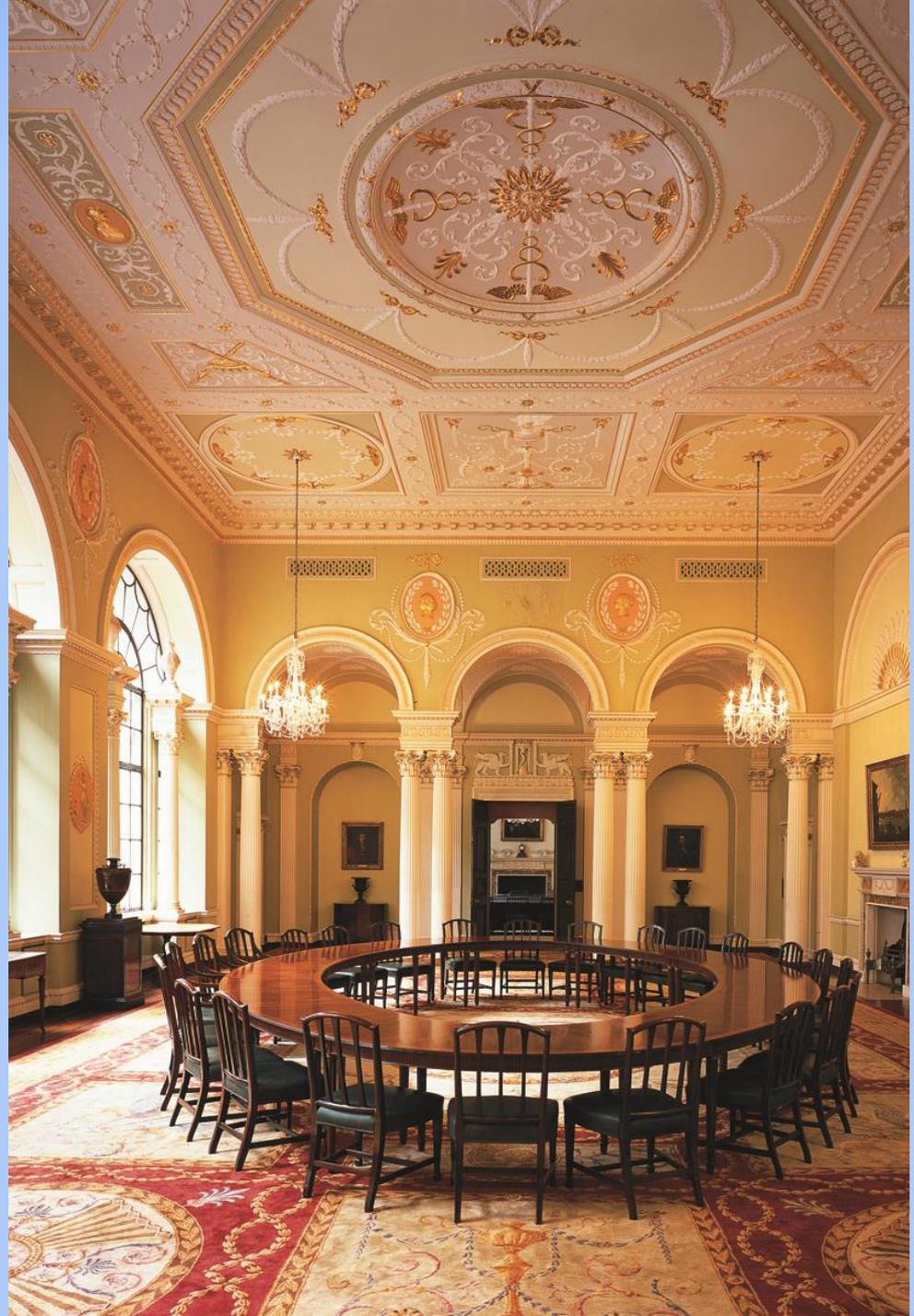


# *Competition and the London Clearing Banks, 1946-1979*

*Linda Arch* ©  
*l.arch@icmacentre.ac.uk*

The Court Room, The Bank  
of England

<https://www.flickr.com/photos/bankofengland/6220545302>,  
accessed 3 May, 2015



*Should Nation States Compete?*  
*25-26 June 2015*

# *Structure*

1. Introduction
2. Context
3. Attitudes towards competition in clearing banking - ambivalence
4. Attitudes towards competition in clearing banking - embracing competition
5. Discussion and questions

# *1. INTRODUCTION*

# *Alasdair MacIntyre*

Credit:  
Sean.

