to carry out a jobbing role might ‘also find spare capital and expertise enough to carry out also the lead underwriting function.’ In so doing they would ‘enter the hitherto near-exclusive preserve of the issuing houses’.[145] This anticipated Cazenove’s unusual Big Bang strategy, not least because the desire to remain independent was also recognised.

Most firms, however, would need to rely on new alignments for capital injections because, if ‘readiness to take stock on your own books [wa]s going to be the name of the game, then the more massive the capital available to firms the better.’ This analysis rebutted suggestions that capital requirements were exaggerated. Similarly, British firms were warned they would ‘ignore the big league at their peril’, especially as larger clients sought international dealing capacity and large immediate trades. Moreover, the ‘logic of significant players wishing to have capacity and enough capital to act as originators, distributors and

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143 Interview, Tim Congdon.
144 Richard Lloyd, ‘New Institutional Alignments’, *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, DFA, CRL, Conference No. 19, Box 19.
145 Ibid., p. 3. The issuing houses were financial institutions (usually merchant banks) that provided capital by arranging and underwriting the issue of new shares on behalf of clients. See C. Pass, B. Lowes and L. Davies, *Collins Dictionary of Economics*, 4th ed. (2005), https://financial-dictionary.thefreedictionary.com/issuing+house (accessed 10 May 2019).

market makers' was likely to 'prove irresistible'. Thus, full-service investment banks were anticipated.[146] As this logic drove Barclays, the following section focuses on its rationale for becoming an integrated bank, using conference archives and oral histories to do so.

The elephant in the room: A focus on Barclays

It has been suggested that Barclays lacked a considered Big Bang strategy. That in the frenzy of City merger and acquisition activity from 1984, it 'simply decided to take a punt' by purchasing the stockbrokers de Zoete & Bevan and stockjobbers Wedd Durlacher.[147] Contemporaneously however, Andrew Buxton, General Manager of Barclays, shared its rationale with fellow practitioners at an October 1984 WCP conference.[148] There he described the clearing banks as the 'elephants of the financial markets' and he accepted that questions arose over their foray into securities markets, where they might be 'eaten alive by the fast-moving innovative hunters of the merchant bank fraternity'.

The questions included whether the Bank was 'pushing them into it for patriotic reasons…to create a large British securities house' to withstand American and Japanese competition.[149] Records, discussed in Chapter Two, show the Bank and government strongly encouraged British solutions, in particular marriages under the Warburg and Barclays names, for just that reason. Clearly, Barclays was encouraged by the authorities to participate. However, Buxton was keen to emphasise Barclays' autonomy. Colleagues should doubt

[146] Richard Lloyd, 'New Institutional Alignments', *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, DFA, CRL, Conference No. 19, Box 19, p. 7. New alignments also offered possibilities for new contacts, international organisation, diversity into commodities and futures trading, and enhanced growth.
[147] Kynaston, *Club No More*, p. 645.
[148] Andrew Buxton, 'The Clearing Banks in the Securities Industry', *What Future For Financial Conglomerates?*, Conference held on 2-3 October 1984, DFA, CRL, Conference No. 23, Box 23.
[149] Ibid.

whether the Bank would 'put one of the major strengths of the London financial market into a business which they were opposed to'.

Buxton insisted that securities markets were a natural 'extension' of clearing bank business and that Barclays expected to make an adequate return. Already, 'in addition to a large fund management business' in the UK and Switzerland, Barclays had securities trading 'offshoots overseas'. They included a stockbroker in Holland, Stock Exchange seats in Milan and Geneva, and other unspecified subsidiaries. Buxton argued that a 'strong presence in the domestic centre of its business' would pull Barclays international businesses together and would also 'give an additional international extension to domestic business'.

At a January 1984 conference, just ahead of its announced merger into Barclays, de Zoete's Michael Hughes had anticipated a shift to fewer, larger firms; less product differentiation based on 'expertise, contacts, and even personality'; more importance attached to price; and an environment where market share (over profitability) became paramount.[150] These predictions help explain its merger with the large clearing bank.

From Barclays' perspective, adding securities-broking satisfied the demands of corporate clients; attracted those of high net worth (including de Zoete and Bevan's client list); and increased off-balance sheet earnings. Fundamentally though, Big Bang regulatory reforms offered rewards beyond even May Day deregulation precisely because capacity (and not just the commission basis) was changing. Changes to capacity promised to 'rewrite the way stockbroking [wa]s carried out' and offered the chance to deal in transactions in bulk.

Buxton suggested this was an opportunity for assembled merchant bankers to access Barclays' significant placing power and capital. It proposed doing 'bought deals' for merchant banks, that is, 'buy[ing] the whole transaction at an agreed price' and placing it on

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[150] Michael Hughes, 'The Economics of Stockbroking', *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, DFA, CRL, Conference No. 19, Box 19; for Barclays merger see, Kynaston, *Club No More*, pp. 644-645.

the market 'without the need for a plethora of managers, underwriters and sub-underwriters'. Scale was everything: 'The major problem in the UK' was the small and reducing proportion of individual share owners compared with the US. This was a problem the Government was not able to resolve, despite its commitment to 'creating wider share ownership', and accordingly Barclays branch initiatives for individual share ownership would be limited.[151] Instead, it was 'quite clear' that the clearing bank would be guided by 'the skills we have bought…since what is the point of paying a substantial price for experience and then not using it?' Thus, on the one hand, Buxton issued a challenge by insisting Barclays had the requisite scale and appetite for the post Big Bang world. On the other, ambition was moderated by the suggestion that Barclays could assist the (current) kings of the jungle.

Sir Timothy Bevan, chairman of Barclays from 1981-1987 (and great grandson of the first chairman of Barclays) justified as 'the market price' the high price paid for its jobbing and broking acquisitions.[152] There had been 'a Bevan in Lombard Street since 1767' and there was a family connection with the brokers de Zoete & Bevan.[153] Meanwhile, jobbers Wedd Durlacher 'really understood a market'. For Bevan, it 'simply didn't matter if they'd come from the East End or Eton…the one thing that was obvious was that all those operators could have run a book at a Ladbrokes betting shop, no problem at all'.[154] Bevan apparently did run Barclays on 'distinctly Etonian lines', which implied 'much swearing and loss of temper' and 'occasional outbursts of warmth'.[155] One senior colleague described the atmosphere there as '[u]nbelievably Dickensian, and distinctly divided into aristocrats and

[151] Problematically, of the individual shareholdings, many of these were held in unit trusts. Buxton's comments point to the failure of the Government's wider share-ownership policy. See also Edwards, '"Financial Consumerism"'.
[152] BL, *Sounds*, Banking and Finance, Timothy Bevan, 1/21, https://sounds.bl.uk/Accents-and-dialects/Banking-and-finance/021M-C0409X0097XX-0001V0 (accessed 29 April 2019).
[153] Kynaston, *Club No More*, p. 601; *Sounds*, Bevan. Lombard Street had a long association with merchant banking.
[154] *Sounds*, Bevan.
[155] Kynaston, *Club No More*, p. 601.

peasants…Nobody ever challenged the aristocrats'.[156] These accounts disrupt the notion of a more meritocratic City in the 1980s, with the lead set by the clearing banks, and also the idea that elitism was the preserve of the merchant banks and brokers.

Bevan confirmed that the Big Bang opportunity to add a major broker and jobber offered Barclays 'the makings of something considerable'. In another war-like analogy, a more bullish objective than Buxton had cared to convey was that Barclays had its 'gun-sights trained on Warburg'. It intended to be Warburg's equal in 'standing and size'.[157] To this end, Kleinwort's Martin Jacomb was appointed as chairman of Barclays de Zoete Wedd (BZW) (the integrated investment banking arm), and as deputy chairman of Barclays Bank plc (the clearing bank). Secured on the 'grapevine', Jacomb was a fellow old Etonian; one of the Governor's 'posse' of good men, discussed in Chapter Two; and a close friend of Chancellor Lawson's.[158] Because he was 'respected by all the parties involved', Jacomb 'managed' and 'massaged' the mergers successfully, 'keeping all the players together'. BZW also received considerable support from the clearing bank which, having 'spent a hell of a lot of money buying it', was determined the venture 'bloody well had to be' a success.[159]

Bevan's reflections on Jacomb's role spoke to a pattern of key figures in prominent roles who eased the reform process. The personal dimension of the BZW chairman was also noteworthy because Jacomb was succeeded in 1991 by Sir Peter Middleton, until then Permanent Secretary at the Treasury. As discussed in Chapter One, Middleton was well-connected, heavily involved in Big Bang reforms, and had a special interest in City affairs. In 1993 Bevan commented on the cultural differences between BZW and Barclays. He imagined either further integration would take place, or the clearing bank would diminish in

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[156] Ibid., quoting Barclays banker Deryk Vander Weyer.
[157] *Sounds*, Bevan.
[158] Lawson, *Memoirs of a Tory Radical*, p. 245.
[159] *Sounds*, Bevan.

importance. Jealousies were attributed to pay differentials and 'prima donnas in BZW [who] should be controlled rather better'. Bevan rather doubted that Middleton would agree, however, as to do so would see his 'empire' removed.

Widening the lens: The broader City

Barclays was not alone in seeing the merits of block trading. Transactional functions emanating from the same place and the concept of the bought deal were attractive to Samuel Montagu (subsequently HSBC Private Bank (UK)) which in March 1984 acquired Gordon Pepper's brokerage Greenwell's. The intention was to take on the full underwriting role, execute and distribute quickly using new technology, and offset risk by transferring it.[160] A 'very strong international aspect' drove the strategy and Montagu's anticipated 'bringing some of the culture of the international capital markets to the UK market'. In the event, this internationalism took precedent and a cultural misfit between the bank and Greenwell's was fast apparent. Thirty years on, Pepper bitterly recalled the 'culture shock' of the merger, compounded by the waste of a fine firm as, within a year, 'Montagu's threw Greenwell's corporate finance business away almost deliberately'.[161] The culture shock associated with integrated banks extended right through to their trading practices. According to a former partner at Rowe and Pitman, block trading in 'great lumps of securities' was different from and entirely obscured the art of '"making" markets all day long'.[162]

London merchant banks already conducted the bulk of Eurobond business. New alignments granted them access to growing international equity markets, as well as to the UK

[160] David Potter, 'International Capital Markets in the New International Environment', *What Future For Financial Conglomerates?*, Conference held on 2-3 October 1984, DFA, CRL, Conference No. 23, Box 23.
[161] Interview, Gordon Pepper. Greenwell Montagu Securites became the securities arm of Midland Bank, see https://www.nytimes.com/1987/03/16/business/big-bang-produces-a-casualty.html (accessed 26 August 2018).
[162] Interview with Peter Hardy, former partner Rowe and Pitman, Esher, January 2018.

domestic market. Merchant bankers talked of 'cloning' Goldman Sachs or Salomon Brothers and saw the Warburg marriage as the 'precursor' to integrated banks in the UK. Access to primary markets offered underwriting fees of up to one-and-a-quarter per cent and the opportunity for larger trades through competitive tendering and 'order flow'.[163] Some institutional investors also explored investment opportunities presented by the 'bid/offer gap'[164] Accordingly, Legal & General declared a reassuringly 'long term view on the profitability of stockbrokers'.[165] It emerged as one of Cazenove's 'friends and helpers'; the member of a capital-providing syndicate, granted access to primary markets and profits from the bid-offer spread. Chapter Four discusses the interest in and impact of Cazenove's Big Bang strategy on the City. Of note here is the centrality of institutional players to that strategy.

More generally, pension fund and life assurance institutions put down a marker. They expected to be 'wooed afresh' and insisted that corporate research, previously offered by brokers within fixed commission bundles, was an ongoing expectation.[166] Thus at a time of recalibration, when the need to recoup lost commissions was uppermost, brokers were warned against cost-cutting in this area.[167] This was highly significant because a funding model which included charging for high quality research might have presented a viable

[163] Nils Taube, Chief Executive of J. Rothschild Investment Management, 'The New Role of UK Merchant Banks in the Securities Markets', *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, DFA, CRL, Conference No. 19, Box 19.
[164] L&G saw little advantage in negotiated commissions; they cited stamp duty at 2 per cent as the greater constraint on trading existing holdings.
[165] Peter Simon, General Manager (Investment) of Legal & General, 'How Investment Managers May Respond to Negotiated Commissions', *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, DFA, CRL, Conference No. 19, Box 19.
[166] Ibid.
[167] Ibid; George Dennis, 'How Investment Managers May Respond to Negotiated Commissions', *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, DFA, CRL, Conference No. 19, Box 19.

alternative to dual capacity.[168] Arguably, charging for research and retaining single capacity would have been commercially viable. For the institutions, this counterfactual funding model would not only have subjected them to research charges but also (by upholding single capacity) have denied them access to primary markets. In reality, dual capacity was of significant benefit to the institutions and, in the language of John Redwood, elaborated on in Chapter Four, contributed to the shift of power from 'feasting knights' (the jobbers and brokers) to 'institutional barons' (the pension and insurance fund managers).[169] Undoubtedly, institutional preferences had an impact on market reforms and perhaps even the market mechanism itself. Again, responses to exogenous pressures were as crucial as the pressures themselves.

In the lead up to Big Bang, international bankers sought cooperative interdependence with City practitioners. Accordingly, they offered insights into their deregulatory experiences;[170] argued (in a pre-emptive critique of 'Wimbledonisation') that nationality was immaterial;[171] and emphasised (for the Minister's ear) the importance of light-touch

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[168] Interview, Andrew Smithers. In retrospect, Smithers thought Eddie George had been correct to resist dual capacity. He thought charging properly for quality research would have been an alternative to ending single capacity.

[169] For institutional barons see MTFW, PREM19/1199 f210, 11 June 1984, 'Redwood minute to MT ("Tilting at Castles") *["fairytale" on reform of the stock exchange] [declassified 2014]*', http://www.margaretthatcher.org/document/134173 (accessed 12 August 2016); Chapter Four; also E. Barrett, 'King Caz: Cazenove, Thatcherism and the 1980s financial revolution', in *Twentieth Century British History*, 30:1 (2019), pp. 108-131, p. 109. This power shift emanated from an increase in pension provision and accompanying growth in fund management in the decades preceding Big Bang.

[170] Norman Dahl, 'Towards Integrated Securities Trading - the American Experience', *What Future For Financial Conglomerates?*, Conference held on 2-3 October 1984, DFA, CRL, Conference No. 23, Box 23. This encompassed geographical integration (with interstate banking, and US firms offering British privatisations as Initial Public Offerings) and structural integration (within industries, within and between firms).

[171] Jason Bacon delivering paper on behalf of Fred Pettit, 'American Financial Institutions and the Stock Exchange', *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, DFA, CRL, Conference No. 19, Box 19. For Wimbledonisation see Augar, *Death of Gentlemanly Capitalism*.

regulation.[172] Similarly, practitioners lobbied the Government to assist small firms, linking their demands to government objectives. Thus wider share ownership required tax reliefs to incentivise direct investors; Thatcherite plans to promote personal pensions entailed 'changes in fiscal policy' to allow people more autonomy in this area;[173] while the Government should lift its own restrictive practices by cutting stamp duty to improve competition.[174] The industry intended to 'apply pressure on the Chancellor to assist in this process' and through its network was well-placed to do so.[175] Meanwhile, the future head of the SIB, Sir Kenneth Berrill signalled that economic conditions were conducive to change, as equities grew fastest in periods of low inflation and when a lower PSBR reduced the money needed for gilts.[176] As a former economic adviser to the Government, here Berrill appeared to endorse new

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[172] Robert Conway, Managing Director Goldman Sachs International Corporation, 'The Growing Presence of American Finance Houses in London', *What Future For Financial Conglomerates?*, Conference held on 2-3 October 1984, DFA, CRL, Conference No. 23, Box 23.

[173] Mark Ferguson, 'Challenges facing Stockjobbers', *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, DFA, CRL, Conference No. 19, Box 19; see A. Davies, 'Pension Funds and the Politics of Ownership in Britain, c. 1970–86', *Twentieth Century British History*, 30:1 (2019), pp. 81–107.

[174] Nils Taube, 'The New Role of UK Merchant Banks in the Securities Markets', *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, DFA, CRL, Conference No. 19, Box 19. In recognition of the difficulty that cuts in stamp duty presented to government, an alternative approach was that 'jobber privileges' were 'made universal to all legitimate dealers in securities'. This referred to the nominal rate of stamp duty paid by jobbers, because jobbers were required to hold stock on account, and was an attempt by a merchant banker to attract the same rates. For more on privileges see Michie, *London Stock Exchange*, p. 228.

[175] Andrew Hugh Smith, *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, DFA, CRL, Conference No. 19, Box 19; also, Jeremy Lewis, 'Securing a Future for Smaller Stockbroking Firms', *What Future For Financial Conglomerates?*, Conference held on 2-3 October 1984, DFA, CRL, Conference No. 23, Box 23.

[176] Sir Kenneth Berrill, 'The International Dimension', *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, DFA, CRL, Conference No. 19, Box 19; Sir Kenneth Berrill, Obituary, 17 May 2009, *The Telegraph*, https://www.telegraph.co.uk/news/obituaries/finance-obituaries/5339634/Sir-Kenneth-Berrill.html (accessed 20 August 2018).

alignments as sound investment opportunities. Again, a dynamic process is evident, with information flowing in different directions.[177]

Shaping the regulatory environment: A networked solution

The FSB 1986 re-regulated the City after financial 'deregulation'. Additional safeguards for investors were recommended in the Gower Report and became more pressing with the advent of dual capacity and its potential for conflicts of interest. During the progress of the FSB the City was a powerful lobby. Some MPs on the Standing Committee even measured lobbying material by the foot.[178]

In this context, the City used WCP conferences to understand government requirements, shape the narrative, and prepare for re-regulation well in advance of the Bill. In January 1984 a trio of measures emerged as the preferred options for investor protection from practitioners' perspectives. They were 'Chinese walls', to separate the investment and trading departments of banks; an industry-wide compensation fund; and disclosure in the form of electronically displayed deal prices.[179] These measures were agreed at a conference with the Minister in attendance. Disclosure was undoubtedly the Government's choice, indeed its only specific stipulation. Hence, practitioners were left in no doubt about the Minister's requirement for an electronic 'instantaneous "last trade" tape of all deals done'.[180] This

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[177] Administrative/ biographical background, Central Policy Review Staff files, CAB 184, TNA, http://discovery.nationalarchives.gov.uk/details/r/C15666 (accessed 22 July 2019).
[178] For MPs comments on lobbying see *Hansard*, Financial Services Bill, Standing Committee E, 11 February 1986: 'Conservative Members have received a considerable volume of paper concerning representations from organisations', lobbing material was 'two feet thick'; for City lobbying see P. Norton, 'Public Legislation', in M. Rush (ed.), *Parliament and Pressure Politics* (Oxford, 1990), pp. 178-210, p. 186, p. 188.
[179] *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, DFA, CRL, Conference No. 19, Box 19.
[180] Peter Wills, 'Investor protection', *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, DFA, CRL, Conference No. 19, Box 19.

echoed the exhortations of John Redwood at the Number 10 Policy Unit.[181] In turn, the Minister 'appeared to accept' that if practitioners were required to contribute financially to a compensation fund, they would feel entitled to impose industry-wide entry requirements and standards of conduct.[182] Such understandings demonstrate the effective flow of communication in both directions, cemented by a shared belief in self-regulation. It granted the City maximum autonomy and flexibility, absolved the Government from direct responsibility for regulatory breaches, and required a smaller role for the state.

Disclosure aside, the Minister was at pains to emphasise it was not the Government's role 'to tell the market what changes…might be appropriate'. Rather, it was for the City to 'resolve' regulatory issues like conflicts of interest.[183] As discussed in Chapter One, this was part of a narrative which not only distanced the Government from responsibility, but also insisted on the practitioner-led nature of reforms. The Government nevertheless set out guiding principles which included disclosure of interest; subordination of own interest; and restrictions on the transfer of information. Whether the latter referred to 'Chinese walls' or something more onerous was for the City to determine. This demonstrated the relative freedom of the City to restructure itself, purposefully supported by a reasonably hands-off government; one which understood that London's success depended on the 'ease' and 'flexibility' of doing business there. This spoke of competitive deregulation by the Thatcher government and an accompanying regulatory regime suited to practitioners.[184] Notably,

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[181] MTFW, PREM19/1461 f236, 6 April 1984, 'John Redwood minute for MT (Stock Exchange consultative document on its future) *["many dangers in accepting Gower"] [declassified Dec 2014]*', http://www.margaretthatcher.org/document/137000 (accessed 25 July 2016).

[182] Peter Wills, 'Investor protection', *The Future of the Stock Exchange*, Conference held on 19-20 January 1984, DFA, CRL, Conference No. 19, Box 19.

[183] Alex Fletcher MP, Under-Secretary of State for Consumer and Corporate Affairs, 'Ministerial Address', *What Future For Financial Conglomerates?*, Conference held on 2-3 October 1984, DFA, CRL, Conference No. 23, Box 23.

[184] See Helleiner, *States and the Re-emergence of Global Finance* for competitive deregulation.

practitioner needs were placed above those of individual investors, despite the rhetoric of the share owning democracy which implied shareholder interests were paramount.[185]

Addressing government guidelines, Cazenove's Patrick Mitford-Slade, deputy chairman of the Stock Exchange, argued it was for individual firms to decide if Chinese walls would suffice, or whether to physically separate different trading operations. Favouring the former solution, he argued that 'balance' was crucial. There should be enough regulation to not 'rip off' the client, but not so much as to 'supress the competitive spirit' and drive business from London.[186] Clearly, autonomy was maximised by the firm by firm approach, while the narrative of competition both aligned with government policy and was a warning to government of the implications of more onerous regulation.

In terms of adequately addressing conflicts, as Gordon Pepper noted, even 'rigorous' Chinese walls 'didn't always work'. Within the rules, it was quite possible to make deductions, simply from someone's decision to take a call, their desire to talk, the tone of voice, or the length of a pause.[187] Nevertheless, the Chairman of the City Capital Markets Committee and Managing Director of Baring Brothers, Nicholas Baring welcomed the process whereby the Government set 'general principles', gave 'statutory backing to self-regulation', and permitted a 'bottom-up approach to the detailed control of conflicts of interest'.[188] Given the subsequent collapse of Baring Brothers, he might reasonably be expected to have regretted this endorsement of light-touch regulation. Yet, it was within the

[185] See Francis, 'A Crusade to Enfranchise the Many'.
[186] Patrick Mitford Slade, 'Investor Protection in Dual Capacity Trading', *What Future For Financial Conglomerates?*, Conference held on 2-3 October 1984, DFA, CRL, Conference No. 23, Box 23.
[187] Interview, Gordon Pepper.
[188] Nicholas Baring, 'Conflicts of Interest', *What Future For Financial Conglomerates?*, Conference held on 2-3 October 1984, DFA, CRL, Conference No. 23, Box 23.

Baring family tradition to see '[e]very regulation [a]s a restriction, and as contrary to that freedom…held to be the first principle of the well-being of commerce'.[189]

Ultimately, at a time when Opposition MPs were calling for SROs to be granted statutory protections to avoid 'government by coterie', the City carved out spaces to endorse the narrative of self-regulation preferred by the Government.[190] Moreover, stressing the Exchange's capability to implement investor protection measures as an SRO, as Mitford-Slade did, underscored its centrality to the market.[191] Self-regulation naturally ensured maximum buy-in from practitioners (who funded City regulation). Meanwhile, relatively light-touch regulation was justified by the business it attracted, the fungibility of money, and therefore the threat to business and London's survival as a world financial centre if it ceded its low regulatory threshold reputation.[192]

Conclusion

Right up to Big Bang, firms demanded space on the floor of the Exchange, so culturally ingrained were trading practices and the herd instinct.[193] Quickly after October 1986 the floor was deserted as firms switched to in-house electronic trading. For practitioners who had experienced the coming together of the City on the floor of the Exchange, its camaraderie and cultural significance, this 'culture shock' represented the end of a way of life.[194] Famously,

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[189] See S. Fay, *The Collapse of Barings* (London, 1997).
[190] See Campbell Savours, *Hansard*, Financial Services Bill, Standing Committee E, 11 February 1986.
[191] Ibid; also Win Bischoff, 'The Merchant Banks in the Securities Market', *What Future For Financial Conglomerates?*, Conference held on 2-3 October 1984, DFA, CRL, Conference No. 23, Box 23.
[192] See Helleiner, *States and the Re-emergence of Global Finance*.
[193] Interview, Sir Nicholas Goodison. Of course, before Big Bang trading could only be conducted on the floor of the Exchange.
[194] Interview, Steven Raven and Francis Boff; interview with Paul Roy, Knightsbridge, January 2018.

the City was opened up to meritocratic practices, while London clubs were understood to be less frequented because of new trading pressures.[195]

Yet oral accounts complicate this narrative. In a new era of unknowns, clubs like the City of London Club, were important precisely because they were discerning. Members could be assured that vetting had taken place and 'the fundamentals were there'. Thus, if you were a newcomer, 'you were obviously a member of a recognised City business' and 'you were obviously a senior person, otherwise you wouldn't be accepted into the club because they all voted'. If anything, the advantages associated with club membership increased.[196] Equally, the internal Stock Exchange clubs were maintained ('you name it, there was a club for it'). They were sites of meaning for practitioners, perhaps even more so after the floor closed. Steven Raven reflected on how the Stock Exchange 'ski club ha[d] been a major part of [his] life'. Moreover, he jokingly agreed it was like his 'own Davos' really, as it 'opened doors around the world.'[197] Equally, a 'constant round of lunching' continued, as did social activities like shooting and the opera which were 'an extension of the lunch'.[198] As discussed in Chapter Four, these practices survived because they were conducive to business.

In the years to 1995 Smith New Court invited 'the Who's Who of industry and the City' to Cliveden for the firm's annual dinner. The 'amazing list of speakers every year' included Thatcher (secured easily and 'for free' through Michael Richardson), and the Heads of the Prudential, P&O, Scottish Widows, and Standard Life. It was like 'a coming together of the great and the good…It was a club and people [checked]…have I got an invitation'.[199] This amounted to a fusion of old and new elites. Reference to institutional heads spoke of professional rank rather than family name, and a status based on the capital they commanded

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[195] Stewart, *Bang*; Kynaston, *City of London: History*, p. 571; Reid, *All-Change*, p. 20.
[196] Interview, Steven Raven.
[197] Ibid.
[198] Ibid.; interview, Peter Hardy.
[199] Interview, Paul Roy.

and market share. Equally though, the Who's Who of the City included the Rothschilds who owned stakes in Smith New Court. The adoption of gentlemanly practices by new elites spoke of conformity to accepted norms, performativity, and new technologies of the self.[200] In turn, old elites adapted by re-engineering themselves.[201] Ultimately, the concept of 'gentlemanliness' was not lost. It was tied up within the traditional 'framework of law and trust' which underpinned City practices and remained integral to winning business.[202] Accordingly, it was in the City's interests, as well its traditions, to nurture gentlemanliness in its upper echelons, and for aspirants to engineer themselves accordingly.

For Goodison, the inevitability of change after the abolition of exchange controls meant the Stock Exchange could not 'preserve what it used to be'.[203] He spoke of accepting the 'march of history'.[204] As noted, these were important perceptions, but the teleology nevertheless underplays Goodison's role in shaping change and the fact he 'ha[d] to think of ways through'.[205] At interview, he reflected more subjectively on 'how… you persuade 4,500 members, because it was a mutual organisation, to make major changes'. The answer was to engage in a dynamic process over time; to apply 'Cartesian logic'; to find 'ways through'; and to overcome 'forces of conservatism' opposed to change. The application of logic, (the words 'logic' or 'logical' were used 23 times in a two-and-a-half-hour interview) spoke of Goodison's classical education. He had attended Marlborough College and then read Classics at King's College, Cambridge. Reading 'Plato and Greek philosophy' appealed to, and no

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200 For performativity see Judith Butler, 'Performative Acts and Gender Constitution: An Essay in Phenomenology and Feminist Theory', *Theatre Journal*, 40:4 (1988), pp. 519-531.
201 For elite re-engineering see Joyce, *State of Freedom*, pp. 264-265.
202 Interview, Sir Nicholas Goodison. For this reason, Goodison did not regard the 'death of gentlemanly capitalism' thesis as 'wholly correct'. He and others (Walker interview) continued to see and encourage 'gentlemanly practices'. Allied to this, gentlemanliness was a way to continue to guard against 'fly by night firms' and ensure the client came first.
203 Interview, Sir Nicholas Goodison; also see Goodison in Kandiah, 'Witness Statement 1, "Big Bang"'.
204 Interview, Sir Nicholas Goodison.
205 Ibid.

doubt developed, ‘a very strong streak of logic in [his] temperament’. Goodison’s singularly individualistic approach in itself introduces the concept of contingent outcomes.

Equally, economic privilege and social structures determined who acted, led, and influenced reforms which had implications at national level and beyond. Goodison was an unpaid chairman of the Exchange and ‘served’ as a ‘form of public service’:

> *my grandfather had been a member, my uncle, my father had been a member, it was a family debt, as it were, to the Exchange’.*[206]

Goodison’s intelligence, ‘honour’, ‘outstanding integrity’, and keen ‘sense of public duty’ were all personal attributes which shaped change.[207] Asked about leadership qualities, he had noted ‘if you’re the leader, you have to lead’. However, economic and social structures meant that some actors simply had more power and freedom to act and therefore to shape outcomes.[208]

This chapter has refused the narrative of inevitability associated with Big Bang. International and technological imperatives and local circumstances gave rise to change, but not in a vacuum. This account has privileged domestic *responses* to deregulatory pressures and survival strategies to ensure the Exchange remained the UK’s *central* securities market. In so doing, it has emphasised the role of individuals and the dynamics of the reform process itself. The City used its established networks and formal and informal spaces to better influence, understand, navigate and shape change. Informal networks were part of the City’s culture and tradition and, unsurprisingly given their effectiveness, were harnessed and extended in this period. Goodison deliberately forged links between the City and government; networks relied on the ‘strong relationship…and frequent interactions between the City and

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[206] Ibid.
[207] Interview, Sir David Walker. Walker sensed Goodison, like Adrian Cadbury, served as ‘a matter of honour’ and was reminiscent of ‘a generation that is now gone’.
[208] In the Foucauldian sense, see A. Green and K. Troup, *The Houses of History: A critical reader in twentieth-century history and theory* (Manchester, 1999), pp. 301-306; J. Weeks, ‘Foucault for Historians’, *History Workshop*, 14, (1982), pp. 106-119.

politicians';[209] and conferences were consciously engineered as spaces which offered two-way unmediated access between politicians and practitioners. As network venues, conferences fostered debate, and as ideas explored from early 1984 were consistent with strategies adopted by 1986, networked solutions produced tangible results.

Thatcherism was central to the reform of the Stock Exchange, but there is perhaps a tendency for it to obscure the embedded networked relationships which eased and shaped the reform process. Restoring the role of culture to financial history serves as a valuable corrective. The findings show that while reforms were government-driven, they were not simply imposed by the Government. Equally, while the profession undoubtedly shaped change, reforms were emphatically not practitioner-led, despite authority-driven narratives to the contrary. Altogether, a more nuanced account has emerged from the interactive, dynamic processes described. Jointly achieved solutions were required to ensure the survival of the central market which could so easily have been by-passed, just as Euromarkets had by-passed central controls. Furthermore, from the perspective of the authorities, a loss of control of the gilts market was untenable, so while dual capacity may have been attractive, this only obtained if the central market survived because it was subject to central controls.[210]

The Government was cautious and pragmatic about the Exchange until 1983. It only addressed the OFT case when it was imperative to do so, and the Accord was struck in the honeymoon period immediately after the 1983 election; a period of damage limitation from a statecraft perspective and one of security, in any event, given the scale of the Government's election victory. However, reforms reinforced a discourse of structural economic change which emphasised the importance of the City to national earnings and the shift from

[209] Interview, Sir David Scholey (quoted); interview, Sir David Walker.
[210] This is discussed in Chapter One.

industrial to finance capitalism. Combined with wider share-ownership, to make 'everyman a capitalist', this all contributed to embedding Thatcherism.[211]

In terms of neoliberalism, the chapter has indicated how Thatcherism, having 're-tasked' the state, 'actively constructed' and 'imposed' free markets, and using legislation, 'vigorously defended' its creation.[212] The ongoing 'regulatory restructuring' which is associated with neoliberal reforms has also been evident. Recognising and restoring the Government's hand challenges, as insufficient, those accounts which deny the Thatcher government had a City plan. Findings therefore contribute to our understandings of Thatcherism and neoliberalism and the City is identified as a fruitful space for new scholarly work.

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[211] See Francis, 'A Crusade to Enfranchise the Many'.

[212] For re-tasking the state and regulatory re-structuring see Peck, *Constructions of Neoliberal Reason,* p. 7; for the construction and defence of free markets see Mirowski, *Serious Crisis*; S. Pryke, 'Book Review: Never Let a Serious Crisis Go To Waste, How Neoliberalism Survived the Financial Crisis', *Review of Radical Political Economics*, 48:2 (2016), pp. 333–335. Key legislation included the Financial Services Act 1986, the Restrictive Trades Practices (Stock Exchange) Act 1984, and the Competition Act 1980.

Chapter Four

Cazenove [1]

Cazenove makes the weather…Nothing could be more redolent of the old City, or for that matter old England, than the [Cazenove] townhouse in Tokenhouse Yard with the rickety lift, the mahogany panelling, and the courteous denizens whose shoes are always polished and have laces…As always in business, character…matters most. Outward appearances may change, but I dare say that Caz shoes will lace up and that jelly ('not officer food') will never be served in the boardroom.[2]

Christopher Fildes, *The Spectator,* December 2000

This chapter shows how the elite stockbrokers Cazenove and Co. responded to the Big Bang deregulation of the financial sector, using social networks and inherited practices to navigate what was an ostensibly technical and modernising revolution. The Thatcher administration's reform of the London Stock Exchange was an economic enterprise intended to end restrictive practices, open the City to competition and, as discussed in Chapter One, secure the mechanism for selling gilts. On the face of it, a more open meritocratic financial sector marked the 'death of gentlemanly capitalism' and coalesced with a political agenda for entrepreneurialism and popular capitalism. Yet this case study shows how Cazenove's culture drove its strategy, that privilege and hierarchy were sustained by influential cross-sector networks, and that there was resistance to change, even though technological change and new financial instruments were embraced as part of a strategy which mixed innovation with tradition.

Essentially, elite networks persisted in the 1980s deregulated economy as established relationships were used to optimum effect and became more important after Big Bang. A

[1] This chapter and a part of the thesis Introduction has previously been published as E. Barrett, 'King Caz: Cazenove, Thatcherism and the 1980s financial revolution', *Twentieth Century British History,* 30:1 (2019), pp. 108-131.
[2] Christopher Fildes, 'There's life in the old City townhouse yet as Cazenove makes the weather', *The Spectator*, 2 December 2000, p. 30.

more mutually supportive relationship between finance and industry than has hitherto been imagined is also demonstrated. By showing how a modernising revolution was navigated using social networks and traditions, this chapter restores the role of culture to financial history. It also contributes to a body of work in twentieth century British history which challenges the perception that neoliberal ideas were consistently applied under Thatcherism and complicates the notion of a coherent Thatcherite project.

Situating Cazenove

'Once upon a time…there lived a noble and chivalrous group of knights in a great big castle called the stock exchange'. So began John Redwood's 1984 '"fairytale" on reform of the stock exchange' which depicted a feudal system of 'feasting and jousting' knights who pillaged from 'subject peoples and peasants' before a wise government ended abuses and, in so doing, 'wrought a great revolution'.[3] Essentially, Redwood's feudal system rested on a privileged elite exercising abusive power over outside financial institutions, such as pension and insurance funds (themselves 'institutional barons') and, ultimately, hardworking ordinary people. They did so through a regime of monopolistic practices and fixed costs.

The Big Bang reforms ended these monopolistic practices. In parallel with the Government's competition and privatisation policies, financial reforms heralded free market competition and introduced a more open meritocratic City, noted hallmarks of Thatcherism.[4] Equally, they helped minimise the responsibilities of the state (if not its role in shaping and supporting markets).[5] Reforms affected the way firms functioned and altered their organisational and ownership structures. As change was embraced, London's place as a

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[3] MTFW, PREM19/1199 f210, 11 June 1984, 'Redwood minute to MT ("Tilting at Castles") *["fairytale" on reform of the stock exchange] [declassified 2014]*', http://www.margaretthatcher.org/document/134173 (accessed 12 August 2016).
[4] See Stewart, *Bang*.
[5] See Gamble, *Free Economy Strong State*.

world financial centre was confirmed, while the City itself expanded geographically from the Square Mile to Canary Wharf to accommodate new entrants to the market and the mergers and acquisitions of firms. Modernising reforms were understood to have rendered the concept of 'gentlemanly capitalism' obsolete.[6]

That concept was introduced by Peter Cain and Antony Hopkins to explain *British Imperialism*; they claimed that an elite southern English financial sector, long inter-married with landed interests, was culturally and politically dominant and able to shape state priorities. Sustained by the English public school, the country house and gentleman's club, Cain and Hopkins argued that gentlemanly capitalism drove British imperialism by prioritising international investment opportunities, often at the expense of Britain's long term domestic industrial interests.[7] Their arguments resounded with a body of work which privileged finance capital as a key contributor to British industrial decline, summarised as the 'financial capitalism' thesis.[8]

Unlike other accounts of the Big Bang, this thesis does not acknowledge the concept of gentlemanly capitalism only to see the death of it.[9] It argues that the City's responses to the financial revolution were culturally-informed and that practices learned in City families and at public schools, and reinforced at gentleman's clubs and elsewhere, played an important role in shaping reforms. Equally, this chapter demonstrates the continuance of gentlemanly practices and social engineering after Big Bang. These practices formed part of

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[6] Augar, *Death of Gentlemanly Capitalism*.
[7] Cain and Hopkins, *British Imperialism.*
[8] P. Anderson, 'The figures of descent', *New Left Review*, 161 (1987), pp. 20-77; R. Hilferding, *Finance Capitalism: Study of the Latest Phase of Capital Development* (first published 1910); S. Pollard, *The Wasting of the British Economy: British Economic Policy 1945 to the Present* (New York, 1982); Ingham, *Capital Divided*; S. Newton and D. Porter, *Modernization Frustrated: The Politics of Industrial Decline in Britain since 1900* (London, 1988).
[9] Augar, *Death of Gentlemanly Capitalism*.

the 'framework' of trust associated with winning and conducting business.[10] Moreover, the financial capitalism thesis, which is allied to gentlemanly capitalism, remains pertinent to this chapter. The chapter finds a far closer relationship between the City and industry than traditional accounts suggest. These relationships were built on shared commercial and social interests and forms of patronage. Moreover, categories were porous, and people's diverse interests spanned different sectors rather than being necessarily confined to any.

John Redwood's "fairytale" was written when he was engaged in the ideological pursuit of competition policy and it pilloried medieval knights who feasted, jousted and pillaged from peasants before retreating, raising their drawbridge to resist competition and change. Accordingly, Redwood's extraordinary account appeared to set the Thatcher administration against the City, in its determination to introduce competition and enfranchise the many.[11] Notwithstanding the rhetoric, this chapter reveals a closer, more constructive relationship between the City, the Thatcher government, and Thatcher herself than this or some of the historiography allows.[12] It also shows how Thatcherite policies were received and implemented practically, and in so doing demonstrates how ideological Thatcherism, as communicated by Redwood, was checked by reality.

Cazenove, known colloquially as 'King Caz', was an established stockbroking firm with a blue-blooded reputation. As stockbroker to the Queen it both served and was partly staffed by members of the aristocracy and the supremely well-connected.[13] Based on his experiences around the millennium an ex-Cazenove partner confirmed

> *It was a lot easier to get somewhere in Cazenove if you were part of the aristocracy…At Cazenove it wasn't about being a public-school boy, anybody, any*

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[10] Interview, Sir Nicholas Goodison.

[11] For popular capitalism see Francis, 'A Crusade to Enfranchise the Many'.

[12] For hostile attitudes to the City see Howe, 'Decolonisation and imperial aftershocks: The Thatcher Years', p. 240; Vinen, *Thatcher's Britain*. For more positive attitudes see Green, 'The Conservatives and the City', pp. 171-173.

[13] 'Even the Queen's broker needs help from its friends', *The Economist*, 13 September 1986, in press extracts, CLC/B/039/MS39421, LMA.

old fool can be a public-school boy. It was about having serious connections, with serious wealth. And it makes a lot of sense… because they've got someone who's got really top connections, who shoots with somebody, who's the chairman of some company or other…It was very old boy network…it was very, very important to have the ear of somebody. It was so easy at, it might be a dinner, a shooting, 'I'm from Cazenove, I hear you've got this company…' I mean just imagine it…and of course they were broker or adviser to more than fifty per cent of the top one hundred companies which is pretty incredible when you think about it…[14]

Clearly, despite Big Bang purportedly bringing meritocracy and social change to the City, 'serious connections' remained of the greatest importance as they made good business sense.

Cazenove's core business was corporate broking, essentially acting as a middleman between companies that traded assets on the market and investors who bought those assets.[15] Capital was usually raised for a company by issuing shares in that company and placing them on the market. Critical to the success of this procedure was the 'placing power' of the broking institution and, as the above testimony suggests, Cazenove was unrivalled in this area: objectively it achieved the best prices for shares and the best volumes of share sales. Based on 1983 league tables, 'King Cazenove s[at] loftily above all other brokers', representing 255 British quoted companies, compared with 143 by nearest rival, Rowe and Pitman.[16] Clients included BICC, Dalgety, Rowntree Mackintosh, Standard Telephone and Cables, Enterprise Oil, Allied-Lyons, Reed International, Laird Group, Northern Foods, Marks and Spencer (from 1985), and British American Tobacco (from 1987).[17]

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[14] Interview, former Cazenove partner, June 2017.
[15] That is, between corporate and institutional clients, although there is considerable cross-over e.g. as corporates invest pension funds (although they usually do so through fund managers), and institutional shares are transacted. Work involved raising capital for companies, through flotations, rights issues, and secondary offerings; providing a spectrum of advisory services, such as market updates, targeting investors, and managing investor relations for listed companies; handling deals, such as mergers and acquisitions.
[16] *The Economist*, April 1984, in D. Kynaston, *Cazenove & Co. A History* (London, 1991), p. 304.
[17] Kynaston, *Cazenove,* p. 305; 'Note from N. G. Brookes to Tony Holliman regarding the appointment of Cazenove', 23 December 1987, British American Tobacco (hereafter BAT) records, http://industrydocuments.library.ucsf.edu/tobacco/docs/xlkl0210 (accessed 1 June 2017).

Cazenove traced its roots on the Stock Exchange to 1823 and by the second half of the twentieth century was purportedly so dominant 'there was a widespread belief that the Council of the Exchange d[id] not feel it ha[d] the authority to challenge the firm'.[18] According to Nick Goodway for *The Observer*, in September 1986

> *It is not long ago that many City inhabitants regarded the Stock Exchange as being run by a triumvirate of its chairman, the senior partner of the stockjobbing house of Wedd Durlacher Mordaunt & Co. (now controlled by Barclays Bank) and the senior partner of Cazenove. Cynics took the view that the Stock Exchange Council did little more than rubber-stamp the trio's decisions.*[19]

As discussed in the Introduction, Cazenove was atypical, and its decision to remain independent at the time of Big Bang was unusual. Nevertheless, Cazenove's response to Thatcherite reforms offers insights into the City and government. Its story matters, moreover, because, with its unrivalled placing power, Cazenove commanded a disproportionately large share of UK equities business, including government privatisations; it shared elite territory and close relationships with prestigious merchant banks, strengthening their commercial decisions, including to remain independent;[20] and its Big Bang strategy offered pension fund and life assurance institutions access to primary markets for the first time, contributing to a shift in power to 'institutional barons'. Enhanced institutional power was a feature of neoliberal reforms and this example shows the effects of local micro-level decision-making on neoliberalism.[21] In so doing it emphasises the possibilities of two-way processes, as opposed to one dimensionally applied neoliberalism. Finally, Cazenove's gentlemanly practices (and indeed its attitudes to gender and class) were more widely shared across the

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[18] Hilton, *City Within a State*, p. 19.
[19] Nick Goodway, 'Cazenove's case for independence', *The Observer*, 14 September 1986.
[20] Major advisory banks Rothschild and Lazards remained independent; Schroders retained its investment bank until 2000 and retains its asset management business; Flemings remained independent until 2000; Kleinwort Benson and the jobbers Smith New Court until 1995.
[21] For the shift in power to the institutions see H. Perkin, *The Rise of Professional Society: England since 1880* (London, 1990), pp. 388-389.

City, often by competitors who drew on their own experiences, relationships and cultural capital, even as they forged different Big Bang strategies.

The overarching City themes of gentlemanly capitalism and financial capitalism remain pertinent to a study of Cazenove for the following reasons: First, because Cazenove was comprised of elites who were often connected to one another by marriage or favour, sometimes over generations; second, these relationships are understood to have dwindled in importance after Big Bang; and third, Cazenove was sustained by close and mutually beneficial relationships with institutional and industrial clients, which challenges narratives of division between finance and industry. On the one hand, this chapter argues gentlemanly capitalism persisted in a deregulated economy, on the other it calls for a more nuanced approach to the allied narrative of financial capitalism, as this case study shows a closer relationship between finance and industry than is generally allowed.

By showing how Cazenove responded to the Thatcherite intellectual project and used its established networks to perpetuate elite interests, the study provides a space to understand how Thatcherite reforms and neoliberal ideas were received and how a longer culture and tradition shaped responses to Thatcherism. By showing the Government's ability to implement its agenda was invariably affected by the responses of institutions negotiating change, this chapter confirms the contingent nature of the ideological project, contributes to the way Thatcherism and the effects of Thatcherism are understood, and engages with the current debate about the impact of neoliberalism by suggesting new spaces for research.

Cazenove - a case study

At the time of the Goodison-Parkinson Accord Cazenove's corporate partner Patrick Mitford-Slade was deputy chairman of the Exchange council. In July 1983 he recommended members

vote to accept the reform package and was subsequently involved in its implementation.[22] Cazenove partners later formed part of a delegation to New York to consider how the American experience of deregulation in 1975 might shape UK deregulatory arrangements in general and, from their perspective, Cazenove's Big Bang strategy in particular.[23]

Cazenove enjoyed longstanding strategic relationships with other financial institutions. Its relationships with merchant banks such as Rothschild, Barings, and Lazards dated from the mid 19th century and were of strategic importance to all parties.[24] Cazenove provided 'market support' by sub underwriting deals on behalf of the merchant banks, sometimes in conjunction with other banks or brokers.[25] The requirement depended on the size of the original underwriting undertaken by the merchant bank and its need to access additional capital and spread risk. Such arrangements demanded close relationships between trusted associates which help explain the supportive relationships between banks and key brokers and amongst certain brokers themselves. Even if there was no immediate financial gain, support for allies was forthcoming in what amounted to an informal reciprocal business model. Thus Rothschild's purchase of Guinness shares in 1986 (to the value of £28.7 million) was part of what Lord Rothschild subsequently called its '"foreign policy" to be helpful to Cazenove, and Morgan Grenfell, with a view to profitable co-operation in the future'.[26] This policy came to light in the aftermath of the notorious Guinness Affair which related to the conduct of the rival takeover bids for Distillers by Cazenove client Guinness and its competitor, the Argyll Group, in 1986. The Guinness bid was ultimately successful, after an increase in the price of Guinness shares inflated the value of its bid. The share price was

[22] Kynaston, *Club No More,* p. 627, pp. 641-642.
[23] New York Visit, 25-29 March 1985, 'The wheel spins ever faster', CLC/B/039/MS39392, LMA.
[24] Kynaston, *Cazenove*, p. 22, p. 72, p. 106.
[25] As sub underwriter, they agreed to buy a proportion of shares issued by the lead underwriter, regardless of public interest in acquiring those shares.
[26] Jacob Rothschild, evidence to 1997 DTI enquiry, in Kynaston, *Club No More,* p. 674.

subsequently found to have been artificially raised by illegal market activity and Cazenove partner David Mayhew was arrested in connection with insider-dealing although released without charge. During the DTI inquiry into the affair in 1997, Lord Rothschild claimed its (unpaid) 'foreign policy' toward Cazenove was normal procedure: 'Guinness shares were purchased for proper commercial motives… The arrangements were, and were regarded as, perfectly normal at the time'.[27]

Strategic relationships were also maintained with institutions trading in life assurance, pension funds, investment trusts and unit trusts and Cazenove was particularly close to Legal and General, Royal Insurance, and Standard Life. Crucially, the firm acted for both institutional and corporate clients, was respected for the ability to 'bridge the gap' between them, and for having a keen understanding of how institutions would respond to corporate transactions.[28] Such expertise was highly valued as unruly change could adversely affect a company's share price and liquidity. Strategic relationships were, in fact, vital networks within and from which ideas could flow and interests could be promoted. This was particularly important during periods of change when new coalitions might emerge as interests became aligned, as seen below. Networks, accordingly, were able to widen the policy environment or policy prescriptions, and, in doing so, influence the direction of change.[29]

Cazenove's close relationship with the Bank of England was forged from a deep connection, partly based on geographical proximity between Cazenove's at Tokenhouse Yard

[27] Ibid.
[28] Corporates were those with industrial, manufacturing, and retail interests. The role of a stockbroker can be thought of as two-sided. One side dealt with investors, buying or selling shares on their behalf; the other advised corporates on their fund-raising, mergers and acquisitions (advising in partnership with merchant banks), and other corporate actions. The two roles overlapped at times, such as flotations, rights issues and block trades; Kynaston, *Cazenove*, p. 251, p. 304.
[29] Pemberton, 'Policy Networks', p. 779, pp. 789-790; Hall, 'Role of Interests, Institutions and Ideas, p. 189. See also Thelen, *How Institutions Evolve*, p. 31, for coalitions as constant features of institutions.

and the Bank on Threadneedle Street. The buildings were so close that the two had even shared fire-watching duties during the Blitz.[30] This experience inspired a trusting relationship which was underscored by familial ties: Anthony Forbes and John Kemp-Welch were joint senior partners at Cazenove at the time of Big Bang, and Forbes and Robin Leigh-Pemberton, Governor of the Bank from 1983-1993, were brothers-in-law.[31]

Cazenove was close to the Thatcher administration and acted on all privatisations between 1981 and 1986. Partner Michael Richardson's close personal relationship with Thatcher was noted in Chapter Three in respect of a City speaking engagement. It was initially formed when their sons played cricket together at Harrow.[32] Richardson had arranged for Cazenove to fund Thatcher's private office when she was leader of the Opposition.[33] He lunched at Downing Street shortly after she became prime minister and entreated Thatcher to 'please lean on us if there is anything we can do to help'.[34] The friendship continued when Richardson joined Rothschild in 1981. Given this level of support, Thatcher's claims to be an anti-establishment outsider appear overstated.[35] Chancellor Nigel Lawson similarly enjoyed a close personal relationship with Cazenove partner Godfrey Chandler. He valued Chandler's counsel, stating in his memoirs there was 'no wiser observer

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[30] Kynaston, *Cazenove*, p. 167. It should be noted that Cazenove was not unique in respect of geographical proximity to the Bank, as stockbrokers' offices were within easy walking distance of the Exchange, and consequently of the Bank.
[31] Goodway, 'Case for Independence'.
[32] Michael Richardson, obituaries, *The Telegraph*, 14 May 2003, http://www.telegraph.co.uk/news/uknews/1429961/Sir-Michael-Richardson.html (accessed 1 May 2017).
[33] C. Moore, *Margaret Thatcher, The Authorized Biography Volume Two: Everything She Wants* (London, 2015), p. 214.
[34] MTFW, PREM19/175 f194, 13 June 1979, 'Economy: Richardson of Cazenove & Co. letter to MT (remarks on the budget) [declassified 2010]', http://www.margaretthatcher.org/document/115583 (accessed 8 June 2017).
[35] For Thatcher as outsider see Evans, *Thatcher and Thatcherism*, p. 47.

of the City scene'.[36] Lawson lunched at Cazenove's on the day of Chandler's retirement gifting his 'old friend' special coins from the Mint.[37]

Demonstrably, Cazenove was endowed with a well-established, far-reaching and powerful network. This mattered because its network informed Cazenove's Big Bang strategy and in turn impacted the wider City. Accounts of the City becoming more meritocratic after the Big Bang overlook something evident to senior partner John Kemp-Welch - that after Big Bang 'personal relationships are going to become of even greater importance in the new scheme'.[38]

Changing times

As discussed, the Goodison-Parkinson Accord, which ended minimum commissions, in turn undermined the single capacity jobbing system. For stockbrokers the loss of fixed income rendered single capacity commercially unviable. To generate new income, it was anticipated brokers would need to deal directly in the primary market and in so doing would encroach on jobber territory; jobbers would inevitably respond by circumventing brokers and dealing directly with clients. Cazenove believed this change brought 'the real possibility of fundamental change in the City' because the threat to single capacity had financial consequences for firms entering primary markets. For Cazenove, this early assessment, which 'implie[d] either an injection of capital with the firm remaining "independent" or the

[36] Lawson, *View From No. 11,* p. 221.
[37] Kynaston, *Cazenove,* p. 300.
[38] John Kemp-Welch to Goodway, 'Case for Independence'. Of course, Kemp-Welch was trading on the importance of personal relationships and his comments were designed to distinguish Cazenove's offering from that of competitors (who offered capital and global integration).

acquisition of the firm by a principal', anticipated its strategy to become a market maker, attract outside capital and remain independent.[39]

The reforms amounted to an industry-wide pressure on fees with an expectation fees would reduce with increased competition, a cornerstone of Conservative competition policy. Although Cazenove attempted to down-play the implications, the abolition of minimum commissions severely threatened profits as fifty-six per cent of the firm's revenue, or approximately £17 million, came from broking commissions.[40] Moreover, direct access to clients by those other than stockbrokers threatened stockbroker firms' client bases and thus entire revenue stream. Partner David Mayhew was cognisant of this and warned colleagues that Finance Directors of financial conglomerates would attempt to poach Cazenove clients by 'wooing' them with specific financial offerings and then seek 'to expand the relationship'.