<https://www.flickr.com/photos/seanoconnor365/3351618688>



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*Should Nation States Compete?  
25-26 June 2015*

# *Introduction*

- “without the virtues there could be a recognition only of what I have called external goods [...]. And in any society which recognised only external goods competitiveness would be the dominant and even exclusive feature.”
- Alasdair MacIntyre, *After Virtue: A Study in Moral Theory*, Third Edition, (Notre Dame, IND: University of Notre Dame Press, 2007), 196.

# *Introduction*

## **External goods:**

- 'goods of effectiveness'
- profit, money, share price, status, prestige ...
- property or possession of an individual

## **Internal goods:**

- 'goods of excellence'
- achieved in the context of 'practices'
- benefit the whole community who take part in that practice
- Eg. an internal good in clearing banking might be the good of 'trustworthiness'

# *Introduction*

In 1946 there were  
11 London clearing  
banks:

- Barclays Bank Limited
- Coutts & Co.
- District Bank Limited
- Glyn, Mills & Co.
- Lloyds Bank Limited
- Martins Bank Limited
- Midland Bank Limited
- National Bank Limited
- National Provincial Bank Limited
- Westminster Bank Limited
- Williams Deacon's Bank Limited

# *Lombard Street*

Credit: Michael Sissons,  
Lombard Street, September

2011

[www.michaelsissons.com](http://www.michaelsissons.com)

[https://www.flickr.com/photos/michaelsissons/61942991](https://www.flickr.com/photos/michaelsissons/6194299119)

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*Should Nation States Compete?*  
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# *Introduction*

- 1964: 67% of total loans and advances to non-bank UK residents
- 1978: employed 215,000 out of 353,000 employed by main groups of financial institutions

Source: Committee to Review the Functioning of Financial Institutions, *Report*, June, 1980, Cmnd. 7937

- 1967: 47% of all deposits with banks in the UK

Source: Barclays Bank Ltd, Lloyds Bank Ltd and Martins Bank Ltd: A report on the Proposed Merger, Monopolies Commission, July 1968.

# *Introduction*

## *The Committee of London Clearing Bankers*

- The Chairmen sat on the 'Committee of London Clearing Bankers' (CLCB)
- Met monthly
- Every fourth meeting was held at the Bank of England

# *Introduction*

## *The Committee of London Clearing Bankers*

### Multi-faceted role:

- business interest association;
- cartel;
- regulator;
- organisational and institutional support for the community of clearing bankers;
- channel of communication between the government and individual clearing banks