The need to safeguard the client list was one reason Cazenove became a primary market maker and increased its service provision.[41] Primarily though, Mayhew anticipated 'the agency business in London w[ould] shrink very rapidly' after deregulation, while pursuing primary markets would be lucrative, 'an immensely valuable investment' which would more than offset the loss in minimum commission income.[42] It was thus envisaged that a Cazenove limited company (Cazenove Securities Limited) would participate alongside

[39] 'First Draft Discussion Paper', CLC/B/039/MS39411, LMA.
[40] For attempts at minimising the impact of abolition of fixed commissions see 'Question and Answers as at September 1986', also section 1.5.10 in CLC/B/039/MS39421, LMA; 'Financial information on the firm', in 'Participation in £32,000,000 Variable Rate Subordinated Loan to Venice & Co.', CLC/B/039/MS39410, LMA.
[41] David Mayhew 'My thoughts on the run up to 1986 and a little beyond', 9 May 1984, CLC/B/039/MS39392, LMA.
[42] Primary markets are defined as markets 'where new securities are issued and sold directly by the issuer to investors. Any trading after that takes place on the secondary market', http://lexicon.ft.com/Term?term=primary-market (accessed 29 May 2018); see annotated 'First Draft Discussion Paper', CLC/B/039/MS39411, LMA; December 1985 'Comments on Solo', CLC/B/039/MS3910, LMA: 'some partners felt that as underwriting is likely to be more profitable than secondary market activity, it would be a mistake to give away all the advantages of this to others'; Mayhew 'My thoughts on the run up to 1986 and a little beyond', 9 May 1984, CLC/B/039/MS39392, LMA.

outside investors as an investor in the firm's planned primary market business. As well as sharing in profits, Cazenove would charge fees 'for the placing of the stock or underwriting' and also 'for corporate work involved'. Based on the then existing fee scale, whereby generally merchant banks tended to receive half of one per cent and brokers one quarter of one per cent of the overall deal consideration, it was envisaged Cazenove might justify fees of up to three quarters of one per cent, putting Cazenove on a pay structure beyond that even of the merchant banks and highlighting the earning potential of market-making for the firm.[43] Simply for illustrative purposes then, for a transaction worth £50 million, Cazenove might be expected to earn £375,000 in fees.

Although it made commercial sense, becoming a primary market maker was a significant risk. Market makers could choose which stocks to trade in but, once entered into, agreements were contractually binding and there was an obligation to quote firm two-way prices (a buy price and a sell price) for a minimum level of stock (as specified by the Stock Exchange). The attraction in becoming a market marker was the profit from the 'bid-offer spread' - the difference between the sell price and the buy price, which was in addition to fees for capital raising and ancillary work. However, once a market maker took a position (i.e. entered into an agreement) they assumed ownership of the securities being traded on their account. This was known as trading on their own account and meant market makers were exposed to losses as they had to buy and hold any unsold shares. The substantial amount of capital required to underwrite the risk dictated the use of outside capital, something which endangered independence. Cazenove's response was to proceed carefully and retain maximum flexibility.

[43] See 'Cazenove Primary Markets Limited (CPML)'; Michael Pescod's memorandum, CPML, 15 February 1985, CLC/B/039/MS39416, LMA.

Cultural considerations

Cazenove was clear about the need to attract outside capital ahead of Big Bang but was determined to 'retain maximum control' and be 'masters of our own affairs', 'preferably' by engineering 'a "divide and rule" situation' between backers.[44] The use of such language was evocative of the British Empire exerting its rule by strategically orchestrating division and thus prospering against numerical odds. Partners frequently used references to empire and war in connection with Big Bang. Many had served during the Second World War and their forefathers had often served in the First World War. The primogeniture-like tradition that every partner could introduce one son into the firm tied these familial experiences with men's experiences in professional life. Cazenove partner Johnny Henderson, later chairman of allied firm Henderson Administration, had served as ADC to Field Marshal Montgomery during the Second World War and Montgomery subsequently became godfather to Henderson's son.[45] Military connections persisted even into the late 1990s, when retired soldiers recruited from the partners' old regiments served as liveried doormen and were known as 'waiters'.[46]

'D-Day' was used as the code name for the public announcement of the firm's Big Bang strategy showing just how imbued that strategy was with the importance of a military-style operation. It was top secret, required long-term planning, and gave a foothold for an advance - in this case affording Cazenove a viable presence in the post-Big Bang City as an independent entity. So militarily precise was the operation that preceding days were D-Day -1, -2, -3 when dissemination of information was key and various categories of personnel were advised in precise ways at specified times. Postal timings, use of couriers, selection of journalists, and even the number and colour of paperclips (10,000 black coated) were all

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[44] JKW 'Objectives for the future', 4 August 1984, CLC/B/039/MS3941, LMA.
[45] Johnny Henderson, City Lives, National Life Stories, British Library, *Sounds*, tape 1/6, http://sounds.bl.uk/Oral-history/Banking-and-finance/021M-C0409X0052XX-0001V0 (accessed 1 May 2017).
[46] Interview, former Cazenove partner, June 2017.

meticulously planned.[47] The firm anticipated the questions which would follow its D-Day announcement and 'trained' all partners to withstand scrutiny and appear 'at ease' when questioned.[48] The pervasive use of military language conveys a belief that victory depended on having the right mind-set, detailed preparation and rigorous training. It also suggests a comfort from military-style campaigns, possibly because partners either relied on their personal experiences or those gleaned from the heroic tales of forefathers, or perhaps, in some way, wished to live up to such experiences.

Oral testimonies based on experiences in the 1980s and 1990s confirm continuities with an earlier era which was described by Johnny Henderson (who joined the firm in 1946) as a time when relationships were nurtured, elites inter-married, and nepotism was explicitly valued.[49] Despite the fabled importance of an Eton education for a City career, this alone was regarded as an insufficient pedigree for a career at Cazenove. Although privately educated (and quick to liken the coat pegs at Cazenove to those of his old school, instantly recalling his peg number) an interviewee intimated significantly greater value was attached to his City-family pedigree. Former Cazenove employee Davina Walter also described how she joined the firm through 'a sort of nepotistic link'.[50]

Davina Walter was in a small minority of women working professionally in the City. In oral testimony, male interviewees estimated 'the ladies' made up about five per cent of the staff of top firms when they joined the City in the mid to late 1980s. Women were 'not excluded' from the Stock Exchange, but because it was a 'male bastion' the ladies 'didn't want to do it'. On the other hand, male bonds were continuously reinforced, in Cazenove's

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[47] 'Minutes of a meeting held at Venice on Monday 16 June 1986', CLC/B/039/MS39421, LMA.
[48] 'Presentation Training May 1986', CLC/B/039/MS39421, LMA.
[49] Johnny Henderson, City Lives, National Life Stories, British Library, *Sounds*, tape 5/6, http://sounds.bl.uk/Oral-history/Banking-and-finance/021M-C0409X0052XX-0005V0 (accessed 1 May 2017).
[50] C. Courtney and P. Thompson (eds.), *City Lives: The changing voices of British finance* (London, 1996), p. 30.

case with so-called 'legendary stories' about it. One centred around an under-subscribed rights issue for a well-known company which was only resolved when a partner said of the £20 million shortfall, 'stick it down on my account'. This was possible because partners earned 'staggering amounts', they were 'obscenely rich…[but] knew how to behave'. Equally, interviewees recalled, a man would walk around the office on a Friday afternoon offering staff petty cash, sums might be around £500, to 'tide you over for a few expenses'. They guffawed at having been offered 'something for the weekend sir', for the risqué allusion to male sexual practice, but regarded this as one of many 'way[s] of looking after staff, we felt'. Other ways included evening drinks at a certain time and then food for those still working. The male interviewees recognised the importance of such practices for driving forward business but appeared oblivious to the way such discourse and practices perpetuated masculine power by excluding women.[51]

Dress codes at Cazenove were strict. As a woman, Davina Walter 'was emphatically not allowed to wear trousers', while etiquette demanded men wore black lace-up brogues, otherwise 'someone might say… why have you got your slippers on today?'[52] Suit jackets were referred to as coats, not jackets, because 'potatoes have jackets.' Curiously, rather than these codes being diluted when Cazenove became a market maker and recruited market traders, it was suggested that 'east end boys with starched collars' enjoyed participating in the way people behaved at Cazenove, even though they 'weren't in that social bracket'.[53] The performative behaviour this conjures is linked to the construction of new social identities, based on aspiration, and had the effect of helping to perpetuate Caz values and traditions.[54]

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[51] Interview, former Cazenove & Barings partners, June 2017. The lens of masculinity provides ways to consider gender disparities in the absence of women, see Roper, *Masculinity and the British Organization Man;* Tosh, 'History of Masculinity'.
[52] Courtney and Thompson, *City Lives*, p. 132; interview, former Cazenove partner, June 2017.
[53] Interview, former Cazenove partner, June 2017.
[54] See Butler, 'Performative Acts and Gender Constitution'.

Altogether, these practices do not represent merely anachronistic curiosities; Patrick Joyce has convincingly demonstrated how elite organisations, starting with the English public school, ingrained certain practices and traditions so that they became embedded in 'people's daily habituation'. Such practices were maintained through institutions such as the military and the gentleman's club, and through rituals and devices (often something as innocuous as the school peg seen reproduced at Cazenove and at London clubs like the Travellers and City of London Club). The effect was to produce elite subjects who reproduced elite forms of power.[55]

The partners' personal files on Big Bang reveal a surprising amount of subjectivity for written business records and show how the culture of the firm framed the beliefs and meanings which underpinned actions and drove strategy. Godfrey Chandler, who had joined the firm in 1941, was a 'wise elder', consulted to ensure Caz's strategy was 'fully in accordance with the best traditions of the firm.'[56] Files show a small coterie of partners used Chandler's preferred method of handwritten memos to maintain 'total security', while code names were used for the firm's Big Bang files.[57] Secret file names were in accordance with tradition, but the choices are interesting for drawing on heritage (Venice), valuing independence (Solo), and operational secrecy (D-Day). Regarding 'the "Venice" code name', Chandler asked whether it was 'chosen as an image of a sinking City and the partnership in its gondola will sail off into the sunrise'.[58] His anxiety about change and concerns about a 'sinking City' were tempered by a belief in Cazenove's superiority which he regarded as intrinsically linked to the partnership - both the individuals who constituted it and the merits of partnership as a form of governance and legal entity. The gondola metaphor suggested the

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[55] Joyce, *State of Freedom*; 'The State of Freedom: A Review Symposium on Patrick Joyce's Social History of the British State', *The Sociological Review*, 62:3 (2014), pp. 615-624.
[56] Kynaston, *Cazenove*, p. 300.
[57] Note, Godfrey Chandler to Rae Lyster: 'excuse the pen, maintains total security!', CLC/B/039/MS3910, LMA.
[58] Ibid.

partnership provided protection, allowing the firm to charter unknown waters and remain buoyant as others sank. In the context of Thatcherite reforms, this suggested Cazenove could navigate the reforms and possibly remain untouched by them, rather than it simply occupying a space in which the reforms took place.

Strategic networks

Cazenove undertook significant restructuring ahead of Big Bang in order to retain all the benefits of partnership - including tax advantages and mechanisms to best introduce outside capital - whilst limiting partners' personal liabilities. Protection was achieved by the use of limited liability companies, wholly owned by the partnership, through which high risk work was channelled. Helped significantly by close financial and legal advisers, Spicer and Pegler, and Slaughter and May respectively, Cazenove thus secured safeguards for its financial elite whilst remaining a partnership.[59] In so doing it signalled the continuance of gentlemanly arrangements most commonly associated with partnership entities.

With its structure determined, Cazenove sought to raise capital using the firm's network of 'friends and helpers' without conceding independence.[60] Consideration was given to raising all necessary funds from Henderson Administration, an ally closely tied to Cazenove through bonds of partnership and marriage. However, to retain the credit it was attracting for appearing wholly independent, and also to fully capitalise on what was deemed prime timing to attract strong financial backing from elsewhere, this option was rejected.[61] Instead, after weighing its many options, Cazenove sought assistance from life insurance companies. These were 'friendly institutional investors' who were 'prepared to back us in our efforts to remain an independent firm' and were invited to participate in a syndicate of twelve

[59] See CLC/B/039/MS39420, LMA.
[60] 'Comments on Solo', 19 December 1985, CLC/B/039/MS39420, LMA.
[61] Agenda and file note, 26 September 1985, CLC/B/039/MS39414, LMA.

members under the leadership of ally David Malcolm of Royal Insurance.[62] The syndicate arrangements adhered to Kemp-Welch's 'divide and rule' criteria as the rights and influence of any one participant were limited. Eleven of the twelve syndicate members were insurance companies with the twelfth being Henderson's Witan Trust. This further safeguarded Cazenove's interests as

> *Through Witan Securities, the £500 million investment trust managed by Henderson Administration, the Cazenove connection is strong. The Henderson's have been partners at Cazenove since 1932 and Forbes's mother was a Henderson.*[63]

The syndicate provided a £32 million subordinated loan to Cazenove in September 1986, for working capital for its core business, in return for a generous but variable rate of interest and the opportunity to participate in an entirely separate smaller underwriting syndicate to support Cazenove's new primary market activity. This second syndicate (which comprised six institutional members plus Witan Securities and Cazenove Securities Limited) provided an underwriting facility which was strictly undisclosed in value but was described by Kemp-Welch as constituting 'some hundreds of millions' of pounds.[64] In fact, it gave Cazenove discretion over a £250 million facility before consultation with members.[65] Cazenove's strategy clearly impacted the wider City as syndicate members, who became known as the 'Friends of Caz', were new market entrants, granted access by Cazenove to lucrative markets and underwriting profits for the first time.[66] Moreover, Cazenove's strategy ensured a route to primary markets for independent merchant banks just as jobbing firms were being bought and taken in-house by investment banks, and arguably influenced their Big Bang strategies. Kemp-Welch claimed Cazenove's arrangements established 'a

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[62] 'Solo, Future Arrangements', 7 August 1985, CLC/B/039/MS39420, LMA.
[63] Goodway, 'Case for Independence'.
[64] Ibid. The institutional members were Legal and General, Norwich Union, Royal Insurance, Scottish Equitable, Standard Life and Bank of Scotland.
[65] ADAWF [Forbes] memorandum to all partners, 4 September 1986, CLC/B/039/MS39416, LMA.
[66] See Hilton, *City Within a State*, p. 19, for use of term 'Friends of Caz'.

community of interest', highlighting the importance of City networks after Big Bang, and the fact that interests became even more entwined.[67]

Cazenove overcame 'decades of silence' to broadcast its strategy after D-Day and sell its unique offering of *independence* and *continuity* amidst unparalleled change and uncertainty in the City. In doing so it was rendered common sense for clients, old and new, to avail themselves of safeguards by belonging to the so-called 'Cazenove club'.[68]

Intimate relations

After D-Day, Cazenove received a file's worth of congratulatory letters. One, from M.F. Reidy, Private Secretary at the Department of Energy, stands out for its language and tone:

> *Dear Anthony*
>
> *I am being swamped by copies of your brochure. Before I am completely drowned may I offer the heartiest congratulations on retaining your virginity, whilst increasing your powers of seduction!*
>
> *Yours*
>
> *Michael*[69]

Cazenove's participation in government privatisations over this period included Britoil, BP and British Gas, which would have brought it into close proximity with the Department of Energy (as well as the DTI and Treasury). In the context of City mergers and an influx of foreign-owned conglomerates by 1986, the letter's language was highly emotive in equating virginity with sovereignty, for it was regarded as highly desirable by some in government and at the Bank that at least one major British firm should remain a significant player in London,

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[67] 'Solo Future Arrangements', 7 August 1985, memo from John Kemp-Welch and Rae Lyster, CLC/B/039/MS39420, LMA.

[68] 'Position in the market', 3 July 1986, section 7.4. 'What about the Venice Club?', CLC/B/039/MS39421, LMA.

[69] 'Letters of congratulations to Anthony Forbes from various companies relating to the confirmation of the continuing independence of Cazenove & Co. post Big Bang', 12 September 1986, letter from M. F. Reidy, Department of Energy, to Anthony Forbes, CLC/B/039/MS39422, LMA.

as discussed in Chapter Two.[70] Given this sentiment, the value judgement was that Cazenove's triumph, indeed its attraction, was to remain virginal and unsullied by marriage into another house. There was also a gendering of the firm: in remaining pure and unstained it was feminised, valorised for holding at bay its aggressive, dominant masculinised foreign counterparts. Male bonds have already been alluded to and recognized for the role they played in driving forward business, and Michael Roper has argued this sort of language and culture should be taken seriously as business is an 'emotional economy' which thrives on 'close relations' and 'the expression of homosocial affections' between men.[71] The letter signifies easy relationships, confirming that Cazenove's network infiltrated government - indeed Reidy's letter was in addition to one of warmth from Secretary of State for Energy, Peter Walker. It indicates that those at the heart of the Thatcher administration's privatisation programme and competition policy, who ostensibly valued competition from wherever it emanated, were delighted by the success of and protective toward one of their own, whatever the free market ethos of the day. The disparity between the way Cazenove's strategy was conceived and free market ideology underlines the distinction between ideological neoliberalism and neoliberalism in practice. It testifies to the importance of local geographies, where relationships and historically specific circumstances affected the application of neoliberalism. As noted above, in respect of institutional investors, it also shows how neoliberalism itself was shaped by geographical and historically specific conditions.[72]

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[70] Minister Alex Fletcher stated 'if we want to maintain London as a prominent market, I think it is very important that the Stock Exchange and the majority of the institutions here should remain very firmly in British hands', *The Financial Times*, 13 December 1983; Governor of the Bank of England, Robin Leigh-Pemberton said in March 1984, 'we would not contemplate with equanimity a Stock Exchange in which British-owned member firms played a subordinate role', *The Financial Times*, 7 March 1984, both cited in Stewart, *Bang,* p. 407.
[71] Roper, *Masculinity and the British Organization Man*, pp. 2-4.
[72] See Peck, *Constructions of Neoliberal Reason.*

Other congratulatory letters attested to close relationships spanning different commercial and industrial sectors. Those who wrote in a personal capacity included Sir William Barlow, a protagonist for the privatisation of BT who was also an influential and outspoken advocate for investment in UK engineering and transport infrastructure;[73] Lord Rayne, the supremely well-connected property baron and philanthropist;[74] Sir James Spooner, director of Barclays Bank and Sainsbury; Sir Anthony Burney, former chairman of Debenhams; and Edward Binks, a leading Yorkshire industrialist, involved in the energy, infrastructure and transport sectors, whose association with Cazenove dated from a 1947 company flotation and whom Thatcher consulted for his knowledge of the coal industry.[75] BAT Industries, meanwhile, found Cazenove's strategy 'an elegant and ingenious solution to the problem of combining independence with competitiveness';[76] whilst Guinness, Babcock, Empire Stores, BICC plc, Laird Group, DRG, Pittard Group plc, George Wimpey plc, and Tarmac plc were among companies that sent compliments.[77] Supporters represented a cross section of business and industry, and their influence often extended to the arts, charity and social circuit, making it difficult to compartmentalize them. For this reason, narratives which attribute discrete interests to finance and industry and disregard the cross-over and shared interests between sectors appear simplistic. Moreover, BAT's 1993 guest list to *Madame Butterfly* provides an example of the perceived importance of networked relationships across sectors. Representatives were chosen from Buckingham Palace, top politicians including the

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[73] Sir William Barlow, obituary, 23 May 2012, *The Telegraph*, http://www.telegraph.co.uk/news/obituaries/9285587/Sir-William-Barlow.html (accessed 18 August 2017).
[74] Lord Rayne, obituary, 11 October 2003, *The Telegraph*, http://www.telegraph.co.uk/news/obituaries/1443830/Lord-Rayne.html (accessed 18 August 2017).
[75] Edward Binks, obituary, 13 August 2010, *The Yorkshire Post*, http://www.yorkshirepost.co.uk/news/obituaries/edward-binks-1-2584569 (accessed 18 August 2017).
[76] 'Letters of congratulations', 15 September 1986, letter from Secretary to Mr G. L. Dennis, BAT Industries, to Anthony Forbes, CLC/B/039/MS39422, LMA.
[77] CLC/B/039/MS39422, LMA.

prime minister, diplomats, the CBI, regulators, the media, the financial sector (including Cazenove), and others, fusing together an array of powerful social, business, political and financial networks.[78]

Capital united

In 1977 the Wilson Committee to Review the Functioning of Financial Institutions was established under the leadership of former prime minister, Sir Harold Wilson. Its terms were

> *To enquire into the role and functioning, at home and abroad, of financial institutions in the United Kingdom and their value to the economy; to review in particular the provision of funds for industry and trade; to consider what changes are required in the existing arrangements for the supervision of these institutions, including the possible extension of the public sector, and to make recommendations.*[79]

In evidence to the Committee, Cazenove stated 'our speciality is a close relationship with industrial companies for whom we have acted (in some cases for over a century) in the underwriting of new capital for expansion'. Clearly rejecting the implied criticism that finance failed to support industry, Cazenove instead suggested that the fiscal policies of successive governments had inhibited investment in industrial capital, and offered its own suggestions to encourage greater investment in the manufacturing industry.[80]

Daniel Schafer for *The Financial Times* has defined corporate broking as 'a peculiarly British concept that ties banks into long-term strategic advisory relationships with corporate clients.'[81] This was Cazenove's core business and the long-term aspect was critical. According to David Mayhew, it allowed Cazenove to

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[78] *Madame Butterfly* at Covent Garden, 6 October 1993, BAT records, http://industrydocuments.library.ucsf.edu/tobacco/docs/xlcg0208 (accessed 20 June 2017).
[79] Committee to Review the Functioning of Financial Institutions, Report, 22 May 1980, p. i.
[80] Cazenove letter to the Secretary to the Committee to Review the Functioning of Financial Institutions, 23 March 1977, BS/9/3, The National Archives: Public Record Office, Kew.
[81] D. Schafer, 'UK banks boost corporate broking', *The Financial Times*, 20 January 2013.

act as the client's eyes and ears in the equity markets... so that when they need to raise money, or are involved in M & A, we have an in-depth understanding of their business and can therefore better cater to their needs.[82]

Long-term relationships led to emotional closeness between broker and client, especially when stakes were high, for example when defending a company against a hostile takeover bid. In the mid-1980s Cazenove represented the games manufacturer John Waddington against such a takeover bid from Robert Maxwell's BPCC group, and acted with Hill Samuel to defend AE (engineering) against a bid from Turner & Newall. It also acted with merchant banks on behalf of hostile parties, facilitating the Burton Group's takeover of Debenhams; the Guinness takeover of Arthur Bell; and Dixons takeover of Currys.[83] The close and mutually beneficial relationship between broker and client was recognised by Cazenove as key to its success and requires a rethinking of the financial capitalism narrative.

Cazenove represented a wealth of UK quoted companies from across different commercial and industrial sectors. This sectoral diversity was key to its 'placing power'; for in knowing the 'major corporates' and the 'big institutional investors and banks', Cazenove was 'better able to bring the two together', something it recognised as significantly attractive to its corporate clients.[84] It boasted a detailed understanding of each business; ensured both clients and traders were supported by research departments and sector analysts; maintained close proximity to management; and advised clients on statutory duties and interactions with shareholders.[85] Claims to 'ties of loyalty and trust' with clients appear justified by support from clients for ongoing independence and the multitude of congratulatory letters after D-Day.[86] Cazenove also won new clients by its Big Bang strategy.[87] In addition, clients and

[82] J. Warner, 'David Mayhew: last of the old City school', *The Telegraph*, 4 December 2011.
[83] Kynaston, *Cazenove,* pp. 309-310.
[84] Warner, 'David Mayhew: last of the old City school'.
[85] Interview, former Cazenove partner, June 2017; Kynaston, *Cazenove,* p. 304.
[86] CLC/B/039MS39420; CLC/B/039/MS39422, LMA.

business associates offered succour over a prolonged period during the Guinness Affair.[88] There was no tail off of business and the firm secured BAT as a client in this period, after the latter concluded Cazenove was the broker best placed to represent its interests. Tellingly, complimentary comments about the firm's expertise were preceded by those which rejoiced in Cazenove being 'very well connected'.[89] This assessment proved well founded; in addition to shared social events, BAT executives were brought face-to-face with the major institutional investors in a series of 'roadshows' and shareholder meetings organised by Caz which were described by BAT as intended to 'strengthen and update contact with our major shareholders'.[90] Caz was able to identify all the institutions' key people and summarise their respective investment approaches and interests. In addition to its celebrated network, Cazenove advised on major market activities, provided regular market reports, contributed to the training programmes of senior BAT managers and even offered advice on handling the press.[91] In 1989 to 1990, it was part of an advisory group which helped to successfully defend BAT Industries against a hostile bid from Sir James Goldsmith's Hoylake Investments Ltd,

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[87] 'Position in the Market at 3 July 1986', section 1.2.6, CLC/B/039/MS39421, LMA: 'Once our 'independent stance became clear our new corporate clients have included Marks and Spencer, Courtaulds, BOC, and De la Rue'.
[88] CLC/B/039/MS39423, LMA.
[89] Maclnnes, I. M., Note to the Chairman's Policy Committee, 30th September 1986, BAT Records, https://www.industrydocumentslibrary.ucsf.edu/tobacco/docs/hhhf0199 (accessed 25 June 2017).
[90] A Cazenove market analysis of institutions was included in its 'Schedule for Institutional One to Ones', BAT records, https://www.industrydocumentslibrary.ucsf.edu/tobacco/docs/#id=fzgf0204 (accessed 7 October 2017); 'letter from A. C. Long to Roger P. Yates regarding meeting on Friday 2nd June', dated 26 May 1989, BAT records, https://www.industrydocuments.ucsf.edu/tobacco/docs/#id=kslp0201 (accessed 7 October 2017).
[91] 'Senior Managers Finance Programme No. 6: Confirmed Delegate Representation as at 7 August 1992', BAT records, https://www.industrydocumentslibrary.ucsf.edu/tobacco/docs/#id=qmmg0210 (accessed 6 October 2017); 'Letter from Patrick Sheehy to ADAW Forbes regarding press comments on changes of profit', 24 July 1990, BAT records, https://www.industrydocumentslibrary.ucsf.edu/tobacco/docs/#id=hyvy0203 (accessed 6 August 2017).

which at £13.5 billion then represented the biggest takeover bid in British history.[92] As part of the defence, Caz was instrumental in managing shareholder relations, 'pacifying shareholders' by direct appeals, and engaging in measures like buying back shares, increasing the dividend, and divesting BAT of its American retail and certain other interests.[93]

Back in 1984 when it was originally contemplating the ramifications of Big Bang, Cazenove had responded to a Stock Exchange consultation by outlining the implications of dual capacity and new ownership rules. It foresaw foreign houses using 'their financial muscle' to dominate the City and weaken domestic houses, before inevitably responding to political and economic pressures at home and abroad by retrenching, putting their overseas offices at risk. Cazenove 'c[ould] not see that [wa]s in this country's interest' and, tellingly, lamented the 'consequences for British Industry of being over dependent on US or Japanese houses'. As 'one of the only three issuing brokers in London with the skill and experience to distribute primary issues of size and complexity', it posed its commercial decision to become a primary market maker as a patriotic gesture; it would counter the threat from abroad and support British industry by proffering a strong British alternative.[94] King Caz not only occupied British sovereign territory, it could act with sovereignty in respect of being independent from outside (foreign) interference.

Cazenove proposed various innovations to the Bank of England to increase funding for industry as part of its 1985 renewal application to be a licensed money broker. These ranged from encouraging additional forms of bank and building society lending; making

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[92] *The Times*, 11 January 1990, in BAT records, https://www.industrydocumentslibrary.ucsf.edu/tobacco/docs/#id=tqlb0045 (accessed 7 October 2017).

[93] Prokesch, Steven. 'Goldsmith Ends Bid For B.A.T.', *The New York Times*, 24 April 1990, http://www.nytimes.com/1990/04/24/business/goldsmith-ends-bid-for-bat.html (accessed 7 October 2017); 'Letter from Patrick Sheehy regarding programme of diversification', 21 August 1989, BAT records, https://www.industrydocumentslibrary.ucsf.edu/tobacco/docs/#id=qhfy0193 (accessed 5 October 2017).

[94] 'First Draft Discussion Paper', CLC/B/039/MS39411, LMA.

'arrangements with those who are selling stock to overseas clients to hold this stock in London and make it available for loan'; and seeking to influence the Bank's own policy and the overnight lending habits of the Bank's own departments to free up funds.[95] These proposals were of mutual benefit, satisfying Cazenove's licensing requirements and business interests as well as raising vital funds. But it allowed Cazenove to legitimately claim that it played an important 'role in assisting industry to raise capital' and, moreover, that this made 'a vital contribution to the economy'.[96]

Other services to industry included the offer to trade in the securities of its smaller companies when Cazenove became a market maker. This was in recognition of the fact that most traders would give preference to blue chip companies and premium alpha stocks (i.e. highly performing active returns) and would consequently neglect smaller companies and less liquid stocks. Cazenove capitalized on such concerns, even evoking a patrician sense of noblesse oblige when confirming 'where we have brought clients to the market we believe …we will have an obligation to make a market where there is a shortage of committed market makers in that stock'.[97] It acted as a market maker for almost one hundred companies by June 1991, up from forty-six in October 1986.[98] In so doing it demonstrated that its networks flowed in various directions, that its interests were not confined to huge operations like BAT, and that it made equally good sense for smaller as well as larger companies to belong to the Cazenove club.

Meanwhile, as Mayhew had envisaged, new service offerings such as futures, options, and convertibles (which provided safeguards for clients to manage their investment positions) helped combat competition and maintain client relationships. The benefits of belonging to the

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[95] 'Responses to Money Brokers Agenda', p. 5, CLC/B/039/MS39412, LMA.
[96] 'Position statement - finalised', item 9, 25 March 1986, CLC/B/039/MS39421, LMA.
[97] 'Question and Answers as at 6 May 1986', section C Business Q3, CLC/B/039/MS39421, LMA.
[98] Kynaston, *Cazenove,* p. 326.

Cazenove club were made manifest during the financial crash of October 1987 when Cazenove provided reassurance, nurtured relationships, and overall emerged as a net-buyer of stocks for its clients, 'show[ing] its propensity for taking the long view'.[99] Thereafter it launched unit trusts which specialised in Blue Chip companies and were designed to 'offer investors a cushion against post-crash volatility'.[100] These stand as examples of the firm taking a long-term approach to client care and counter some of the charges of short-termism levelled at financial firms for seeking fast returns on investment.

In 1988 Caz was hailed 'still king of the broking houses' following results published in *Crawford's Directory*, based on research into advisers of the UK's top 4,000 companies. Crawford's attributed Cazenove's score of 242.5 points (close to the combined scores of its two nearest rivals) to its image, post-Big Bang, of remaining 'untainted by the conflicts of interest perceived to be affecting integrated securities houses'.[101] In 2000, *The Financial Times* confirmed Cazenove's position as corporate broker to half the FTSE 100 companies, it having 'flourished as a trusted voice in a world where the investment banks are seen as having conflicting interests'.[102] In 2002 Cazenove's notable success was again remarked upon and attributed to the firm's 'extremely good relations with the major investment houses', together with 'exceptional staff loyalty', underpinned by the partnership and its tendency 'to recruit its own kind - preferably [those] with an Eton and Guards background'.[103] The firm did finally cede independence in 2009 when it was fully acquired by JP Morgan and integrated as JP Morgan Cazenove under the chairmanship of Cazenove's

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[99] Ibid., p. 325.
[100] 'Cazenove set to launch unit trusts', *The Observer*, 10 July 1988.
[101] G. Gibbs, 'Caz still king of the broking houses', *The Guardian*, 1 February 1988.
[102] K. Campbell, A. Counsell, & J. Willman, 'Cazenove opens heart to stem flow of talent', *The Financial Times,* London (UK), 2 December 2000.
[103] D. McCrystal, 'They may not have degrees, but it would take a very dim-witted Cazenover not to see that cosy world coming to an end', *The Observer*, 7 July 2002.

David Mayhew. Even this confirmed the ongoing value attached to the Cazenove brand and networks.

Conclusion

City and media responses to Cazenove's successful strategy in the immediate aftermath of the Big Bang suggested an inevitability that the 'mighty Caz' would triumph in the new City.[104] In fact, this whiggish construal was far from certain. Cazenove and its closest advisers were acutely aware there were 'great areas of uncertainty' with outcomes largely dependent upon networked relationships, principally between 'the Partnership and the syndicate members on the one hand, and the Partnership and the money raising customer on the other'.[105] As such, Cazenove used its strengths, including its networks and traditions, to survive and evolve in this period. In so doing, Patrick Joyce's observations, made in respect of tradition and the public school, that 'tradition, ethos and unity were the products of conscious and elaborate technological and material engineering and not the end-product of centuries of tradition' are apposite here.[106] Cazenove traded on its tradition, but was remarkably adaptable, the king of the elegantly engineered solution. Clearly, engineering was a crucial component of survival capitalism, especially when a 'sinking City' could be imagined.

In his fairytale, John Redwood averred financial reforms marked the end of feudal practices and delivered meritocracy. But, while deregulation may well have introduced a more meritocratic sector, it did not remove established elite power bases. Old networks and gentlemanly practices persisted alongside more meritocratic practices, a finding which complicates our understanding of financial deregulation. Equally, findings (see also Chapter

[104] Goodway, 'Cazenove's Case for Independence'; 'Cazenove gets even mightier'; 'The giant finds a voice'; 'Capitalising on independence', *Financial Weekly*, CLC/B/039/MS39421, LMA.
[105] 'Cazenove & Co.', March 1986 memorandum from Slaughter and May, CLC/B/039/MS39420, LMA.
[106] Joyce, *State of Freedom*, pp. 264-265.

Five) are that Thatcherism did not systematically disrupt vested interests. This suggests that a measure of ideological neoliberalism - the 'taking on' of vested interests which had the power to distort markets - was neither intrinsic to Thatcherism nor, in practice, necessarily regarded as desirable.[107] Moreover, deregulation also brought an explosion of complex investment funds and financial instruments which intensified the need for expert guidance from within the sector. Harold Perkin thus insisted financial intermediaries in the new era were not 'passive conduits' but controllers: 'new feudal lords and knights whose power and status rest[ed] on the indispensable function they perform'.[108] So, notwithstanding Redwood's fairytale vision, even meritocratic practices became part of a new 'quasi-feudal system', linked to a transition from amateurism to expertise and the growing complexity associated with financial services. In either case the power of the banker/ broker remained undisputed: long live the King!

This study of elites has shown how culture informed one firm's Big Bang strategy; how that strategy was delivered using established cross-sector networks which allowed elitism to prevail in the upper echelons of the City; and how the strategy of one firm had an impact on the wider City. By bringing relationships between finance and industry into focus, it has shown shared capitalist strategies and suggested that a more nuanced approach to the established 'financial capitalism' narrative is required. Ultimately, Cazenove's triumph, in embracing destabilising reforms, navigating them with and on behalf of corporate and institutional clients, and thriving in the new City, meant King Caz embodied the concept of survival capitalism.

In respect of Thatcherism, the focus has been on how Thatcherite policies were received. Of course, Thatcherism remains a central issue, as regulatory reforms were government-driven, but far from being applied in a vacuum, reforms jostled with embedded

[107] See Ledger, *Neoliberal Thought and Thatcherism.*
[108] Perkin, *Rise of Professional Society*, pp. 388-389.

traditions and cultural concerns and were therefore contested and negotiated, by even supposedly natural supporters. By showing how material interests pulled in different directions and affected outcomes, the distinction drawn between ideological neoliberalism and its practical application can be understood.[109] Although this study does not overturn the notion of Thatcherism as an ideological project, it suggests some of the problems associated with seeking coherence as a measure of that ideology.[110]

[109] See Davies, *City of London and Social Democracy*, pp. 141-180.
[110] For work which challenges the coherence of Thatcherism see Edwards, '"Financial Consumerism"'; Davies, Freeman and Pemberton, "Everyman a capitalist?".

Chapter Five

Lloyd's of London

In 1984 the President of the United States presented five astronauts with the Lloyd's Silver Medal for Meritorious Service at a White House ceremony. The ceremony was 'a brilliant stroke of public relations genius' by Lloyd's after it had successfully commissioned a space odyssey - at a cost of $180m - to recover two rogue space satellites. The event was hailed as 'good for Lloyd's, good for Britain and good for Anglo-American relations'.[1]

The incident is important for what it says about Lloyd's. First, that it was at the cutting-edge of world insurance. The financial loss, after factoring the salvage, was in the region of $120m. Yet the episode was a notable success because Lloyd's had 'entered new territory' which would 'stand them in very good stead for their future insurance business'.[2] Having pioneered maritime insurance in the seventeenth century, Lloyd's had a reputation for breaking new ground. Typically, it underwrote insurance for the aviation industry, the environmental disaster and pollution sectors. Second, and relatedly then, the incident demonstrated Lloyd's importance in the US where it was a 'major force' in the insurance market. Its reputation there was based on an exemplary claims history for payments relating to the San Francisco earthquake of 1906.[3] Not only did Lloyd's insure key US interests, including in areas where other insurers could not compete, but wealthy US citizens also acted

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[1] MTFW, PREM19/1656 f124, 17 December 1984, 'US: Howe PS letter to No.10 (Lloyd's of London presentation ceremony in honour of US astronauts) *["a brilliant stroke of public relations genius"] [declassified Dec 2014]*', https://www.margaretthatcher.org/document/149899 (accessed 9 July 2019). Costs were reduced by $60m as a result of the recovery.

[2] Ibid.

[3] For Lloyd's as a 'major force' in the US see https://www.lloyds.com/lloyds-around-the-world/americas/us-homepage (accessed 8 July 2019); for reputation see *Lloyd's: A Brief History & Chronology* (Lloyd's, London, 2001), p. 9.

as Lloyd's names, that is, they joined the society of Lloyd's and provided capital for underwriting purposes.

Thirdly, the episode hints at Lloyd's influence with government. Lloyd's epitomized Thatcherite ideals of international-reach, free trade credentials and entrepreneurial zeal. On this occasion, Thatcher sent a message which was read by the British Ambassador, and she was subsequently invited by the chairman of Lloyd's to meet the astronauts when they visited London.[4] The relationship with the British Embassy (and the Treasury) would subsequently prove crucial to Lloyd's when it sought to retain a trading arrangement with the US which comparatively disadvantaged US domestic companies. On this point, the chapter will show how Lloyd's skilfully navigated Thatcherism, by calling on the Government for support and resisting government interventions in equal measure, depending on the specific conditions and requirements of the day. The Government's ideological agenda will be seen to be constrained by pragmatic concerns, which demonstrate the difficulty of applying ideology in practice - particularly to areas or institutions steeped in heritage and tradition. The observation applies to ideologies generally, but these findings contribute, in particular, to scholarly work which distinguishes between ideological neoliberalism and its practical application.[5]

Finally, the somewhat bizarre image of astronauts in the White House receiving silver medals from English gentlemen speaks to this chapter's deliberate register. It takes an

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[4] Letter from Peter Miller to Margaret Thatcher, 12 December 1984, THCR 6/2/2/102, 'Briefing files for domestic official visits and engagements as Prime Minister, February 1985. Visit of American astronauts to London, 10 Downing Street, 11 February 1985 (includes correspondence with Peter Miller, Chairman of Lloyd's)', Churchill Archives Centre, Cambridge, (hereafter CAC). Thatcher was also thanked for including Miller at a recent Centre for Policy Studies party, where she had championed 'Freedom of Services'. Miller had enjoyed the 'analogy of a free purchase of a BMW car in Germany for an Englishman, in exchange for the free purchase of a policy at Lloyd's by a German!' The letter also confirmed a forthcoming lunch engagement for Thatcher at Lloyd's.

[5] A. Davies, 'The City of London: from Social Democracy to Neoliberalism', paper at Rethinking Modern British Studies conference, University of Birmingham, July 2015; Davies, *City of London and Social Democracy*, especially pp. 141-180.

ethnographic approach to Lloyd's by considering the people within their cultural environment, and drawing on the spatial dimensions of the Lloyd's building through to the material culture of the artifacts therein. The ethnographic approach helps demonstrate tensions between tradition and modernity at Lloyd's and shows how beliefs and meanings, tied up with historic memory, impacted the everyday business practices of a modern institution. Moreover, historic memory was not isolated but was constantly re-fashioned and remade.[6] In this period, as Lloyd's was navigating internal problems, the combined experiences of launching a space rocket and having a White House reception arguably confirmed an attitude of invincibility. Not least, because the events came shortly after the Lloyd's council had secured a private Act of Parliament in 1982 to strengthen self-regulatory powers.

This chapter shows the dynamic relationship between Lloyd's and the Thatcher government and, in so doing, offers fresh insights into Thatcherism and the financial revolution. It is structured as follows: the first section situates Lloyd's within the wider City, considers the nature and operation of the business, and discusses the existing literature on Lloyd's in this period. There is then a focus on the spatial dimensions of the Lloyd's building. The chapter argues it acts as a metaphor for the tensions between tradition and modernity which affected the society of Lloyd's and, by extension, its wider environment. Moving from the building to those who populated it, an ethnographic approach seeks to show the significance of beliefs, meanings and heritage to late twentieth-century business practices.

Thereafter, the City-Bank-Treasury nexus provides a broad framework for examining the responses to problems which beset Lloyd's. First, the historically specific conditions which led to the Lloyd's Act are discussed to partly explain Lloyd's distinct treatment by the Government. Second, in connection with the FSB 1986, which brought measures to protect

[6] See Perks and Thomson, *Oral History Reader*.

investors in the wider City, Lloyd's exemption raises the question of who qualified for investor protection and was an issue linked to reputational damage at Lloyd's. Third, tax is considered to show the different treatments of Lloyd's by the Treasury, according to whether tax changes were proposed at home or abroad. Protectionism comes to the fore. Finally, Lloyd's 'Reconstruction and Renewal' (R&R) in the 1990s was about survival capitalism in practice. Here, the chapter demonstrates a networked response to a market too big to fail and, notwithstanding government constraints, shows an early example of a modern rescue package. This contributes to historical understandings of the role of the state, particularly regarding interventions in markets, and feeds into debate about the nature, and state sponsorship, of neoliberalism.

Situating Lloyd's in the City

The Lloyd's insurance market originated in Edward Lloyd's London coffee shop in the late seventeenth century. Situated so as to provide specialist shipping information speedily, Lloyd's emerged as a marketplace for named individuals to pool money and provide the entire capital base to insure maritime voyages. Despite their capital being conjoined, so-called 'names' were sole traders and therefore legally responsible for their own risks on a personal, unlimited liability basis. Later, this arrangement would distinguish Lloyd's from corporate entities, where a combined group of individuals would together constitute one single legal entity. Names came to be distinguished as working or external names, depending on whether they worked in the business as brokers or underwriters, or simply provided capital to back risks, as part of a syndicate. Because names were elected and wealthy, Lloyd's was a 'nexus of exclusivity and money'.[7] It exemplified the City as a 'centre of commercial capital'

[7] J. Barnes, *Letters From London 1990-1995* (London, 1995), p. 197.

as profits derived from insurance premiums and commissions on business conducted by underwriters and brokers.[8]

In terms of how the marketplace worked, a seeker of insurance would approach a local insurance broker (anywhere in the world) to discuss insuring a risk. The risk would be referred to a Lloyd's approved broker who would meet face-to-face with underwriters in London, situated on the floor of the Lloyd's building. Underwriters assessed the risk and determined a price (the premium) and the terms of the policy.[9] Usually, insurance would be written on a subscription basis with a lead underwriter underwriting a portion of the risk offered. The broker would approach other underwriters to subscribe for the remaining portions until the full value of risk was met. Underwriters received premiums and met claims; brokers were paid a commission for policies placed.[10]

Independent underwriting companies known as 'managing agencies' ran syndicates which employed underwriters to write risks backed by names' capital. Managing agencies also met insurance claims, managed premium trust funds for names, and arranged re-insurance of risk.[11] Some underwriting agencies were 'owned or controlled' by brokers, until brokers were required to divest these interests in 1982.[12] Given the subscription-basis of underwriting, agencies could also join together to form a syndicate as more than one syndicate might insure any one policy. Names were represented by a members' agent who, having recruited them, would generally place individuals on multiple syndicates, spreading their underwriting capacity. Names were personally liable or rewarded according to their stake in a particular syndicate.

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[8] Ingham, *Capital Divided*; Ingham, 'Commercial Capital and British Development'.
[9] Adapted from 'How the Lloyd's market works', www.Lloyds.com/aboutus/history (accessed 19 November 2017); see I. Hay Davison, *A View of the Room: Lloyd's, Change and Disclosure* (London, 1987), p. 26.
[10] See *Committee to Review the Functioning of Financial Institutions*, Appendices, XVII, Lloyd's, organisation, p. 516.
[11] Hay Davison, *View of the Room*, p. 26.
[12] See Duguid, *On the Brink,* pp. 7-8. This was a requirement of the Lloyd's Act 1982.

In the late twentieth-century, Lloyd's was beset with three sets of inter-related problems. They were, first, a relative lack of capital leading, second, to an exponential increase in membership and, third, to associated governance issues. The combined impact was felt in the Thatcher era.

From the 1960s increasingly expensive and complex insurance policies, together with extraordinary pay-outs for natural disasters, undermined the future funding base. In the mid 1960s, the market comprised approximately 2,000 working and 4,000 non-working names. There was an affinity between the two, as the latter group consisted of 'market families…landed wealth…banking families…and old money'. Lloyd's insider Adam Raphael likened these names to 'a social register of the wealthy' whose connections with Lloyd's tended to span generations.[13]

The recommendation to strengthen the capital base by increasing the membership came after an enquiry into funding led by the former Governor of the Bank of England, Lord Cromer. A necessary condition for expansion was a reduction in the wealth criterion of members, and the recruitment of foreigners and women, both previously excluded from Lloyd's.[14] Consequently, a staged sequencing saw 'non-UK or Commonwealth members' first admitted in 1968, 'UK women' accepted in 1969, and 'non-UK women' in 1970.[15] The discourse and sequencing which framed these 'concessions' was indicative of nationalist and sexist tendencies which remain visible in a twenty-first century ethnography of Lloyd's. Recruitment took membership to approximately 32,000 by the 1980s.[16] New members were external names, quite distinct from those who worked inside Lloyd's, but different too from the supremely wealthy traditional non-working names who were familiar with Lloyd's.

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[13] A. Raphael, *Ultimate Risk: The Bestselling Inside Story of the Lloyd's Catastrophe* (London, 1994), pp. 70-71.
[14] See *The Neill Report*, p. 9; J. Mantle, *For Whom the Bell Tolls* (London, 1992), pp. 32-33.
[15] *Lloyd's: Brief History and Chronology*, pp. 9-10.
[16] Raphael, *Ultimate Risk*, p. 70.

Moreover, with the means-test for membership relaxed, new recruits might be newly rich or modestly wealthy. Their motivations bring to the fore matters of identity and social engineering, as well as material advantage. For some the social cachet of *being* a Lloyd's name mattered. Others were drawn by preferential tax treatments in the context of 1970s super-tax rates, and 'the terribly clever structure of Lloyd's', which allowed people 'to generate an income' from 'otherwise economically inactive assets'.[17]

Governance was by central committee. The committee had gradually assumed powers in response to various crises or members' misdemeanours, until self-regulation was formalised by a private Act of Parliament in 1871.[18] Responses to crises in the 1970s and 1980s should therefore be viewed in the context of this long history of self-regulation, of powers incrementally vested in the committee of Lloyd's, and its relative freedom from outside scrutiny. This, together with the fact that many MPs and more peers were Lloyd's names, and arguably had vested interests in helping Lloyd's, helps explain Lloyd's ongoing assumptions that it could address its own concerns and would be granted parliamentary help to strengthen its powers, without correspondingly needing to become more accountable.[19] In particular, it explains Lloyd's resistance to scrutiny and fundamental change.