## *2. CONTEXT*

### 13. THE U.S. SUBPRIME CRISIS

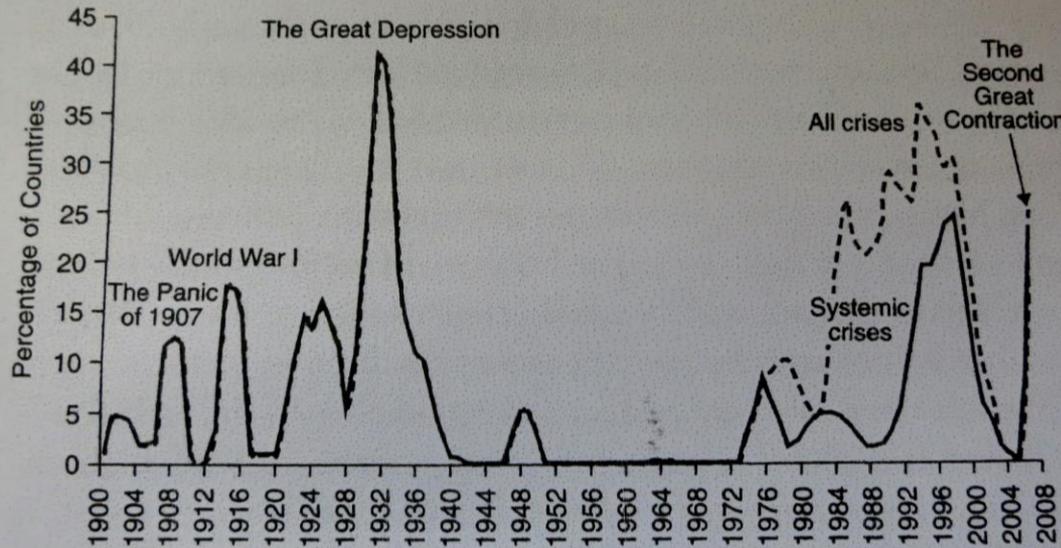


Figure 13.1. The proportion of countries with banking crises, 1900–2008, weighted by their share of world income.  
Sources: Kaminsky and Reinhart (1999) Bordo et al. (2001).

## *The Proportion of Countries with Banking Crises, 1900-2008*

Carmen M. Reinhart and Kenneth S. Rogoff, *This Time is Different*, (Princeton: Princeton University Press, 2009), 205.

*Context (1):  
The  
International  
Political  
Economy*

“it is clear that the post-war period of financial repression [...] was a remarkable era in combining rapid economic growth and high investment with a crisis-free but strictly regulated and supervised financial system in most countries. This is a remarkable historical fact that warrants further study. It isn't obvious at all that countries paid a price for harsh financial regulation in that period, [...]”

Alan M. Taylor, 'Global Finance After the Crisis,' Annual John Flemming Memorial Lecture given at the Bank of England on 12 October, 2010, Bank of England Quarterly Bulletin, Q4, 2010, 371.

*Context (2):  
Contemporary  
perceptions of  
banks and  
bankers*

“In their dedication, their lack of greed, and their sense of quiet service, the joint stock bankers provide a placid, safe centre to financial Britain: one can no more imagine a bank going bust than the monarchy falling.”

Anthony Sampson, *Anatomy of Britain* (London: Hodder and Stoughton, **1962**), 375.

*'People trust banks and the banks trust the government.'*

CHANNEL | BBC 2  
FIRST BROADCAST | 28 April  
1964

<http://www.bbc.co.uk/archive/menandmoney/6801.shtml>, accessed  
4 May, 2015



## *Context (3): Bank Regulation*

- A relatively small body of *codified*, formal, explicit regulation
- A larger realm of *tacit* regulation, eg.
  - Extra-legal regulation
  - Self-regulation

3.  
*AMBIVALENCE  
TOWARDS  
COMPETITION*

# *Ambivalence towards competition in banking*

Reflected in, eg.

1. An awareness of the dangers of excessive competition in banking (as well as of monopoly)
2. Their regard for interests beyond those of their shareholders, and for objectives beyond maximising shareholder wealth
3. The cartel

# *Excessive competition*

*Economist*, 4 November, 1905:  
President of the Institute of  
Bankers: “I cannot [...]  
emphasise too strongly the  
undesirability of suicidal  
competition.”

Memories of 1920s and 1930s  
– over 9,000 banks suspended  
in the US between 1929 and  
1933 – were very much alive

# *Regard for Wider Interests*

“in form their [the joint stock banks] first duty is to conduct their business in the interests of their owners; this commercial interest has often been tempered by regard for a wider public interest.”

Committee on the Working of the Monetary System, *Report*, Cmnd. 827, August 1959, para. 127, p. 43.