In the late 1970s, two incidents, amongst a series of scandals, suggested new powers were required. The 1978 Savonita affair took the name of a cargo vessel which was carrying a fleet of insured cars, allegedly lost at sea. To uphold Lloyd's reputation for honouring policies, a so-called 'broker baron' insisted the claim was paid, despite evidence of fraud. The incident highlighted the interests and excessive power of large brokers, their prioritising of policy-holders over paying names, and thus their conflict of interests between duties to

[17] Interview, Irene Dick.
[18] See *The Neill Report*, 'Defects in the pre-1982 framework', p. 9.
[19] Duguid, *On the Brink*, p. 16, '60 members of the House of Commons and 230 members of the House of Lords' were Lloyd's names.

policy holders and names.[20] The Savonita Affair led to questions in parliament which contributed to an announcement by its committee that Lloyd's would commission an official inquiry into self-regulation.[21] Given its history, the inquiry can be seen as an exercise by Lloyd's to strengthen its central powers to retain control of the market. It was a strategic response to circumstances; part of an evolutionary process in the longue durée, rather than denoting of radical transformation.

The second incident related to disciplinary proceedings against the broker Christopher Moran (who was subsequently found to have exposed his syndicate 'to unnecessary and unacceptable financial risk').[22] In oral testimony, barrister Irene Dick recalled being part of the Lloyd's team which sought to expel Moran using the 1871 Lloyd's Act. Expulsion was the committee's only disciplinary power and the procedure was antiquated and 'appallingly cumbersome' as two general meetings of the then 32,000 membership were required to affirm action. The process was difficult to organise and disproportionately onerous.[23]

With its objective of avoiding outside interference in the market, Lloyd's did not undertake to publish the full report of the inquiry, conducted by Sir Henry Fisher. However, having satisfactorily proved the 1871 Act unfit for purpose, it sought 'to ensure that the governing body of the market had the tools it needed to control and discipline the market'.[24] Accordingly, Lloyd's worked with Fisher in the preparation of a Lloyd's Bill which was appended to the Fisher Report in order to implement the recommendation that Lloyd's should have a new private Act of parliament.[25]

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[20] Hay Davison, *View of the Room*, p. 59.
[21] See *The Neil Report*, p.10. The 'Sasse affair' was another which contributed to the need for an inquiry.
[22] Findings of an arbitration committee headed by former chairman Paul Dixey, in Raphael, *Ultimate Risk*, p. 90.
[23] Interview, Irene Dick.
[24] Ibid.
[25] Interview, Irene Dick; see 'The Fisher Report and the Lloyd's Act 1982' in *The Neill Report*, p.10.

When the Thatcher government came to office it was confronted with two versions of Lloyd's. On the one hand, Lloyd's was the epitome of free market enterprise and a key contributor to the UK balance of payments. In 1979, the Government noted that Lloyd's premium income was over £2 billion per annum, more than £8 million 'per working day', three-quarters of which came from abroad.[26] According to Lloyd's, Thatcher looked to it 'to pay this country's housekeeping bills'.[27] On the other hand, Lloyd's was rocked by scandals which disproportionately impacted external Lloyd's names.

As a consequence of their experiences, much of the literature on Lloyd's has been journalistic and or written by aggrieved names, with a particular focus on 'scandal after scandal'.[28] Elizabeth Luessenhop and Martin Mayer, for example, collaborated on *Risky Business: An Insider's Account of the Disaster at Lloyd's of London*.[29] Adam Raphael also tells an insider's story of 'catastrophe'.[30] Meanwhile, Jonathan Mantle's journalistic account lays out issues which amounted to a 'time-bomb', threatening Lloyd's existence. He observed the death of the 'old club', and a 'leaner, more carefully regulated company'.[31] Other accounts have been written by institutional insiders. Ian Hay Davison, Lloyd's first Chief Executive, wrote of the events leading to his appointment in 1983, departure in 1985, and intervening time at Lloyd's, with a focus on cleaning up Lloyd's.[32] Andrew Duguid, who was recruited from the DTI to become Head of Regulation, placed the 1990s R&R process to save

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[26] The Under Secretary of State for Trade, Mr Reginald Eyre, Lloyd's Bill (By Order), Hansard, HC Deb, 24 March 1981, vol.1. cc 859-94. For the situation in 2014 see *London Matters: The Competitive Position of the London Insurance Market, 2014*. Its premium income was then £60bn; direct contribution to the UK economy was about £12bn i.e. 1% of UK GDP in 2015, (21% of the overall City of London's contribution).
[27] Letter Peter Miller to Prime Minister, July 1987, T604/285, TNA. This is discussed in greater detail below.
[28] G. Hodgson, *Lloyd's of London: A Reputation at Risk* (Harmondsworth, 1986).
[29] E. Luessenhop and M. Mayer, *Risky Business: An Insider's Account of the Disaster at Lloyd's of London* (New York, 1995).
[30] Raphael, *Ultimate Risk.*
[31] Mantle, *For Whom the Bell Tolls;* 'Nonfiction Book Review: For Whom the Bell Tolls: The Lessons of Lloyd's of London', *publishers weekly,* 31 May 1993.
[32] Hay Davison, *View of the Room*.

Lloyd's at the centre of his account.[33] In all cases Lloyd's has been considered in relation to various scandals and crises, very much in isolation as a stand-alone market. This chapter uses archival sources and oral histories to better understand Lloyd's within the context of the wider City and Thatcher government apparatus. In so doing, it not only sheds light on Lloyd's, but on the wider City, institutions of government, the practices of the parliamentary Conservative Party, and the Thatcher government.

Lloyd's undoubtedly received preferential treatment from the Thatcher government during the period of financial revolution. It was, for example, exempted from the 1986 Financial Services Act. My own initial findings attributed this to the outward-looking free market entrepreneurial zeal of both, coupled with a shared belief in self-regulation.[34] Clearly, self-regulation was not new for the City, but the concept was strengthened by the New Right's ideological preference for a small state and minimal intervention.[35] The collision of interests remains pertinent, but my subsequent archival research has complicated the picture. Lloyd's was a deeply traditional conservative institution, often more aligned with the parliamentary party than Thatcherism. Episodically, it was even a site of resistance to Thatcherism. The ethnographic approach and wide lens adopted in the rest of this chapter helps develop a better understanding of Lloyd's, provides fresh insights into Thatcherism, and also contributes to understandings of financial markets and political processes in general.

The overarching theme of gentlemanly capitalism which ran through Chapter Four on Cazenove remains pertinent to a study of Lloyd's for the following reasons: First, like Cazenove, Lloyd's was the epitome of elitism as it was traditionally comprised of aristocratic types whose families had been members over many generations. From the 1970s,

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[33] Duguid, *On the Brink*.

[34] E. Barrett, 'Political Bankers, Financial Politicians: Examining the Intellectual Rationale behind Thatcher's Financial Revolution, 1979-1986', unpublished MA thesis, September 2016.

[35] See Gamble, *Free Economy Strong State.*

membership was still composed of high net worth individuals. Second, although elite relationships are understood to have diminished in importance in this period, its influential network contributed to Lloyd's securing its own private Act of Parliament in 1982 and exclusion from the FSB in 1986. Further privileges then resulted from the attendant lack of scrutiny and the perception of Lloyd's as unique. This has been compounded by Lloyd's frequent omission from historical accounts of the City's revolutionary reforms. Furthermore, the sorts of gentlemanly practices (and attitudes to gender and class) discussed in the previous chapter are apparent. At Lloyd's they served not only to uphold ancient privileges, but also to inform business practices: Lloyd's represents a space where the 'market logic' of modern underwriting practices and the 'community logic' of gentlemanly practices and social relationships coalesce.[36]

The Lloyd's building: Spatial dimensions and material culture

Metaphorically speaking, the Fisher inquiry signalled that Lloyd's was trying to get its house in order. Literally, in the same year, a new building was commissioned which cemented this impression. One Lime Street was opened by the Queen in 1986, just ahead of Lloyd's tercentenary in 1988. Today an architectural scale model occupies the eleventh floor. However, in his 1979 business pitch, architect Richard Rogers eschewed plans and models and presented instead a vision of modernity.[37] As this captivated the Council of Lloyd's, the building grants important insights into the nature and culture of Lloyd's.

An 'uninterrupted trading space - known as The Room' was at the heart of the building, signifying that the marketplace was integral to Lloyd's, literally central to its

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[36] M. Smets, P. Jarzabkowski, G. Burke and P. Spee, 2015, 'Reinsurance trading in Lloyd's of London: Balancing conflicting-yet-complementary logics in practice', *Academy of Management Journal*, 58:3, pp. 932-970.

[37] Conversation with Andrew Duguid, former Head of Regulation and subsequently Director of Development at Lloyd's, 11 December 2017.

design. Service facilities were physically banished to the exterior, with lifts, toilets, plant and machinery all situated on the outside, in free standing towers. This both ensured and can be taken to signify that the business of Lloyd's was never impeded. The whole structure was purposely flexible to allow the marketplace to adapt in size. Uppers floor could be used for trading or office accommodation, and a crane was left in situation to signify organic development. The vision was for a 'highly expressive and legible structure' which gave 'an immediate sense of order and hierarchy'. The interior/exterior design feature was, seemingly without irony, conceptualised by the architects as '"Served and Servant" spaces': market insiders were essentially served by outsiders, subservient to their needs. Servant spaces maximised utility, were adaptable, and capable of 'respond[ing] to needs over time within a controlled framework…without disrupting business.'[38]

The binary concept of 'served and servant' spaces illustrates some of the tensions and contradictions of Lloyd's. Geographer, David Sibley has observed that buildings act 'as spatial configurations which contribute to the structuring of society'.[39] This is apposite as today Lloyd's remains a remarkably hierarchical institution. 'Waiters' still serve as liveried doormen and appear inordinately loyal and deferential.[40] Until recently, the Chief Executive was a woman, yet there is considerable gender bias. Professionals drafted in from the DTI and elsewhere have sought to modernise Lloyd's and make it fit for purpose, while established names continue to trade on the society's traditions, heritage and culture. In oral testimonies, an interviewee attempted to present Lloyd's as being at the vanguard of City self-regulation in the 1980s, whilst also acknowledging that a private Act of Parliament was

[38] https://www.rsh-p.com/projects/lloyds-of-london/ (accessed 31 January 2018).
[39] D. Sibley, 'Review, "Buildings and Power: Freedom and Control in the Origin of Modern Building Types" by Thomas Markus (London, 1993)', *Economic Geography,* 72:1 (1996), pp. 101-103.
[40] Visits to the Lloyd's Building, December 2017, January 2018.

an anachronism, a hangover from the nineteenth century.[41] Another, a fourth-generation working name, was remarkably familiar with Nelson and the Napoleonic Wars, but regarded the (embarrassing) 'troubles' of the 1980s as 'a long time ago', and anyway, simply a blip in the longue durée.[42]

This longue durée perspective can be explained, in part, by a personal proximity throughout adulthood with the rarities of the Nelson Collection, displayed at Lloyd's. The Collection comprises Admiral Lord Nelson's silver dinner service, ship replica and the logbook from HMS Euryalus. Other artefacts include the Lloyd's Loss Book, which has recorded all ships lost since 1774, and the Lutine Bell, which was salvaged after 1799 and is rung to commemorate ships lost and the nation's major events. Paintings are of ships and royalty; HRH Queen Elizabeth, the Queen Mother, presides over the Special Dining Room. The Lloyd's Patriotic Fund, established during the Napoleonic Wars to help the wounded, the bereaved, and to reward valour, was a source of pride to interviewees.[43] An ex-Guards working name emphasised the ongoing help for members of the armed forces, while a waiter loyally observed assistance to the injured at the Battle of Trafalgar and subsequent good works. Their 'recollections' exceeded the boundaries of personal memory and pointed to an institutional form of memorialising and a form of 'collective memory'.[44] Selective memory was also apparent, as there was no acknowledgment that Lloyd's profited from war.[45]

The extraordinary wealth of material culture and cultural history made the Council's decision to import the Adam Room to the new building more explicable, despite resistance from Rogers. Designed in 1763 by architect Robert Adam for Bowood House in Wiltshire,

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[41] Interview, Irene Dick.
[42] Interview with Lloyd's broker, anonymous basis, London, January 2018.
[43] See R. Flower & M. Wynn Jones, *Lloyd's of London: An Illustrated History* (Colchester, 1974), p. 72.
[44] See A. Whitehead, *Memory* (London, 2009), for work which draws attention to memory having 'a history'.
[45] This relates to 'the narratives of memory', Perks and Thomson, *Oral History Reader*, p. ix, p. 5.

the reconstruction of the Adam Room on the eleventh floor of the Lloyd's building helped Lloyd's trade on its heritage. It was compulsory for names to attend a membership - or 'Rota' - meeting, held in the Adam Room, before membership was bestowed. Warnings about unlimited liability came during a membership ritual which, in truth, promised prospective names new identities; those of belonging to an exclusive members' club and receiving 'the kind of recognition that only the English landed gentry can give'.[46] Equally, the Nelson Collection served to give the impression '[t]he Empire takes care of you'.[47] Wealth and prestige underscored a long history of profitable trading: 'you are reassured that three hundred years of success are proof against financial distress. No US company has such an illustrious record'.[48] Essentially, as insurance was 'a confidence business', capitalising on its material culture allowed Lloyd's to 'sell a promise'.[49]

Thomas Markus highlighted the social function of what Donald Olsen calls the 'professional building'.[50] Markus sought to capture the social meanings inherent within buildings so as to make 'social-spatial relations' explicit. In particular, attention was drawn to 'dimensions' for which a building was used. Some of the terminology Markus employed notably included: 'power-bonds', 'constrained-free', 'hierarchical pyramids', 'cooperative-competitive', 'conforming-subversive', 'traditional-innovative', 'tightly defined-loosely articulated', 'local (and spatial)-global'.[51] This is significant because, as names have testified, the Adam room played an important role in their membership procedure. Its opulence and

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[46] Luessenhop, *Risky Business*, p. 21-22.
[47] Ibid., p. 32.
[48] Ibid. p. 17.
[49] Interview, Irene Dick.
[50] R. Home, 'Review of T. Markus, "Buildings and Power: Freedom and Control in the Origin of Modern Building Types", (London, 1993)', in *Urban History*, 21:2 (1994), pp. 303-305.
[51] T. Markus, *Buildings and Power: Freedom and Control in the Origin of Modern Building Types* (London, 1993), p. 38.

historic-standing denoted established wealth and privilege.[52] It inspired awe and symbolised good fortune and, in so doing, minimised the notion of unlimited liability. Markus's 'dimensions' also capture the wider juxtaposition of the old with the new at Lloyd's. Tensions are highlighted, between tradition and modernity; tradition and innovation; competition and co-operation; the local and global. This is fitting as Lloyd's was simultaneously forward-thinking and rooted in the past; outward-looking and introverted; internationalist but protectionist.

In terms of modern business practices befitting of the building and indeed the global reach of the insurance industry, Lloyd's was slow to adopt computerised modelling and resistant to electronic trading. Instead, 'face-to-face interaction' and 'personal relationships' were regarded as 'crucial in volatile insurance markets, where trust and personal advocacy are important factors in expert judgement'. Accordingly, the Lloyd's market was

> *characterised by face-to-face communication, which is associated with long-term relationships that enhance expert judgement. Modelling applications and electronic trading have met with resistance in the past, due to perceptions that models are inaccurate for many classes of business, such as casualty, marine and terrorism, while electronic transactions marginalise the expert judgement necessary to supplement risk management models.*[53]

These 2010 findings come from a part business, part ESRC funded report on trading risk. They capture the privilege accorded to personal relationships, the unique nature of risks insured, and not a little superiority. The report compares practices at Lloyd's with those of reinsurance centres in Bermuda, which rely on electronic communications in the absence of face-to-face options. It is significant that in its 'generic findings' the report draws attention to the Lloyd's building, upholding the importance of the role of the building itself. Its 'findings

[52] See Luessenhop, *Risky Business*, p. 32.
[53] P. Jarzabkowski, M. Smets, and P. Spree, *Trading Risk: The value of relationships, models and face-to-face interaction in a global reinsurance market* (Aston University, 2010), p. 3.

show that a market built around a central physical location, such as Lloyd's, is valuable for business that requires face-to-face interaction at the point of decision-making'.[54]

At interview in 2018, a recent former chairman confirmed the persistence of old-fashioned broking practices juxtaposed with modern underwriting practices. He had encouraged insecurity, reminding Lloyd's it didn't have to survive - a notion unthinkable to the fourth-generation broker. He did so to encourage modernization, revealing ongoing sites of resistance from brokers. He also suggested there needed to be a coming together of brokers and underwriters in 'a bit of a big bang', just as in the Stock Exchange. The strategy of insecurity justified the pursuit of new markets in growth economies.[55] Support for the latter from Cameron's Conservative government confirmed activism was required to ensure that conditions for markets were properly constructed.[56] However, no government has 'got around to' addressing the 'very favourable tax breaks' enjoyed by Lloyd's remaining names. More problematically, brokers still wield extraordinary power. The top four dominate the market and resist change, for example in the way insurance policies are distributed.[57] These tensions and contradictions are given expression in the spatial dimensions of the Lloyd's building.

Cultural understandings

Just as Elizabeth Luessenhop was reassured about potential liabilities by the material culture of Lloyd's, so too the novelist Julian Barnes rejected the notion that unlimited liability impeded recruitment. His was a different, gendered perspective: being told you were liable 'down to your last cufflink' was 'a famous Lloyd's tag, part of the mystique, part of the

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[54] Ibid., Executive Summary, p. 2.
[55] It was also used to effect changes in patterns of distribution of insurance policies. Interview with John Nelson, a former chairman of Lloyd's, London, June 2018.
[56] See Mirowski, *Serious Crisis*, pp. 53-54, for the need to construct the necessary conditions for neoliberalism and free markets, and for the Foucauldian observation about the activism required to do so.
[57] Interview, John Nelson.

sexiness of theoretical loss set against the much greater sexiness of almost certain gain'.[58] Whereas Luessenhop arguably took feminine comfort from the tropes of riches and social cachet, Barnes noted the male sexual frisson of gambling to win. Culture, provenance, and understandings that 'the English set the standards of good taste and integrity in the world' all helped recruitment.[59] Meanwhile, during parliamentary debate in 1981, the excessive practice of 'mystique' at Lloyd's was observed to benefit 'people on the inside track' and disadvantage newcomers.[60]

At interview in 2018, a broker described Lloyd's as a 'fantastic place' which worked like a magic charm, particularly on North American clients. After a four-hour tour of Lloyd's, with 'a lot of personal stuff' and 'all this history', clients would 'never do business anywhere else. Because they'll be sucked into it, and they'll think it's fantastic, I'm a part of this…'[61] The value attached to English heritage and culture also saw Lloyd's benefit from the Buckingham Palace and Lloyd-Webber 'effect', as clients saw the Palace as a tourist destination and wanted 'to see a London show'. Internally, royal paintings, memorabilia of the Queen opening the Lloyd's building in 1986, and the claim to a 'long association with the British Royal family' on the Lloyd's website all reinforced cultural preferences in support of business.[62]

In the course of the interview, the importance of history and culture was remembered and celebrated, while the impact of scandals and reputational damage was forgotten or minimised. Thus, the effect of losses suffered by American and Canadian names in the 1980s and 1990s, and legal suits against Lloyd's, were contextualised, as follows:

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[58] Barnes, *Letters From London*, p. 215.
[59] Ibid.
[60] Archie Hamilton MP, Lloyd's Bill (By Order), *Hansard*, 24 March 1981.
[61] Interview with working name, anonymous basis, City of London Club, January 2018.
[62] Lloyd's, 'A Royal timeline', www.lloyds.com/about-lloyds/history/historic-heroes-of-lloyds/royal-moments (accessed 18 April 2018).

Well that's all gone. Well in Canada, they were all dentists in Canada, who gives a shit about dentists? I mean they're not insurance people. I mean they're not going to insure their houses with Lloyd's, and yes, they've got friends, and yes there was damage, but that was a long time ago, and Lloyd's now is not what it was, you know… business comes here… because we're very good at it…[63]

Equally, when asked about the continuing importance of social connections, the broker simply pointed to our surroundings. The interview was conducted, at the broker's invitation, at the City of London Club, where he came 'everyday' if he didn't 'have anything else to do for lunch.'[64] Apparently, Lloyd's dominated the City Club because, unlike the Stock Exchange, it was 'still a market that stops for lunch'. Club membership granted access to 'a lot of the senior people…to people who I wouldn't have access to unless I was a member, definitely.' However, unlike club membership being about the sort of person you wanted to do business with, as discussed in Chapter Three, for the broker it was more 'about finding out what's going on'. This was apposite as the City of London Club was founded in 1832 as 'a place of useful resort' for prominent bankers and businessmen; the Duke of Wellington and Sir Robert Peel were amongst its original members.[65] For the Lloyd's broker, it facilitated the process of knowing - about internal matters and wider City affairs.

Women's work

In respect of the role of women in the City, for the broker, Lloyd's and the City of London Club became somewhat conflated. Certainly, the Club admitted women members; 'Oh yes, they love women, we've got five [laughter]'. Female membership was the relatively recent outcome of a 'highly controversial' ballot. Members said it would be 'the end of the world', there would be resignations, they would 'have to eat salad and have flowers on the table'.

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[63] Interview with working name, anonymous basis, City of London Club, January 2018.
[64] Ibid.
[65] Clive Aslet, 'The City of London Club Restored', *Country Life*, 1980, http://www.cityoflondonclub.com/heritage.aspx (accessed 29 March 2018).

Instead the vote was overwhelmingly in favour of admitting women and there were no resignations. After all,

> *how can you be the premier lunch club in the premier financial district in the world and not have ladies? I mean, it was completely irrelevant within a year. Having said that, we don't have a lot of lady members…*

In terms of employment, it was suggested 'the [Lloyds's] market is really gender irrelevant'. The broker was more likely to employ young women than young men 'because they were so much better at interviewing'.

> *But what happens is they get married, they tend to marry within the market, so they tend to marry people who are earning quite a lot, and after their second child they don't come back. And so, there are very few women at the top, and I think that's really the reason, that's just the way it is…it's an environment where you don't have to have two bread winners in the family… And it tends to be the women who don't come back, which is pretty obvious…And on the clerical level, the lower level, there are more women, for the same reason, they need the money. It's unfortunate, but it's what it is, and it's not really going to change. So, it's just a sort of socio-economic thing, really.*

Of the senior women at Lloyd's, some were considered 'very aggressively female', 'sort of feminists', which didn't do them 'any favours' as it 'just pisses people off'. For the broker, it was all 'a bit silly really' because gender was 'not relevant really'; having worked for a female chief executive, he 'd[id]n't really notice it'. Earlier in conversation, the same female chief executive had been criticised for considering the Lloyd's Patriotic Fund 'irrelevant and…trying to bin it…So, she probably won't be around for much longer, so that's alright.' Arguably, for a multi-generational working name - a champion of the Patriotic Fund and member of the elite 'High Premium Group' of exceptionally wealthy names - the Chief Executive, rather like the lay secretariat, was not truly of Lloyd's, not properly versed in its long traditions, and not relevant in the longue durée.

Undoubtedly women had difficulty entering the conservative patriarchal space of the insurance industry. Women were not admitted as names until 1969 and not allowed to work

in the Room until 1973.[66] The first female underwriter, a Countess, was required to communicate with clients through a male agent.[67] Thereafter another, Kate Sliwinska, was hired as an 'experiment' and recalled how the underwriter Ian Postgate 'threw an underwriting stamp at me and told me I could underwrite whatever I wanted, but if I made one mistake I was out.' The first female broker, appointed in 1973, had family connections in international credit insurance. She claimed not to have broken barriers; 'they were broken down for me by the members of Lloyd's in a very charming way.'[68]

In a 2016 article, Sliwinska spoke against a 'push for gender diversity', noting the 'patronisation or tokenism that could arise'. She denied that insurance was 'a man's world'; thought 'women should be encouraged to pave their own way'; and that they should have the 'ambition to succeed in insurance' without 'an air of expectation'.[69] Here, Beatrix Campbell's observations surely apply. Like Thatcher, Sliwinska '"offered feminine endorsement to patriarchal power", by embodying a comfortable lie about the opportunities for women within the existing gender order'.[70] The notion that certain women succeeded on their own terms did nothing to further the cause of women workers generally. As Campbell has also noted, the problem was particularly acute in patriarchal spaces where women were under-represented, as it was well-connected women who were most likely to find a meaningful role.[71]

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[66] Lloyd's, *Brief History and Chronology*, p. 10.
[67] Aviva staff magazine *Concord Spring 1965* in https://www.postonline.co.uk/insurer/2477096/women-in-insurance-in-jennys-footsteps (accessed 16 April 2018).
[68] Ibid.
[69] Ibid.
[70] Saunders, 'Many Lives of Margaret Thatcher', p. 649; B. Campbell, *Iron Ladies: Why Do Women Vote Tory?* (London, 1987), in T. Bale (ed.), *Margaret Thatcher* (London, 2015), I. p.157.
[71] See Campbell, *Iron Ladies;* see also B. Harrison, 'Women in a Men's House: The Women M.P.s, 1919-45', *The Historical Journal*, 29:3 (1986), pp. 623-654.

On the management side, the barrister Irene Dick, who was appointed in 1976, described herself as 'the first professional woman' Lloyd's had ever employed. 'And in many ways the first [professional]'. By this, she meant to distinguishing herself from (male) 'insurance technicians' who worked in the business. As a lawyer 'who understood some of the structural documents inside the organisation', she was working on the business, first on disciplinary cases, subsequently on drafting the Lloyd's Bill with Fisher, and then taking the Bill from embryonic stage, through Royal Assent, to implementation.[72]

A class act

The justification for a new Lloyd's Act was that Lloyd's already had one, and that it was in 'many ways a private club'.[73] The 'old boy network' (which helped explain some of the structural difficulties facing women) was 'very effective because it was self-regulating'.

> *If you were expelled from Lloyd's, you'd probably go out and shoot yourself. It was like being expelled from the Stock Exchange…one was cut off and there was complete disgrace. And so, no-one ever was until Christopher Moran came along, and he didn't care. So that's why the whole thing had to change, because the rules didn't work anymore…*[74]

The implication was that gentlemen knew how to behave and that an expanded membership had diluted the bloodstock and standards of behaviour.

Lloyd's reinsurance broker Robert Woodthorpe Browne also had a retrospective class take on the matter. The Lloyd's market comprised 'moneyed public school' types and those from 'extremely humble' origins. This brought 'hooray Henrys' and 'barrow boys' together in an 'unholy alliance', where in the 1980s '[e]thics in some broking houses was spelled

[72] Interview, Irene Dick. Dick acted as the secretary to the Fisher working party and consulted with outside counsel to produce the draft Bill which formed the Appendix to the Fisher Report. After the Report was published, she headed the work on the Lloyd's Bill from 1980-82, taking the Bill from embryonic stage, through Royal Assent, to implementation.
[73] Interview, Irene Dick.
[74] Interview with working name, anonymous basis, City of London Club, January 2018.

ESSEX.'[75] For him, it was a matter of some dim old boys who 'went along with some totally dishonest schemes'. While this fell short of honourable behaviour, the implication was that brokers were led by the sharp ungentlemanly practices of others.

Subsequent legal proceedings brought by the Council of Lloyd's, and cases referred to the Serious Fraud Office challenge assumptions that gentlemen were neither dishonest nor responsible for their actions. Yet the Neill Inquiry into Regulatory Arrangements at Lloyd's, which reported in 1987, found 'a few' dishonest working names and 'many' others ignorant of their obligations under agency law to 'safeguard and promote by every means the interests… of Names'. 'Regulatory inadequacies' at Lloyd's were given as explanatory factors which allowed behaviour and shortcomings to go unchecked.[76]

Locating Lloyd's in the City-Bank-Treasury nexus

When Lloyd's faced serious challenges, its chairmen took comfort in their relationships with the Governor of the Bank of England. In the late 1970s, Governor Gordon Richardson would see Ian Findlay on an 'almost regular' basis.[77] Later, during the period of R&R in the 1990s, when the very survival of Lloyd's was at stake, Governor Eddie George was a source of 'paternalistic' comfort to David Rowland. From his close perspective on the Lloyd's 'task force', Andrew Duguid described Rowlands' relationship with George as 'confessional', conjuring the office of the Governor as that of high priest - the person of last resort in the City.[78] In between, Governor Robin Leigh-Pemberton was regarded by the Treasury as 'soft

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[75] Robert Woodthorpe Brown, 'The London Insurance and Reinsurance Market', Gresham Lecture, 3 February 2010, https://www.gresham.ac.uk/lectures-and-events/the-london-insurance-and-reinsurance-market (accessed 17 April 2018).
[76] *The Neill Report*, p. 1.
[77] Gordon Richardson's note for the record, 25 October 1978, 6A 395/7, BOE. Findlay was chairman of Lloyd's from 1977 until 1979.
[78] Interview, Andrew Duguid. Rowland was chairman of Lloyd's from 1993-1997. For chairmen of Lloyd's, see Duguid, *On the Brink*, p. 347.

on Lloyd's', and the Deputy Governor, George Blunden, as 'softish'.[79] Clearly bonds worked on various levels, as these connections speak to the reputation of the office of the Governor, the strength of institutional relationships and institutional cultural authority, and also to personal relationships between men. Ultimately, the Bank played an important advisory role, especially during R&R. Moreover, there was no evidence that the Bank ceded authority when supervisory responsibility for many City institutions shifted to the SIB from 1986. As discussed in Chapter Two, this was the Bank's own preference.[80]

Historians have suggested that Governor Richardson imposed the Fisher Inquiry on Ian Findlay in 1978.[81] Richardson was certainly instrumental in securing Fisher, but Findlay was 'indebted', not just for the 'original suggestion', but for the 'gentle arm twisting' which he suspected was required to cement Fisher's appointment. Findlay spoke to the Governor of 'a good number of difficult situations' having 'occurred together'. Lloyd's had 'tried to face up to all these with the available "weapons"'. He was 'sure that "Fisher" will help us to handle these more effectively in the future'.[82] Findlay's use of inverted commas around 'weapons' and 'Fisher' suggested the latter was a weapon provided by the Governor, for deployment by the committee of Lloyd's. The shared objective was to strengthen Lloyd's 'regulatory powers…over persons in the market'. The Bank was thus instrumental in protecting Lloyd's by enabling it to reform itself and concentrate more powers on the executive. Richardson personally reviewed the terms of reference of the inquiry. He also

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[79] Rachel Lomax, PS to Chancellor, to Scholar, Lloyd's, 19 June 1987, T604/285, TNA. Lomax noted that David Walker was 'at the hawkish end', in comparison with the Governor and Deputy, and indicated that Walker's views were shared with the Treasury, but not the Bank. This resonates with accounts which perceived Walker as Treasury through and through (Gordon Pepper interview). It suggests that traditionalists at the Bank were, or were certainly perceived to be, institutionally benevolent towards Lloyd's as another deeply conservative historical institution.
[80] See Chapter Two for more on the Bank's authority and decision not to oversee SROs.
[81] See Kynaston, *Club No More,* p. 577.
[82] Letter, Richardson to Findlay, 17 November 1978, 6A395/7; letter, Findlay to Richardson, 20 February 1979, 6A395/8, BOE.

ensured the balance of City interests were represented in Lloyd's affairs, by appointing Robin Broadley, Director of Baring Brothers, to the Fisher Working Party.[83]

Beyond the Bank's fundamental interest in the stability of City institutions, the balance of payments and sound money, from an operational perspective the Bank was close to Lloyd's because of exchange controls. When Geoffrey Howe announced their abolition in October 1979, the Bank acknowledged the 'special relations' that had 'long-existed' between its exchange control division and Lloyd's. Arrangements had been 'designed essentially to minimise, so far as practicable, the impact of the controls on the world-wide operations of Lloyd's'. But, equally, the Bank had 'gained' from monitoring by Lloyd's; its cooperation and advice 'has made our task so much easier over the years'.[84] Thus Lloyd's not only avoided having controls imposed upon it, due to special arrangements, but also managed those arrangements to its own satisfaction.

The Bank's City Liaison Committee (CLC) was established in the 1970s to promote and facilitate relationships across the City. Chaired by the Governor, it was a 'territorial body' which provided a forum for senior City figures from the major institutions and interest groups to meet and share information.[85] In 1981, Lloyd's chairman Sir Peter Green was invited to report on the progress of the Lloyd's Bill. Green spoke of having appeared before a parliamentary committee and having 'succeeded in persuading' them toward a certain course of action - approval of 'divestment' rather than 'divorce'. The divestment by brokers of their underwriting managing agencies was a less radical requirement than divorce, which sought to

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[83] Ibid.
[84] Letter, D. A. Dawkins, Chief of Exchange Control, to Ian Findlay, 24 October 1979, 11A174/5, BOE.
[85] See 'conceptual framework' for CLC, in note to the Governors, 3 October 1973, 'The City, Whitehall and Brussels', City Liaison Committee, 6A395/2, BOE. A territorial rather than a functional body ensured 'members [came] from the various City constituencies' and that the CLC therefore had 'weight' in the City. Conversely, functional representation 'would be insufficiently representative of the City constituencies themselves'.

end brokers' control of members' agencies.[86] The technical issue, which arose in relation to conflicts of interest, had important capacity and ownership implications. Green also reported on the need for a parliamentary motion to carry over the Lloyd's Bill into the next session of parliament.[87]

In November 1982, Lloyd's was again an agenda item. The Lloyd's Bill had received Royal Assent, was not yet enacted, and fresh scandals had emerged.[88] '[G]iven all the bad publicity', it was suggested to the Governor that Green might be granted 'the opportunity to say a few words to his City peers'. A briefing note to the Governor assumed 'background briefing' was 'superfluous' due to his 'very close personal involvement with the current problems of Lloyd's'. Speaking notes suggested saying that 'developments' at Lloyd's were 'largely unconnected' with the Act.[89] Signifying support for Lloyd's to the territorial CLC reassured the City and, arguably, stabilised Lloyd's business.

Meanwhile, the Governor 'persuaded Lloyd's to create a post of Chief Executive' and appointed Ian Hay Davison to the role. The position 'was not envisaged in the Lloyd's Act' and the measure was subsequently regarded by Sir Patrick Neill QC as an 'important intervention' when he inquired into regulatory arrangements at Lloyd's.[90] The intervention was a classic form of supervisory oversight by the Bank.

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[86] See Hay Davison, *View of the Room,* p. 48. Control of members' agencies meant brokers could control names in the members' agencies and exert influence over their underwriting choices. Equally, they could 'influence an under-writer by threatening to take their Names off his syndicates'.
[87] Note of a meeting of the CLC held on 20 July 1981, 6A395/11, BOE.
[88] In 1982 it emerged that some leading underwriters had diverted underwriting funds from their syndicates. The PCW scandal related to fund-syphoning from the PCW syndicate, run by Peter Cameron-Webb.
[89] Note on CLC Agenda, 12 November 1982, 6A395/13, BOE.
[90] *The Neill Report*, para. 3.14, p. 12.

The Lloyd's Act: A lens on cross sector relationships

British organisations seeking private legislation were required to hold a Wharncliffe meeting, which ensured members pre-approved measures going before parliament before a Bill was deposited. With that endorsement, parliament 'could almost nod [the Bill] through… they just had to look at it from the public point of view'. Given the size of the membership, the Royal Albert Hall was required for Lloyd's Wharncliffe meeting. Because the Bill received overwhelming support from the membership, it was then 'rather assumed' it would be nodded through parliament before being considered in committee. [91]

Ian Hay Davison noted the conventions surrounding private bills - that they do not 'take government time, or need government intervention' - and the contraventions in the Lloyd's case.[92] Equally, Irene Dick and Andrew Duguid both attested to significant government support for the Bill. Dick suggested the DTI was satisfied that Lloyd's was 'going to grasp the nettle, update their powers and address the issues'; at that point, 'no one had any reason to believe Lloyd's was anything other than very well run'.[93] Dick spoke of 'problems' being invisible to everyone…at the point when the Bill was going through'. It was notable that she conspicuously avoided the words 'fraud' or 'scandals'.

Admittedly, the notorious PCW case came to light between Royal Assent in July 1982 and the Bill coming into force in January 1983.[94] However, the notion that an absence of problems conferred the right to a private Bill, or that the Bill received support due to an

[91] Interview, Irene Dick; a Wharncliffe meeting is used 'to designate a standing order in Parliament which requires the directors of a company wishing to promote any private Bill for the extension of the company's powers to secure the consent of its members or shareholders, or a meeting at which this consent is sought', *Oxford English Dictionary*.
[92] Hay Davison, *View of the Room*, p. 185. 'A select committee of the House scrutinizes the Bill and provided that the measure is in the public interest, will recommend the granting of appropriate statutory powers to the petitioner'.
[93] Interview, Irene Dick.
[94] The PCW case related to serious fraud by managing underwriters on the PCW (Peter Cameron Webb) syndicate, involving embezzlement and the use of 'baby syndicates', which channelled profits to insiders. For details see Raphael, *Ultimate Risk*, p. 109; for regulatory findings see *The Neill Report*, p. 11-13.

absence of 'problems' is problematic. In the late twentieth century, financial institutions could not expect private legislation; a lack of evidence of wrong-doing is not a case for a private Act; and the assumption that wrong-doing would have deterred the Government from supporting Lloyd's belies the fact Lloyd's received on-going support when fraudulent activity was confirmed. Despite ongoing scandals in the 1980s, Lloyd's self-regulating capability was not seriously questioned. Rather, Lloyd's was exempted from the FSB which brought other self-regulatory organisations within the regulatory framework of the SIB.

As an Under-Secretary at the Companies Division of the DTI before being head-hunted by Lloyd's in 1986, Andrew Duguid was 'fairly well schooled in the traditions of the DTI'.[95] He explained

> *when a part of the economic system is recognised to be important and it needs some help, it is very much in the traditions of the DTI to step in and provide it. It sees it as its job, and it certainly did then, anyway, as promoting the commercial well-being of the City and the institutions which earn foreign exchange, which was a preoccupation of the 1980s. You don't hear that much now, but it used to be turn on the radio and they used to talk about the balance of payments is down again, a terrible thing. So, the general instinct of the Department was to help that process…*

So, the DTI's learned institutional instinct was to support Lloyd's in general and the Lloyd's Bill in particular. It was programmed to do so. Moreover, after the Bill was deposited, the DTI was required to produce a report. This amounted to a recommendation, after which 'it was in its interests' to be supportive.[96] Lloyd's was allocated a parliamentary sponsor for the Bill, initially Sir Graham Page, but when he died in post, Anthony Grant took his place:

> *he was someone who was rather given to us by government, because we were being helped by the DTI. It was in everyone's interests that the Bill went through and that the appropriate powers were achieved by Lloyd's.*[97]

[95] See *Dod's Parliamentary Companion, 1986* (Hailsham, 1986), p. 735; Interview, Andrew Duguid.
[96] Interview, Irene Dick. All private bills required a DTI report and approval.
[97] Interview, Irene Dick.

This conflation of government and state suggested that support from the DTI amounted to government support. It raises the question of whether the DTI would have been as supportive under a Labour government. However, it accords with findings in Chapter One about the Government's ability to make the Treasury in its own image and raises the question of whether or to what extent this applied to other departments. The (disturbingly) close relationship between the DTI and Lloyd's was remarked upon in a parliamentary report in 1994-95, where it was

> *questioned whether the close relationship between the DTI and the Corporation of Lloyd's is in the interests of anybody. The willingness of the DTI to defend the apparently indefensible in Lloyd's in the past year has been remarkable, with many letters from Ministers giving the appearance of having been drafted by the staff of the Corporation.*[98]

Assumptions that the Lloyd's Bill would be nodded through parliament were short-lived. Both Houses were concerned about a provision which would grant the new council of Lloyd's immunity from prosecution by names. The issue would confer 'excessive powers' on the Council and arose just as trade union immunities were being eroded. Moreover, the decision not to exempt the Stock Exchange from Restrictive Practices legislation was in part about parity with unions; eroding restrictive practices in the public sector and uphold them in the private was politically sensitive.[99] In this context, immunities for the Lloyd's council was an ongoing source of parliamentary controversy.

Meanwhile, the function and ownership issues of divestment and divorce were contested by legal counsel which represented opposing interest groups. Repeated 'terribly long debates' in front of the Bill's scrutiny committee, chaired by Labour MP Michael Meacher, made for 'one of the most fiercely fought private Bills that had been seen for a very

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[98] House of Commons Treasury and Civil Service Committee, Fifth Report, *Financial Services Regulation: Self-regulation at Lloyd's of London*, Vol. II, Minutes of Evidence and Appendices (London, May 1995), p. 15.

[99] Interview, John Nott. This was cited as a major factor in his decision-making in respect of the OFT case.

very long time'.[100] Indeed, the Bill broke 'a number of records for the time devoted to a Private Bill at various stages of its passage'.[101] Ultimately, the requirement for large brokers to divest themselves of interests in underwriting managing agencies signalled a move from dual to single capacity trading, just as the Stock Exchange was moving in the opposite direction.

For the central Lloyd's committee, as opposed to factional interest groups, the need to avoid divorce centred on the way successful brokerages had been structured. Unpicking embedded practices would have been a form of creative destruction; 'everyone felt that divorce, because it would actually have destroyed the large syndicates like Merrett, Kiln, the big, big animals in the market…simply wo[uld]n't work'.[102] This comment linked the survival of large brokerages inextricably with the survival of the market, showing what was perceived to be at stake. As Peter Green intimated to the CLC, securing parliamentary backing for divestment and avoiding divorce was thus imperative.

Meacher's insistence that divestment was written into the Bill extended its scope; required a second Wharncliffe meeting to secure membership approval; and was set against a backdrop of Lloyd's and Labour Party opposition. Accordingly, it was 'difficult to keep [the Bill] alive'. Ultimately, the danger of it being talked out towards the end of debate saw the rallying of one hundred supporters to force a closure, 'otherwise the Bill would be lost completely'.[103]

The rallying efforts of Lloyd's name and senior council member Sir Marcus Kimball MP (later Lord Kimball) have long been recognised.[104] Less appreciated is Lloyd's part in

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[100] Interview, Irene Dick. During the passage of the Bill, Meacher was trying to ensure that the Fisher Report recommendation, that brokers were divested of their interests in underwriting businesses, was enshrined in law rather than left to discretion.
[101] Lord Sandys, Lloyd's Bill, HL Deb, 16 July 1982, vol. 433 cc. 591-616.
[102] Interview, Irene Dick.
[103] Ibid.
[104] See Mantle, *For Whom the Bell Tolls*, p. 92.

systematically 'set[ting] up' and driving the 'private whipping' to ensure the closing motion, drawing on Kimball's expertise. Given his sociological knowledge of parliamentary process and longstanding interventions to prevent fox hunting bills, for Lloyd's Kimball was effective because he really 'understood about whipping'.[105] Moreover, in a 'huge [communication] effort', names were encouraged to 'go to their MPs and say you will turn up, won't you, and vote to ensure the vote stays alive'. Subsequently, in newsletters, Lloyd's 'actually listed the names of MPs who'd turned up and supported'.[106] This was an intervention in local constituency politics which drew an association between MPs' voting records and ongoing selection prospects. The effect was to maximise Conservative support.

In Parliament, concerns were raised about the propriety of MPs who were also Lloyd's names voting on issues which affected their material wealth. Mr Speaker, George Thomas, resolved uncertainties when he declared

> *it is the right of every hon. Member, whether or not he is a member of Lloyd's, to cast his vote if a closure motion is proposed and is accepted by the Chair. No financial interest can be involved in that procedure. That would be a matter of public business.*[107]

MPs with pecuniary interests in Lloyd's were thus able to support the society, while ministers were required to do so.[108] Dick recalled the Government's determination to get the Bill through, conjuring images of a cavalry-like DTI which, 'towards the end…really rode in' to save the Bill. Lloyd's, ministers and officials celebrated at a black-tie event which highlighted the effectiveness of, and value attached to networked solutions. Thus, in a sophisticated operation, Lloyd's drew on the learned instincts of the DTI to support a major

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[105] Lord Kimball obituary, The Telegraph, 28 March 2014, http://www.telegraph.co.uk/news/obituaries/10730032/Lord-Kimball-obituary.html (accessed 10 February 2018).
[106] Interview, Irene Dick.
[107] Official Report *Hansard*, 24 March 1981, vol. 1, cc. 812-59; *Hansard*, Lloyd's Bill (By Order), HC Deb, 3 February 1982, vol. 17, cc. 367-408.
[108] See CAB 128/73/5, voting on Lloyd's Bill, 24 March 1981, 'other ministers present should support the Bill'.

City institution; on the instincts of the Thatcher government for self-regulation and minimal intervention; on parliamentary Conservative Party whipping processes; and even on the machinery of local politics.

Ultimately, principled debate in the Lords about the right to legal redress under English law, and therefore the impropriety of the Council's immunity from suit by names, fell because 'Lloyd's must have its Bill'.[109] It risked being lost if amendments were made and therefore some voted 'on balance' rather than on principle.[110] When the Lloyd's Bill received Royal Assent in July 1982, a British financial institution was thus granted anachronistic privileges, at odds with late twentieth century norms and culture.

The Financial Services Act: Justifiably exempt or unjustifiable privilege?

The 1986 Financial Services Act was designed 'to introduce a coherent legal framework for the regulation of investment business' in the UK. It came in the wake of inconsistencies and shortcomings revealed by the Gower Report, as noted in Chapter Three, and widespread financial deregulation.[111] Firms conducting investment business were required to be authorised by SROs which oversaw their activities. SROs were monitored by a designated agency - the SIB, a precursor to the Financial Conduct Authority. Within the terms of the FSB, Lloyd's might have become an SRO, under the auspices of the SIB, rather like the Stock Exchange or the Law Society.

However, four days before the second reading of the FSB, the Government's intention to exempt Lloyd's from its scope came by way of an announcement of an inquiry into

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[109] Baroness Denington, *Hansard*, HL Deb, 16 July 1982, vol. 433, cc. 591-616; see also *Hansard*, Lloyd's Bill (By Order), HC Deb, 3 February 1982, vol. 17, cc. 367-408.
The case for immunity was that without it the Council risked being blackmailed by aggrieved names. Achieving immunity protected the Council when names subsequently brought legal cases against Lloyd's, because remedy was confined to actions against members' agents.
[110] Hodgson, *Lloyd's*, p. 324.
[111] See *The Neill Report*, p. 4; *Review of Investment Protection: The Gower Report*, 1984.

regulatory arrangements at Lloyd's.[112] Haste to communicate the decision meant, unusually, the inquiry was announced before a chair was appointed. Consequently, second reading of the FSB, on 14 January 1986, was characterised by debate about Lloyd's and the Government's 'transparent [exclusionary] device'.[113] The terms of reference of what became the Neill Inquiry were disclosed on 19 February. They were:

> *To consider whether the regulatory arrangements which are being established at Lloyd's under the 1982 Lloyd's Act provide protection for the interests of members of Lloyd's comparable to that proposed for investors under the Financial Services Bill.*[114]

Essentially then, the Neill Inquiry was established by the Government, as a means to examine regulation at Lloyd's, so as to justify government exemption of Lloyd's from the FSB. The fact that protections for Lloyd's members should be measured against the standards of the FSB confirmed its relevance to Lloyd's.

Moreover, the decision was taken when the Roskill Fraud Trials Committee was due to report officially and had already submitted its Report.[115] In this context, the Government was politically sensitive about its record on tackling financial crime and to Opposition charges that vested interests had secured Lloyd's FSB exemption. The wisdom of Lloyd's name Michael Howard piloting the FSB through parliament was discussed at the highest

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[112] Leon Brittan, *Hansard*, Financial Services Bill, Second Reading, HC Deb, 14 January 1986, vol. 89, cc. 938-1024: 'on Friday I had announced that I had decided to set up an inquiry into the regulatory arrangements set up at Lloyds under the Lloyd's Act 1982'.
[113] See commentary on the Government's 'transparent device' for excluding Lloyd's from the FSB: John Smith, *Hansard*, Financial Services Bill, Second Reading, HC Deb, 14 January 1986, vol. 89, cc. 938-1024.
[114] *The Neill Report*, para 2.1, p. 4.
[115] The Roskill Committee was established in 1983 in response to public concern about financial wrongdoing and the prosecution of financial fraud. See https://www.sfo.gov.uk/publications/corporate-information/sfo-historical-background-powers/ (accessed 12 February 2018). The Report was given to the Lord Chancellor, Home Secretary and Prime Minister on 16 December 1985, see MTFW, PREM19/1717 f171, 17 December 1985, 'Cabinet Office briefing for MT ('Fraud') *[ministerial meeting tomorrow] [released 2014]*', http://www.margaretthatcher.org/document/137055 (accessed 1 June 2016).

levels, with Thatcher personally 'unhappy about the politics' of him doing so.[116] Careful consideration was given to how the 'best presentation of the Government's stance' on Roskill and the FSB might be 'coordinated', in light of these sensitivities.[117]

Still, Lloyd's was exempted from a Bill designed to regulate investment business. Its part in engineering exclusion is opaque. Certainly, a discourse of Lloyd's being at the vanguard of self-regulation was employed, based on Fisher having put regulation at the heart of the Lloyd's Act.[118] According to this argument, there was no case for bringing Lloyd's within the scope of legislation. A more 'highly resistant' line was also taken. Andrew Duguid, then at the DTI, recalled Lloyd's 'devoted quite a lot of time trying to persuade government…and what happened is that the Government did a sort of deal', by establishing the Neill Inquiry. The question of regulatory scrutiny 'couldn't just be dismissed' given the number of scandals at Lloyd's.[119]

Michael Howard insisted Lloyd's peculiar structure and the nature of its business justified the Government's actions. He emphasised the difference between the insurance activity at Lloyd's and investment activity by other institutions.[120] However, as Labour MP Brian Gould noted, Lloyd's had to be specifically excluded. Because its investment business fell squarely within clause 40, the Bill required amendment.[121] Equally, the Neill Report subsequently confirmed:

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[116] MTFW, PREM19/1717 f6, 31 January 1986, 'No. 10 minute for MT (Michael Howard's role in relation to the Financial Services Bill) *[MT: "whatever the legalities, I am becoming increasingly unhappy about the politics"] [released 2014]*', http://www.margaretthatcher.org/document/144752 (accessed 1 July 2016).
[117] See 'Presentation', MTFW, PREM19/1717 f171, 17 December 1985, 'Cabinet Office briefing for MT ('Fraud') *[ministerial meeting tomorrow] [released 2014]*', http://www.margaretthatcher.org/document/137055 (accessed 1 June 2016).
[118] Interview, Irene Dick: The Fisher Report had been 'one of the first documents to begin to think about regulation in the City'; as the 1982 Act put Lloyd's at the forefront of regulation, it did not need to come within the remit of the FSB.
[119] Interview, Andrew Duguid.
[120] See Financial Services Bill, Standing Committee E, session 4 February 1986.
[121] Ibid.