# *The Cartel*

- “before 1945 most of the world thought that cartels brought widespread benefits. [...] cartels do not abolish competition, but regulate it [...] These co-operative arrangements were by no means benign mostly second-best forms of competition, and were largely but not exclusively in producers’ interest. They were, however, sometimes more congruent with the public interest than Smith’s claim...”
- Jeffrey Fear, “Cartels,” in *The Oxford Handbook of Business History*, eds. Geoffrey G. Jones and Jonathan Zeitlin (Oxford: Oxford University Press), 1-2.

# *4. EMBRACING COMPETITION*

# *Politics*

- Clearing banks were falling behind other banks, near-banks other financial institutions.
- Size important to productivity (Industrial Reorganisation Corporation, January, 1966)

- 1967: National Board for Prices and Incomes Report No. 34 *Bank Charges* 1967, Cmnd., 3292 – signalled a change in 'official attitudes' towards mergers
- 1968: Barclays Bank Ltd, Lloyds Bank Ltd and Martins Bank Ltd: A Report on the Proposed Merger, Monopolies Commission, July 1968 - recommended abolition of collective pricing agreements
- 1971: Bank of England policy, 'Competition and Credit Control'

*June 1970*

*‘A Better  
Tomorrow’*

Conservative government under Edward Heath

“We will pursue a vigorous competition policy. [...] We reject the detailed intervention of Socialism [...] We much prefer a system [...] which favours, and rewards, enterprise and efficiency. Our aim is to identify and remove obstacles that prevent effective competition and restrict initiative.” p. 13.

Conservative Party Manifesto, 1970, ‘A Better Tomorrow: The Conservative Programme for the Next Five Years’ Conservative Central Office, London.

# *Ideas*

Political changes interacted with a strongly liberalising ideological undertow: eg. succession of Institute of Economic Affairs pamphlets:

- 'Hire Purchase in a Free Society' 1958  
Ralph Harris & Arthur Seldon
- 'Balance-sheet for Take-overs' 1960  
Anthony Vice
- 'Financial Institutions and Monetary Policy' 1967 NJ Gibson
- 'Competition in Banking' 1970 Brian Griffiths

# *Ideas*

- “there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, [...]”

Milton Friedman, ‘The Social Responsibility of Business is to Increase Its Profits,’ The New York Times Magazine, 13 September, 1970

- This is very close to the contemporary idea that the purpose of the firm is to ‘maximise shareholder wealth’
- Encapsulates perfectly a society in which there is the recognition only of **external** goods...

# *Structural and social changes*

1. **Market structure:** new entrants & erosion of boundaries, eg.
  - 1968: National Girobank established as a money transmission service
  - 1976 TSB Act removed most statutory limitations on activities of Trustee Savings Banks (eg. they could lend for the first time)
2. **Social changes:** demand for savings products (eg. pensions) and credit products (eg. mortgages)
3. **International and domestic political economies:**
  - Exchange rates (floating by June 1972)
  - Exchange control (completely abolished by 1979) ...

# Summary

From	To
Strong concern about monopoly/oligopoly. Tacit agreement by banks not to amalgamate (c.1918-1968).	Less strong concern about monopoly/oligopoly (flurry of mergers 1968-1970).
Strong concern about excessive competition. Acceptance/ endorsement of the cartel.	Strong concern about the cartel (abolished in 1971 under 'Competition and Credit Control').
A more negative definition of competition: competition is not an end in itself but a safeguard against monopoly.	Positive definition of competition: competition is a virtue in that it advances efficiency.
Monopoly is to be avoided as it is against the public interest.	Efficiency is the primary goal. Efficiency leads to the realisation of 'external goods' (profit, shareholder wealth, etc). Competition enables efficiency.
	A clearing banking industry based on a on a 'rationalised-liberalised-efficient' paradigm.

# *Alasdair MacIntyre*

- “We should therefore expect that, if in a particular society the pursuit of external goods were to become dominant, the concept of the virtues might suffer first attrition and then perhaps something near total effacement, although simulacra might abound.”
- Alasdair MacIntyre, *After Virtue: A Study in Moral Theory*, Third Edition, (Notre Dame, IND: University of Notre Dame Press, 2007), 196.

5.  
*DISCUSSION  
& QUESTIONS*