Our terms of reference were drawn up against the background that the Government had decided to exempt Lloyd's from the provisions of the pending Financial Services Bill…Many of the activities carried out at Lloyd's would otherwise fall within the definition of investment business in Schedule 1 to the Act and thus be subject to the regulatory provisions it contains…[122]

On-going scandals undermined the argument that Lloyd's was at the vanguard of self-regulation in the City. As the Opposition insisted, the 1982 Act had failed to stem abuses. Questions were raised about the Council's appetite to exercise new regulatory powers, while preference was attributed to the vested interests of Tory MPs and peers.[123] Lloyd's undoubtedly received unique treatment. Classed as an anomaly, it remained under the benign oversight of the DTI, spared more detailed scrutiny by the SIB. Representing Lloyd's as distinct from the rest of the City was a political choice by the Government. Moreover, the discourse of difference had lasting effect as, having avoided mainstream regulatory oversight, Lloyd's frequently escapes scrutiny in historical accounts of the financial revolution and is instead considered in isolation.

Back in 1979, Fisher's appointment to consider self-regulation at Lloyd's had done more than pave the way for the Lloyd's Act. It also effectively removed Lloyd's from the scrutiny of the Wilson Committee on the Functioning of Financial Institutions. Set up at the end of 1978 under the chairmanship of former prime minister Sir Harold Wilson, its terms were:

To enquire into the role and functioning… of financial institutions …[and] to consider what changes are required in the existing arrangements for the supervision of these institutions.[124]

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[122] *The Neill Report*, Terms of Reference, para 2.2, p. 4.
[123] See *Hansard*, Financial Services Bill, Second Reading, HC Deb, 14 January 1986, vol. 89, cc. 938-1024.
[124] *Committee to Review the Functioning of Financial Institutions: Report*, Chairman: The Rt. Hon. Sir Harold Wilson (London, June 1980), Cmnd. 7937, p. i.

Therefore, the Committee 'read with interest of Lloyd's decision to set up a working party to examine its own self-regulatory powers in light of the Savonita affair and the responses to it'. As the Secretary informed Lloyd's, this 'clearly touche[d] on areas which c[a]me within [its] terms of reference'.[125]

Despite attempts to engage with Lloyd's and requests to be kept apprised, the Wilson committee was held at arm's length. In June 1979, secretary Christopher Kelly wrote to a fellow committee member, 'I am suggesting that reality requires us to avoid looking into Lloyd's in any detail, though I know you believe it to be one of the institutions in need of an overhaul'.[126] Lloyd's thus avoided the scrutiny to which other City institutions were subjected.[127] Coming right at the beginning of the first Thatcher administration, the 'reality' appeared irrespective of governing party. But it was echoed in the Thatcher government's use of the Neill Inquiry to exclude Lloyd's from the FSB. In both instances, Lloyd's was privileged above any other financial institution. In the case of the Fisher Working Party, Lloyd's had the personal backing of the Governor; with Neill, the Prime Minister approved the measure. Either way, Lloyd's was protected by the very top of the political establishment.

Meanwhile, Lloyd's politically astute response to the FSB and Neill Inquiry was to make new professional appointments to the Council or secretariat, often by recruiting from within government. When Hay Davison resigned as Chief Executive in 1985, he was replaced by Alan Lord, a former Treasury official and member of the Court of the Bank of England. Appointment to the role was 'in the gift of government' and the subject of discussion between the Bank and Number 10.[128] When Lord subsequently recruited Andrew Duguid

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[125] C. W. Kelly, Secretary, Committee to Review the Functioning of Financial Services, to C. A. Thomas, Lloyd's, 15 December 1978, 'Committee on Financial Institutions, The Supervision of Lloyd's', F1/84, TNA.
[126] Letter, C. W. Kelly to Hugh Stephenson, 28 June 1979, F1/84, TNA.
[127] See letter, C. A. Thomas to C. W. Kelly, 27 December 1978, FI/84, TNA.
[128] Interview, Andrew Duguid; letter, D. A. Dawkins to A. Turnbull, in MTFW, PREM19/1601 f36, 25 January 1985, 'Economy: Bank of England letter to Turnbull ("Lunch

from the DTI in 1986 to act as Head of Regulatory Services at Lloyd's, Duguid understood his appointment was 'primarily…to respond to Neill when we got the Neill Report'. There was a strategy of 'hiring respected people from government' which Lloyd's thought 'looked good', particularly while Neill was sitting.[129] Other significant appointments included Bob Hewes from the DTI (and previously the Inland Revenue), who replaced Duguid as Head of Regulation. Hewes later became Finance Director and played a vital role in the reconstruction of Lloyd's in the 1990s.[130] From the Treasury, Rosalind Gilmour and Peter Lane were appointed.[131] The significance of Gilmour's appointment should be considered against the evidence, in Chapter One, of her role in resolving the Government's response to the OFT case in 1979. She was a problem solver. Equally important was Philip Brown's recruitment from the DTI. David Walker regarded him as a key ally in reaching the 1983 Goodison-Parkinson Accord, as discussed in Chapter Two.[132]

Others spanned Lloyd's and government on an advisory basis. They included Alan Hardcastle, chief accountancy adviser at the Treasury before becoming a nominated member of Lloyd's and subsequently the chairman of the Lloyd's Regulatory Board.[133] Meanwhile, ex-Treasury official and Lloyd's name Sir Adam Ridley became deputy chair of the Association of Lloyd's Names in the 1990s. Naturally, he was an effective Treasury lobbyist during R&R. Ultimately, Lloyd's recruitment practices were recognised by the Neill Report

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at Lloyd's") *["Lloyd's will need a Chief Executive and Deputy Chairman who is independent of the market"] [released Dec 2014]*', https://www.margaretthatcher.org/document/151839 (accessed 9 July 2018).

[129] Interview, Andrew Duguid.

[130] Ibid; Duguid, *On the Brink*, p. 190.

[131] Duguid, *On the Brink,* p. 159, p. 141; Sudden departure at Lloyd's, *The Independent*, 25 September 1995, http://www.independent.co.uk/news/business/sudden-departure-at-lloyds-1602982.html (accessed 15 February 2018).

[132] Interview, Sir David Walker; see Chapter Two.

[133] Obituaries, Sir Alan Hardcastle, *The Telegraph*, 5 April 2002, http://www.telegraph.co.uk/news/obituaries/1389838/Sir-Alan-Hardcastle.html (accessed 25 April 2018).

as evidence ‘Lloyd’s was headed in the right direction’.[134] Exemption from the Financial Services Act was thus warranted by Lloyd’s simply having ‘taken steps to improve the quantity and quality of staff resources available to them’. Its senior appointments were ‘indicative of a clear and far-sighted policy of ensuring that the Corporation is well run and properly supervised’.[135] Clearly, the recruitment of former ministers and high officials was a deliberate strategy to improve Lloyd’s reputation and limit scrutiny. The strategy safeguarded self-regulation and shielded Lloyd’s from City-wide reforms. Ultimately recruitment practices contributed to the rescue and reconstruction of Lloyd’s, as discussed below.

Treasury relations: Taxing times

Geoffrey Ingham conceptualised the City-Bank-Treasury relationship as a ‘core institutional nexus of British society and the means by which the City’s hegemonic position has been reproduced.’[136] The traditional reporting structures surrounding Lloyd’s complicate this conceptualisation in practice (if not in theory), as the DTI was ultimately responsible for the supervision of Lloyd’s (and its Secretary of State had to attest to Lloyd’s solvency before Parliament on an annual basis). The established channels of communication were between Lloyd’s and the DTI, and Lloyd’s and the Bank. This section shows that Lloyd’s had no direct formal channel of communication with the Treasury until 1983, but that it approached the Treasury to foster ‘discussion’ and establish a ‘mutually advantageous…liaison’.[137] No doubt, this was, in part, because the Treasury was the undisputed senior department of government, as discussed in Chapter One. But the motivation was also tax related.

[134] Interview, Andrew Duguid.
[135] *The Neill Report*, para. 12.19, p. 81.
[136] Ingham, *Capital Divided*; see also Williamson, ‘The City of London and government in modern Britain’, p. 7.
[137] Letter from K. S. Goddard, Lloyd’s, to M. Donnelly, PS to the Hon Nicholas Ridley, Treasury, 16 December 1982, T450/349, TNA.

Internal documents between the Treasury's Home Finance Group Assistant Secretary Alastair Pirie, and Under Secretary Nick Monck, show Lloyd's approach 'seem[ed] to result from the FST's lunch at Lloyd's a few weeks ago'.[138] Nicholas Ridley was then Financial Secretary to the Treasury. Because the Treasury 'share[d] the concern of the Bank and the Department of Trade about the recent scandals' (and thought Lloyd's had failed to address some underlying 'structural problems'), Pirie recommended they 'take this offer up'.[139] He had already received approval 'to make use of the Treasury interest in the balance of payments as an excuse for doing so'.[140]

It was understood that the DTI would not want the Treasury to get involved in 'the detail' of ongoing ministerial and official level discussions with Lloyd's about 'measures to put their house in order'. It was also noted the DTI would not stand in the Treasury's way.[141] The observation was a measure of confidence by the senior department to follow and expand its interests, as discussed in Chapter One. From a DTI perspective, the Treasury was regarded 'as the senior department' and was deferred to generally.[142] As for the Bank, Pirie thought it 'worth consulting…to compare notes' before any meeting took place. But he saw 'no need to clear the idea of a meeting with them. (They have never asked anyone's permission to talk to Lloyd's themselves)'.[143] This pointed to a jockeying of position by two autonomous institutions and a disinclination by the Treasury to use the Bank as the usual conduit for City relations. However, the recommendation to consult and compare notes with the Bank pointed,

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[138] Confidential note from A. C. Pirie to N. Monck, 5 January 1983, T450/349; letter, Goddard to Donnelly, 16 December 1982, referenced in note for the record, meeting on Lloyd's, 18 January 1983, T450/349, TNA.
[139] Memo, R. M. Perfect to Mr. Pirie, 18 January 1983, T450/349, TNA: 'Lloyd's have not reacted to a series of structural changes in their own organisation'.
[140] This came from David Peretz, Assistant Secretary at the Treasury's Balance of Payments Division; confidential note from A. C. Pirie to N. Monck, 5 January 1983, T450/349, TNA.
[141] Confidential note from A. C. Pirie to N. Monck, 5 January 1983, T450/349, TNA.
[142] Interview, Andrew Duguid.
[143] Confidential note from A. C. Pirie to N. Monck, 5 January 1983, T450/349, TNA.

above all, to the shared interests, embedded relationships and mutually derived solutions of the Bank and Treasury, evident throughout this thesis.

All that remained was to determine 'the level' at which Treasury discussions with Lloyd's should take place. Pirie offered himself as a 'relatively low-key contact', to ensure official lines of responsibility were not confused, simultaneously demonstrating his authority to act. At the subsequent meeting with Lloyd's, Pirie (in the chair) confirmed '[t]he Treasury had not approached Lloyd's before…But the establishment of this channel of communication was a welcome development'.[144] Notes of the meeting were widely circulated and included the Chancellor and Financial Secretary. Subsequently the Treasury prepared briefing notes for Thatcher for her dealings with Lloyd's.[145] Most importantly, from Lloyd's perspective, it was granted access to the Chancellor.

Lloyd's approach to the Treasury was almost certainly driven primarily by tax considerations in the context of the Thatcher government's tax reforms.[146] It shows that Lloyd's was not wholly preoccupied with scandals and regulation in this period. It was also preoccupied with money and sought to resist the tax authorities' challenge to the practice known as 'Reinsurance to Close' (RITC), which allowed Lloyd's names to defer tax for three-years. The practice was historic, based on the timings of ships' voyages and the period required to assess whether a risk was safe. For the Chancellor and the Inland Revenue, the archaic practice deprived the Exchequer of receipts. Money held on account against potential losses deferred and, in inflationary times, eroded individuals' tax liabilities. However,

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[144] Note for the record, Lloyd's, note of a meeting held in Mr Pirie's room on 18 January 1983, authored by HF1 Division, 21 January 1983, T450/349, TNA.

[145] See I. R. Spence to PS/Financial Secretary, 20 July 1987, Lloyd's: Peter Miller's lunch invitation to the Prime Minister, 'we will of course ensure that the Prime Minister gets briefing', T604/285, TNA.

[146] The approach was in connection with proposed reforms to the three-year accounting period. However, it should be noted that reductions in the top rate of tax from 83 per cent to 60 per cent, and the associated reduction in tax on investment income, meant a major incentive to becoming a Lloyd's name receded in an environment of lower direct taxation.

Lloyd's argued the conventional three-year accounting period was the optimum time to provision for claims.

Rather like John Redwood described the Stock Exchange as feudal, as discussed in Chapter Four, so in 1982 Sir Nicholas Bonsor MP had described Lloyd's as 'a feudal barony'. Certainly, its skillful defense of tax privileges can be seen as an attempt to protect feudal networks, just as other parts of the City were becoming more open and accountable. Yet the matter was complicated because some syndicates made losses, underscoring the need for adequate provisioning.[147] Tensions between these positions were reflected by those between low tax traditional conservatism on the one hand, and the Thatcher government's tax reforms on the other - themselves part of an ideological agenda for the very 'survival of capitalism'.[148]

Ironically, by 1987 Lawson's attempts to reform the tax system were resisted by Lloyd's, using the new channel of communication with the Treasury. Clearly, it had opened a space to negotiate, contest and systematically defer proposed reforms. While Lawson pushed his agenda and found it 'unsatisfactory in principle that people could write their own tax bills', the Government nevertheless saw the need to 'appease' Lloyd's.[149]

The need to conciliate rested both on Lloyd's power as an economic interest group and the powerful interests which represented Lloyd's. Just as they had in 1981-1982, in 1987 the 'hunting brigade' in the Commons and Lords promoted Lloyd's interests. Under the heading 'Lloyds and MPs', the Inland Revenue reported to the Financial Secretary that 'Lloyd's have set up a Parliamentary Liaison Committee which will be meeting with Marcus

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[147] Lloyd's 'provisioned' for claims by holding premium capital centrally, rather than paying it out to names where it would immediately trigger an income tax bill. The Treasury and Inland Revenue challenged the three-year accounting period and the amount of reserves held - as both deprived the Exchequer of receipts.
[148] Interview, Sir Adam Ridley: in the context of the 1970s, the New Right were fighting for the 'survival of capitalism' and tax was a key component of the struggle.
[149] See note of a meeting in the Chancellor's room, HMT, 27 February 1987, Lloyd's Reinsurance to Close, T604/284, TNA.

Kimball'.[150] The Chairman and Chief Executive of Lloyd's were even invited to address a meeting of the backbench Finance Committee. The Treasury was able only to look on and gather the names of MPs in attendance.[151] Subsequently, the Chancellor was prepared to meet with Miller and (separately) Lord Kimball.[152] With no blank slate for its agenda, the Government balanced ideological preferences - to reform the tax system and break up monopolistic power - with practical considerations. Pragmatically, it negotiated with Lloyd's, granted 'concessions', and ultimately withdrew proposals to reform RITC from the 1987 Budget and Finance Bill.[153] The measure of Lloyd's success in upholding tax advantages can be seen from the stipulation that its press release be measured as opposed to 'triumphal in tone'. In particular, it should not to be 'implied that Ministers - or even the Revenue - had been seen off'.[154]

Sir Peter Miller complied with this warning but was unable to resist a triumphant handwritten letter to '[t]he national leader we so much admire', inviting her to dine in the 'marvellous Adam Room'. He recalled:

> *During my early days as Chairman you paid Lloyd's the honour of visiting us in the old Lloyd's Building. I remember so clearly the mandate which you gave me and to my senior colleagues over the luncheon table. Your words (as near as I can remember them) were: "I look to you, Chairman, to make Lloyd's healthy since I look to Lloyd's to pay this country's housekeeping bills"; and you went on trenchantly to describe what you expected of us.*

Now, Thatcher's 'mandate' was 'fulfilled', as

[150] I. R. Spence, Inland Revenue, to Financial Secretary, 16 March 1988, T604/360, TNA.
[151] P. D. P. Barnes, Private Secretary, to PS/ Financial Secretary, 'Lloyd's interested MPs', 2 July 1987, T604/285, TNA.
[152] A. W. Kuczys, for Chancellor, to T. J. Painter, Inland Revenue, 3 July 1987, T604/285, TNA.
[153] See Inland Revenue Budget confidential Lloyd's Press Release to Financial Secretary, 4 March 1988, T604/360, TNA: 'it looks like a major concession to Lloyd's….if this causes the Press to lose interest…it will achieve the objective of getting a low-key presentation of the Lloyd's package'.
[154] T. J. Painter, Inland Revenue, to Chancellor, Lloyd's RIC, 3 July1987, T604/285, TNA.

> *the membership of this Society has doubled; the premium income capacity of this Society has trebled and the contribution of this Society to the balance of payments has quadrupled.* [155]

In the wake of major concessions from the Chancellor, the triumphant letter entirely glossed over a period of fraud and disarray. It shows how Lloyd's traded on elite tradition and invisible earnings contributions, while demonstrating top level political access.

The tax negotiations which precipitated Miller's letter also reveal the close relationship between the Inland Revenue and the Treasury. In the mid to late 1980s they appeared to work as one in respect of Lloyd's, with the Revenue providing regular briefing notes to the Treasury and advising on strategy. It is generally understood that the Inland Revenue was independent of the Treasury and these findings raise questions about capture. A cautionary note on the Treasury files on Lloyd's suggested Conservative backbenchers were sensitive about the degree of closeness and urged care: 'Frankly I would expect a pretty rough ride from the backbenches if it was thought that Ministers were being led too far by the Revenue, a constant accusation in every tax matter as we well know'.[156] This was a timely warning, given the established relationship between Lloyd's and backbench lobbyists. Following a meeting with Peter Miller, the influential lobbyist for Lloyd's Sir William Clark MP wrote to the Chancellor to insist 'the Revenue do not interfere with the well established practice of reinsurance as far as insurance brokers are concerned'.[157] Clark represented traditional Tory values particularly, those of 'pay[ing] less tax'.[158] His stance demonstrated some of the friction between Tory and New Right ideals.

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[155] Handwritten letter, Peter Miller to Prime Minister, July 1987, T604/285, TNA.
[156] A. Ross Goobey to Economic Secretary, 30 April 1987, T575/39, TNA.
[157] Sir William Clark MP to Nigel Lawson, 19 February 1987, T604/284, TNA.
[158] 'Lord Clark of Kempson: The Conservative MP respected for his tax and financial expertise', Obituary, *The Independent*, 28 October 2004. Clark was chairman of the Conservative backbench Finance Committee, a former Party joint treasurer and joint deputy chairman, and had chaired the Select Committee on the Wealth Tax.

Balancing domestic and international considerations

Relations between Lloyd's and the Treasury were complicated by international considerations. On the domestic front, the Treasury tried to resist lobbing by and for Lloyd's. It resorted to concessions and was frustrated in its attempts to implement its tax agenda. Yet simultaneously, the Treasury was heavily implicated in attempts to protect Lloyd's business in North America. Proposed changes to its tax status there were designed to level the playing field for American insurers and open Lloyd's business to competition.

The Treasury and Inland Revenue worked to protect British interests with Gus O'Donnell, First Secretary of the Economics Division at the British Embassy in Washington. Lloyd's Chief Executive Alan Lord was part of a Lloyd's team sent to Washington. As an ex-Treasury official, he was well-placed to rally support. On his request, the Embassy secured meetings with lead senators and House representatives. Then 'senior level' UK Treasury support was forthcoming to secure the 'Lloyds/Embassy team' an audience with the Assistant Secretary for Tax Policy at the US Treasury.[159] In the last resort, the Chancellor interceded personally with a successful appeal to the US Secretary of State James Baker.[160] As a result, the US Treasury opposed legislation which was designed to end 'the closing agreement…between the Internal Revenue Service and the underwriters at Lloyd's'. Congress 'removed this provision' from the Finance Bill, although the US taxation of Lloyd's would be subject to review.[161]

The episode illustrates the strong links between the Government and Lloyd's when tested on matters of national interest. Indeed, the national interest was perceived to be synonymous with the interests of Lloyd's. The Chancellor had considered the 'scope for

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[159] I. R. Spence, Inland Revenue, to Mr. McGivern and Financial Secretary, 2 November 1987, T604/285, TNA.
[160] Letter from Nigel Lawson to the Honourable James A. Baker III, the Secretary of the [US] Treasury, 16 November 1986, T604/285, TNA.
[161] James A. Baker to Nigel Lawson, 25 January 1988, T604/360, TNA.

threats of tit for tat action' on US companies in the UK and had urged direct action by Lloyds. His 'trust that Lloyd's [we]re busily mobilizing their many US members and getting them to lobby their congressmen' was an explicit acknowledgment (and encouragement abroad) of Lloyd's lobbying tactics. Implicitly, as Lawson would surely have reflected, the effectiveness of similar tactics in the domestic arena was confirmed.[162] Despite Thatcherism's framework of free market competition, the incident shows the Government was highly protectionist where Lloyd's business was threatened. Pragmatically, ideology was secondary to the practical protection of the British balance of payments, British tax receipts and British business, although in promoting these, the Government was arguably still making an ideological choice.

The Task Force: Tackling the Lloyd's problem

Market practices as well as regulatory shortcomings contributed to scandals, because of the way risk was spread. High-risk underwriting, re-insurance practices, dubious strategies for recruiting names, and regulatory deficiencies were all inextricably combined. First, at the end of the accounting year, each syndicate's liabilities were reinsured by a new policy (taken out by the same or another Lloyd's syndicate), the practice known as RITC.[163] In-house re-insurance was understandable given the specialist nature of insurance, but it meant liabilities remained with Lloyd's names instead of being offset outside the organisation.

Second, Lloyd's underwrote 'long tail' risks, that is, risks 'where claims may be made many years after the period of insurance has expired'.[164] In particular, problems arose from

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[162] J. M. G. Taylor on behalf of the Chancellor of the Exchequer to PS/Financial Secretary, 28 October 1987, T604/285, TNA.

[163] See Hay Davison, *View of the Room*, p. 36: RITC involved the purchase of a new policy to 'indemnify the fund against all future claims…The system is designed principally to defer the distribution of profit until the pattern of claims settlement can be seen with reasonable clarity'.

[164] https://www.lloyds.com/common/help/glossary?Letter=L (accessed 20 November 2017).

policies written from the 1940s in connection with asbestos products, which were later subject to workers' compensation claims for asbestosis; and for industrial pollution, which subsequently attracted employers' liability insurance.[165] By the 1980s and 1990s, long-tail insurance policies generated losses which were unquantifiable in magnitude.

Third, this was connected to charges of recruitment to 'dilute' the effect of losses on established names. Allegedly, newcomers were placed on syndicates with long tail liabilities, while established names divested themselves of liabilities in the process of RITC. Moreover, the annual pattern of re-insurance, as part of standard RITC practices, included re-insuring for excess of loss (in what was known as the London Excess of Loss Market, or LMX). This practice led to embedded 'spirals' of re-insurance. Essentially, the same policies were re-insured multiple times, so names on affected syndicates were liable for multiple layers of excess of loss claims.[166] Unable to attract reinsurance, these syndicates remained 'open [accounting] years' and thus made ongoing 'capital calls' on their names.

Personal hardship cases and litigation, from American names in particular, brought reputational damage. Disrepute was exacerbated by the Council's immunity from prosecution by names, under the 1982 Act, and the fact legal action was thus confined to cases brought against Lloyd's agents. Crucially, for the society of Lloyd's, a systematic policy of 'recruit to dilute' was not upheld in court, and only individual brokers were found to be incompetent.[167] However, the capital base was eroded by unlimited capital calls on some names, the associated difficulty in recruiting new names, and, co-incidentally, a series of claims in relation to natural disasters.[168]

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[165] See Luessenhop, *Risky Business*, pp. 163-191.
[166] For details of the London Excess of Loss Market, LMX, see Raphael, *Ultimate Risk*, p. 220.
[167] See K. Griffiths and C. Milmo, 'Names lose court fight against Lloyd's "fraud"', *The Independent*, 4 November 2000.
[168] Greater detail on these issues can be found in Raphael, *Ultimate Risk*.

The threat to Lloyd’s survival required intervention by John Major’s Conservative government, with its slim working majority. However, proposals which amounted to a taxpayer bailout for Lloyd’s proved politically inexpedient and were defeated in parliament. This was unsurprising, given Opposition allegations that support was motivated by the vested interests of MPs and peers who were Lloyd’s names. Some, it was reported, were on open-year syndicates, risked bankruptcy and therefore deselection, so threatening the Government’s majority.[169] Under parliamentary privilege, Labour MP Peter Hain suggested Conservative MPs exposed to loss-making syndicates had been quietly removed from them. He demanded

> *an inquiry into the way that a member of your cabinet, Lord Wakeham (Leader of the House of Lords), and other leading Conservatives in 1988 were taken off selected Lloyd's syndicates which later suffered three years of catastrophic losses*.[170]

Unable to effect an overt rescue, the Major government reverted to classical (Thatcherite) governance measures. It worked closely with Lloyd’s and deployed a network of trusted individuals to help reach a settlement with names, clean up the institution, and revise Lloyd’s funding model.

Lloyd’s launched R&R in the 1990s with the same objective; to reach financial settlement with litigious names and hardship cases, and to secure a funding basis commensurate with the needs of twenty-first century underwriting. Adam Ridley, described by one Lloyd’s insider as ‘a very clever Treasury knight’, was a cross-sector representative who helped to deliver R&R by drawing on his professional experience within government

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[169] See Walter Ellis and Helen Davidson, ‘The Stranded Gentry’, *The Sunday Times*, 6 June 1993; Patricia Wynn Davies, John Moore, Steve Brogan, ‘Lloyd's name MPs “not bankrupt”: Conservatives facing financial losses deny they will forfeit parliamentary seats’, *The Independent*, 1 June 1993; Paul Routledge, Political Correspondent, ‘Tory losses at Lloyd's revealed: Fears that some MPs could be made bankrupt - Potential cash calls kept secret from Parliament - Major's majority under threat’, *The Independent*, 20 March 1994.
[170] Colin Brown and Patricia Wynn Davies, ‘Hain hissed by Tory MPs over Lloyd's claims’, *The Independent*, 14 July 1994.

and his credibility at Lloyd's as a name.[171] Ridley, by then working as a director of Hambros Bank, acted as deputy chair of the Association of Lloyd's Members to help names reach a financial settlement with Lloyd's. His contacts and understanding of the Treasury apparatus were material to a satisfactory outcome which ensured names could secure a legal transfer of outstanding liabilities and, in so doing, achieve 'finality'.[172]

Meanwhile, businessman Peter Middleton 'came under pressure from the British government to become Chief Executive of Lloyd's of London and rescue it from collapse' in 1992. When he initially declined, 'they got really heavy and pointed out that if Lloyd's of London went under, 60,000 jobs in the insurance industry would disappear.'[173] Representations to him were made by the Chancellor, the Governor, and also by leading business figures.[174] This was political intervention to place an effective operator at the heart of Lloyd's, but it also drew on business support, pointing to the strength of cross-sector relationships, like those demonstrated in Chapter Four. In terms of intervention, action was barely discernible but highly effective.

For Middleton, bad press and court judgments against Lloyd's made it easier to proceed with a three-step clean-up operation. A somewhat similar approach was subsequently adopted by Lloyd's chairman John Nelson, who found leverage in telling the market it 'didn't have to survive'.[175] Middleton's first step was to substantially reduce the number of underwriters by preventing names from joining syndicates and therefore 'starving them out'. Second, 'a line in the sand' was drawn at the end of the 1992 financial year. Historic debt

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[171] Interview with working name, anonymous basis, City of London Club, January 2018.
[172] See Duguid, *On the Brink*, p. 311. Finality was an important means of drawing a line under debts by confirming where the debt lay.
[173] 'Peter Middleton, former CEO of Lloyds of London, shares his business insights from his time at Lloyds speaking at the 2013 Renaissance Alliance Annual Meeting in Newport, RI.', 9 Jan 2014, Uploaded by Renaissance Alliance, Lessons from Lloyds of London - *YouTube* (accessed 20 November 2017).
[174] Duguid, *On the Brink,* p. 104.
[175] Interview, John Nelson. Nelson was chairman of Lloyd's from 2011 to 2017.

from before that date was loaded on a 'debt vehicle' called Equitas. It would deal with historic cases, funded by the broker and underwriting market. Third, corporate capital with limited liability was granted entry to the market to fund future business (alongside remaining names). Middleton's 'rescue package' for Lloyd's, was recountered to an American audience as an after-dinner speech.[176] As such, it glossed over difficulties facing the 'Task Force' - the team charged with the reconstruction of Lloyd's from 1992 and convened under the well-regarded leadership of David Rowland (Lloyd's chairman from 1993-1997).[177]

During our tour of the Lloyd's building, Andrew Duguid and a waiter with thirty-two years' service were reunited. They recollected the intense period of R&R and the spirit of adversity it engendered. 'People would say, "oh you were there for R&R, it must have been terrible"'. Actually, both agreed, they had enjoyed the busy-ness, the mission of 'saving the society', and the spirit of solidarity. Their reminiscences were akin to the adversity faced during war time, when stakes are high, but a job was well done. Yet, as discussed in the Introduction, responses to R&R appeared to be gendered. Irene Dick's recollections were altogether different and produced a visceral reaction, even after twenty years. She 'stopped reading' an account of R&R

> *because I could feel, I could feel, it was such a tense and uncomfortable time, it was so traumatic, and I could feel myself get all tight again. I thought, I don't want to go back there. You know…it was a terrible period, it lasted for such a long time...Oh yes, it was very very strong.*[178]

Perhaps unsurprisingly, given his other roles in the City when stakes were high, Sir David Walker was a key contributor to the survival of Lloyd's. Walker's important role in the reform of the Stock Exchange is discussed in Chapters Two and Three. But he also

[176] Middleton, 'Lessons from Lloyd's of London', *YouTube*.
[177] See *Lloyd's: Brief History and Chronology*, p. 13. For a detailed account of Rowland's role, Equitas and the R&R process see Duguid, *On the Brink*; interviews, Irene Dick, Andrew Duguid; interview with Tony Keys, Oxfordshire, March 2019. Keys regarded Rowland as the 'saviour' of Lloyd's.
[178] Interview, Irene Dick.

successfully ran Johnson Matthey Bank following its rescue by the Bank of England in 1985.[179] Thereafter, Walker chaired the SIB, bringing a pragmatic approach to regulation following the widely perceived over-zealousness of his predecessor, Sir Kenneth Berrill.[180] As a Bank nominated member of the Lloyd's council, in 1992 Walker was asked to lead an inquiry into the LMX spiral and the 'preferential treatment' of working names.[181] Helpfully, for Lloyd's, his inquiry found 'no fraud or conspiracy'.[182] Walker also played a role in securing the appointment of David Rowland as chairman of Lloyd's, ensuring Bank support and remuneration for the role.[183] This example of one influential operator recruiting another was key to the reconstruction of Lloyd's, given Rowland's ability to carry the market with him.

As the Neill Report had confirmed, access to the right people was an important indicator of Lloyd's future prospects. Individuals, whether recruited from across government, business, or nominated by the Bank, worked together with market insiders to imagine, create, and implement a rescue package for Lloyd's. Appointing a few individuals appears to be a barely perceptible rescue strategy. Collectively, however, these appointments amounted to a determined intervention by the authorities for the survival of the Lloyd's insurance market. In particular, the Bank's preference for fielding effective individuals, and the stature of the individuals chosen, speaks to classic measures of governance. Moreover, once in position, key actors were able to draw on institutional frameworks to help re-construct Lloyd's.

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[179] This was a controversial matter because Lawson inadvertently misled the House about the use of public finances to rescue Johnson Matthey Bank. See Lawson, *Memoirs of a Tory Radical*, pp. 246-8. By 1988 funds used to rescue the bank were recovered in full, see https://www.bankofengland.co.uk/-/media/boe/files/annual-report/1989/boe-1989 (accessed 2 July 2019).
[180] Lawson, *View From No. 11,* p. 402; Gowland, *Regulation of Financial Markets*, p. 242; Lawrence, *Money Rules*, p. 91.
[181] Duguid, *On the Brink*, p. 97.
[182] Ibid., p. 98; *The Financial Times*, 3 July 1992.
[183] Duguid, *On the Brink*, p. 101.

Conclusion

The severity of Lloyd's problems threatened the survival of the market. However, they rested on pecuniary relationships between names, their agents, and the Council, and an erosion of the capital base, centred on the above and exacerbated by LMX spirals. Damage was essentially 'internal' and remained inside the market. From an external perspective, throughout its long history Lloyd's had never defaulted on a valid insurance claim. For policy holders, if not names, the word of a Lloyd's broker was as good as his bond. Moreover, this 'Great British' reputation went beyond Lloyd's to the very heart of the City-Bank-Treasury nexus. Essentially, as long as the funding base was shored up by corporate capital, Lloyd's was a viable market.

On its website, Lloyd's acknowledges 'catastrophe follow[ed] catastrophe' in the 1980s, before Lloyd's emerged 'like a phoenix from the ashes' following a process of R&R in the 1990s.[184] This carefully constructed account of renewal fits with the discourse of modernity, associated with the Lloyd's building. Equally, because, under New Labour, Lloyd's was brought within the remit of the Financial Services and Markets Act 2000, it was regulated by the Financial Services (subsequently Conduct) Authority from 2001, like other twenty-first century financial institutions.[185]

Nevertheless, resistance has meant broking practices have not been modernised in line with underwriting practices.[186] Lloyd's has successfully defended three-year accounting periods and thus the tax advantages of remaining names. Indeed, with R&R successfully completed, the Association of Lloyd's Members (like the High Premium Fund) now

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[184] Lloyd's extraordinary history, https://www.lloyds.com/about-lloyds/history (accessed 15 February 2018).
[185] See https://www.lloyds.com/about-lloyds/history/corporate-history (accessed 15 February 2018).
[186] Interview, John Nelson.

campaigns on tax, to ensure that being a Lloyd's name remains 'a fantastic deal'.[187] Equally, heritage is still exploited for financial gain; attitudes to women are unenlightened;[188] and Lloyd's fails to deposit its archive. Thus, despite its modern persona, feudal tendencies at Lloyd's persist.

In respect of the Thatcher government, this chapter shows how Lloyd's achieved its new Act and was excluded from the FSB. Lloyd's manipulated the City-Bank-Treasury nexus and took advantage of government hierarchies to further its own interests. Lloyd's was able to harness conservative forces to challenge New Right ideology. Challenges to tax reforms and concessions from the Chancellor underscore the fact that ideological policies were not applied in a vacuum, but were contested, inconsistently applied, and shaped by practical 'messy' concerns. This speaks to the contingency and unintended consequences of policy applications and financial reforms.

Findings that the Government was pragmatic challenge accounts of the Thatcher government imposing radical change on the City and challenging vested interests. Meanwhile, findings of protectionism fundamentally disrupt the premise of free market competition, the supposed hallmark of Thatcherism. Indeed, despite the Government and Lloyd's shared commitment to entrepreneurialism and free market internationalism, the former's core beliefs on tax, free markets and competition, were adapted in favour of nationalist protectionism.

Ironically, given that Lloyd's was 'reconstructed', its radical reform was not something envisaged or promoted by the Thatcher (or Major) governments. Change was contingent on failures in market practices, which were market-induced. Then the objective was to ensure that Lloyd's survived. The question remains whether Lloyd's was too big to

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[187] Interview with Lloyd's broker, member of the High Premium Fund, London, January 2018.
[188] A. Ellson, Consumer Affairs Correspondent, 'Lloyd's of London rife with sexist bullies, say women', *The Times*, 23 March 2019.

fail. Its survival was, after all, contingent on the collective effort of individuals and networked solutions. Ironically, when asked to reflect on the possibility of Lloyd's failure, interviewees who were connected with R&R were more likely to imagine it. They knew what was at stake, recalled the precarity of the 1990s, and reflected on the lived experience of proximity to likely market failure.[189] Conversely, for the fourth-generation broker, failure was just as inconceivable as tax reform. He argued that losses were relatively contained to pockets of Lloyd's, that profits were still made, and he was not exposed to loss-making syndicates.[190] These different perspectives represent the very real tensions between modernity and tradition at Lloyd's. They were also well-understood by the individuals called upon and supported by the authorities to manage Lloyd's survival. Ultimately, Lloyd's was too big to fail, but its survival was contingent on the deployment of key people in an intervention of the greatest magnitude, metaphorically speaking, not dissimilar from sending astronauts into space. This is a commentary on the nature and workings of the state - perhaps best known to the most established of elites.

[189] Interview, Tony Keys.
[190] Interview with Lloyd's broker, anonymous basis, London, January 2018.

Conclusions

By examining the making of the financial revolution, this thesis has explored domestic responses to broad ideational, material and structural factors. It has shown an evolutionary process which was crafted by real people and shaped by their concerns. Accordingly, teleological arguments and binary explanations have been resisted. In particular, the free-flow of international capital and new technologies did not make reform of the Stock Exchange inevitable.[1] These factors were real, but they were mediated at the local level. Moreover, as much as they were drivers, they were also factors that were harnessed by the authorities to achieve their objectives. Thus, technology was exploited to ensure the central securities market survived, while capital was a requirement for the introduction of dual capacity and also reduced the volatility associated with the new market mechanism. Furthermore, without the forms of domestic mediation discussed, it was entirely possible that these exogenous factors bypassed the Exchange altogether, as the Euromarkets had done previously. This would have presented a different set of outcomes.

Although the financial revolution is taken to represent a high-water mark in the history of capitalism, the period leading to regulatory reforms was marked by concerns about survival: of capitalism itself; of the central stock market; of individual firms; and subsequently of the Lloyd's insurance market. Meanwhile, the Bank stood to lose central control of capital markets, while the Government perceived its own paralysis by market vagaries including full gilt-edged strikes. These concerns or interests interacted with other interests, ideas and ideology. In particular, New Right ideas informed the Government's

[1] Michie, *London Stock Exchange*; Michie, 'City of London and the British government'; interview, Tim Congdon; see also Kynaston, *City of London,* p. 567; Burk in Kandiah, 'Witness Seminar 1, "Big Bang"', p. 130.

overarching philosophical agenda, as a result of which two parallel but interconnected concerns drove the Government towards stock market reforms.

For equity markets, the introduction of free market competition met the over-arching ideologically informed objectives of reconfigured microeconomic policy: Economic growth was tied to the creation of efficient capital markets, entrepreneurialism, greater private sector investment and wider share-ownership. Improving the efficiency of capital markets would also attract retail investors and ensure the Government's privatisation programme was successful.[2] Free market reforms satisfied the 'climate of opinion' which had resisted the postwar Keynesian settlement and sought paradigm change, and helped to consolidate New Right ideas.[3] From 1984 arch-Thatcherite John Redwood pushed financial reforms to the 'forefront' of Thatcherite competition policy.[4] Redwood's hand in reforms has been a recurrent theme and, demonstrably, the Number 10 Policy Unit had the power to influence outcomes. Ultimately, a new consensus was established around the logics of free markets which, from a statecraft perspective, meant Thatcherite 'political argument hegemony' transcended party and became institutionally, structurally, and socially embedded in the political mainstream.[5]

A focus on the gilts market shows that the Government's macroeconomic policy objectives also drove reforms. Again, the Government's ideological commitment to monetarist ideas and financial discipline informed its overarching philosophy. Thereafter, political pragmatism in the execution of policy and a shift in the balance of power with the markets was required. The need to end gilt-edged strikes and sell gilts in accordance with

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[2] See Parker, *Official History of Privatisation*; Francis, 'Crusade to Enfranchise the Many'.
[3] See Oliver and Pemberton, 'Learning and Change'.
[4] MTFW, PREM19/1461 f194, 29 June 1984, 'Redwood & Willetts minute to MT ("The City") *[overview of policy] [declassified Dec 2014]*', http://www.margaretthatcher.org/document/137012 (accessed 12 March 2019).
[5] For statecraft see Bulpitt, 'Mrs Thatcher's Domestic Statecraft', pp. 19-39; Buller and James, 'Statecraft and the Assessment of National Political Leaders', p. 540.

government need was crucial for government funding requirements, monetary policy, and credibility. Gilt sales assumed an essential role in monetary policy: variations in techniques of sale made it easier to sell gilts at times of inflationary uncertainty without the need to raise interest rates; reduced the Government's 'vulnerability to surges of growth in sterling £M3'; and reduced the cost of borrowing.[6]

The focus on monetary policy and the Government's activity in connection with the functioning of the gilts market has demonstrated that there was more to reforms than the implementation of the Government's free market supply side agenda. That agenda was crucially important and, as noted, worked in parallel. Thesis findings suggest, however, that free market competition, as the better understood rationale for financial reforms, has obscured the ways in which the Government's re-constituted macroeconomic agenda also drove and impacted reforms.

Although this analysis has sought to distinguish between micro and macroeconomic drivers, and ideology and political interests, such categories were less distinct in practice. As noted, monetarism was an ideological neoliberal commitment as well as a political test and a means of exercising statecraft. The intersection between ideas, ideology and government interests observed in the execution of monetary policy makes this a key area for future research. Meanwhile, the Lloyd's case study shows the Government standing alongside Lloyd's to resist free market competition, regardless of ideology, and the political pragmatism which precluded government from tackling vested interests there. This cross-cutting of ideas, institutions, political pragmatism and material interests underscores the need for nuanced accounts of Thatcherism, whilst also confirming the importance of ideas and an overarching philosophy to the Thatcherite project.

[6] The Treasury, *Economic Progress Report*, No. 133, May 1981.

Thesis findings have supported analyses of Thatcherism as a 'series of interconnected political attitudes' rather than a 'consistent' body of thought.[7] Thatcherism's political hallmarks - in particular, its statecraft, pragmatism, and flexibility - have been evident throughout, from the Government's dealings with the OFT case through to its handling of Lloyd's. In terms of 'economic neoliberalism', this is often benchmarked against Thatcherism's aims to create free markets, end controls on 'freedom', implement tax reforms, end 'paternalism', and tackle vested interests.[8] Here, thesis findings provide important qualifications that the Government did not set out to reform Lloyd's and thus cannot be said to be intent on thorough-going City reform. Turning to policy outcomes, although broadly speaking the Government implemented neoliberal reforms, its success was patchy and policy implementation fell short, which brings us to the role of interests.

The thesis has shown some of the practical difficulties of implementing Thatcherite ideas and ideology in the area of financial reforms. In general terms, the evolutionary and dynamic nature of the reform process meant polices developed in conversation with networked actors, met with culture and tradition, and were shaped accordingly. Specific case studies have shown how Cazenove drew on its heritage, culture, and powerful networks to navigate Thatcherism. The study showed how reforms were received and shaped by material interests rather than cleanly applied. Lloyd's was an historical institution with considerable power resources which it augmented by working with the authorities. Equally resources were applied to resist government; hence the Government was unable to implement tax reforms, failed to tackle vested interests and was paternalistic in the sense that the rescue of Lloyd's was essentially state sponsored. Lloyd's emerges an example of an historical institution that had the power to veto change that threatened its existence, and the ability to channel change to ensure its survival.

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[7] Evans, *Thatcher and Thatcherism*, pp. 2-5.

[8] Ibid.; Ledger, *Neoliberal Thought and Thatcherism.*

Unlike in some other policy areas, where the shortfall between 'rhetoric' and 'radical policy change' has been attributed to the unintended consequences of Thatcherite radicalism, the thesis credits the 'implementation gap' mainly to powerful interests.[9] The ability of financial elites and other cross sector actors to forge strategic networks, and shape change has been a recurring theme. Networks widened the 'policy environment', were capable of promoting new prescriptions, and influenced policy.[10] Clearly, as Goodison's strategic networking demonstrated, networks helped deliver financial reforms. But networks were also capable of contesting, shaping and moderating change. Accordingly, constraints were imposed on government, and policy was mediated in ways which ensured institutional continuities alongside more radical change.[11] Networked 'interests' were 'derived from a process of interpretation' at venues like WCP conferences which fostered discussion.[12] This points to the geographical and historically specific nature of these particular reforms and to tensions between broadly ideological reforms and their implementation in practice. So even if characteristics of this political project were pre-determined, application was subject to specific historical circumstances, relationships and geographical conditions which moderated reforms in practice.[13] Given the 'diffuse' and 'slippery nature' of neoliberalism as a concept, its characteristics were not easily pre-determined. Added to which, findings point to neoliberals, like Redwood, eschewing blueprints which did not flex as well as deliberately

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[9] March and Rhodes, *Implementing Thatcherite Policies*, pp. 4-10.
[10] See Pemberton, 'Policy Networks', p. 779, p. 789 for the ability of networks to effect change; see Hall, 'Role of Interests, Institutions and Ideas', p. 189 for the formation of coalitions by powerful interest groups which can shape the implementation of ideas as policy.
[11] See Dolowitz et al, 'Thatcherism and the 3 "Rs" for constraints imposed on government. Also, for government manipulation of exogenous factors which the thesis observes in the harnessing of international capital for domestic purposes. Continuities included the persistence of gentlemanly practices alongside more meritocratic practices and, most notably, the principle of self-regulation.
[12] See Hall, 'Role of Interests, Institutions and Ideas', p. 197, for the interpretation of interests.
[13] Springer, Birch and MacLeavy, *Handbook of Neoliberalism*, p. 1; Peck, *Constructions of Neoliberal Reason*, p. 6.

choosing loosely conceived overarching philosophies which were capable of adapting and withstanding changes associated with fast-paced markets.[14]

Although broad findings and case studies alike provide some answers as to why Thatcherism was unable to apply its policies consistently, as Ian Gilmour argued, 'consistency' was not actually required to measure the Government's 'ideological commitment'.[15] Certainly, the re-making of the Treasury in the Government's image was a means to ensure that broad ideological preferences were implemented, not least by allowing positive feedback effects to drive policy ideas forward. Institutionally, the Treasury under Thatcher had the resources to provide 'cognitive templates' and promote 'strategies for action' which lent policies and reforms special 'cultural authority'.[16] Equally, the Treasury's relationship with the Bank has been shown to be one of remarkably effective collaboration on financial reforms, underscoring the broad alliances of the City-Bank-Treasury nexus, and the sharing of power resources.

The Bank also emerges as an historical institution with the cultural authority to drive and shape reforms. Walker's strategic network was particularly effective and reached right across the Bank, government and City. Walker was an enlightened problem-solver compared with Bank traditionalists, but even he advocated evolutionary change and was prepared to scale back rather than press forward after the Goodison-Parkinson Accord, which he did so much to achieve. This is indicative of the Bank's institutionally cautious approach; it favoured slow evolutionary change and found the radicalism of a 'big bang' shocking.

Findings of institutional conservatism at the Bank are of consequence given the Bank's operational oversight of the City and the impact of reforms on ownership (although

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[14] MTFW, PREM19/1461 f194, 1984 June 29, 'Redwood & Willetts minute to MT ("The City") *[overview of policy] [declassified Dec 2014]*', p. 1, 'It is not up to the Government to formulate some blueprint of what should happen in fast-changing markets', http://www.margaretthatcher.org/document/137012 (accessed 1 March 2020).

[15] Gilmour and Garnett, 'Thatcherism and the Conservative Tradition', p. 84.

[16] Hall, 'Role of Interests, Institutions and Ideas', p. 194.

clearly the Government also shares responsibility for ownership outcomes). Demonstrably, the Government and Bank sought to protect British interests in the wake of Big Bang and believed they had taken adequate steps to do so by promoting the integration of British financial houses capable of competing with foreign banks. Narratives that suggest a laissez-faire attitude by the authorities underestimate voiced concerns and defensive, protectionist measures, even though those measures ultimately proved inadequate.[17] That said, the Bank appears to have underestimated the international threat; over-estimated British defences; and its focus on control of the central market was at the expense of the effects of international competition on British interests.[18] This almost certainly contributed to 'Wimbledonisation' as an unintended consequence of Big Bang. At the heart of the City-Bank-Treasury nexus, the Bank performed a critical role in mediating and structuring the implementation of ideas. From the perspective of culture conceived of as 'strategies for action' or 'cognitive templates', it appears the institution underestimated the foreign threat to City interests and did not construe the means to protect those interests.[19]

On the other hand, the Bank was able to protect the central market and shore up interests which fell within its purview. Thus, the Bank appears to have been an historical institution with the cultural authority and power to veto change that threatened its interests, and the ability to channel change that threatened the existence of City institutions like the Stock Exchange and Lloyd's. On this reading, the focus on regulatory control and oversight of central markets and institutions (as opposed to, or at the expense of, the ownership of individual financial houses) appears to have been part of the 'stark choices' made by the Bank. This suggests the Bank acted with strategic clarity. Moreover, the assessment that control of markets was more important than ownership appears to be a very neoliberal

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[17] Augar, *Death of Gentlemanly Capitalism*.
[18] Although these two issues were deeply interconnected.
[19] Hall, 'Role of Interests, Institutions and Ideas', p. 194.

attitude emanating from a conservative institution. Given the impact of the Bank's history and institutional culture on the City, whether the Bank was ultra-conservative or, in fact, acted with strategic clarity remains an important avenue for future research.

The focus on the people, social relationships and cultural practices at the heart of the financial revolution has restored intent to a more usually teleologically depicted and faceless shift in the histories of capitalism. Thatcherism changed the political economy by forging a new consensus around the logics of modern capitalism but, contrary to established narratives, findings are of decisions driven primarily by domestic not global imperatives. This opens up new space to consider the options available to New Labour and its own understandings of those options. Whether Labour had credible alternatives to convergence, or if reforms really were too difficult to unwind once introduced, are important questions for future research.

The evidence from Cazenove suggests relationships between finance and industry are more mutually supportive than has generally been understood, but also shows how supportive relationships were embedded in different contexts. Given this, further research might shed light on those contexts, bring other contingencies to the fore, and offer new ways of understanding finance industry relations.

Finally, questions arise about the assessment that Thatcherism sought to strengthen government via reforms that made capital markets more volatile; understandings that volatility could be offset by having more capital in the system; and about the Thatcher government's role in subsequent financial crises. Quantitative and comparative research on market volatility will help to address these questions and enhance understandings of Conservative political economy more generally.

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Duguid, Andrew	29 November 2017, London, W12
Goodison, Sir Nicholas	1 March 2018, London, W1
Greenwood, John	10 February 2017, Invesco, London, W1
Hardy, Peter	26 January 2018, Esher, Kent
Keys, Tony	6 March 2019, Oxfordshire
Nelson, John	17 May 2018, London, WC2
Nott, Sir John	13 March 2018, London, SW3
Pepper, Gordon	11 January 2017, Marlborough
Plenderleith, Ian	27 February 2018, Morgan Stanley, Canary Wharf, E14
Raven, Steven	27 January 2018, Claygate, Surrey
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Smith, David B.	6 December 2017, Oxford & Cambridge Club, Pall Mall, SW1
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Anonymous basis:

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