THE BRITISH FINANCIAL SYSTEM

The British Financial System

Jack Revell

MACMILLAN

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Preface

For some years I have been struck by the fact that there is no book which deals with all types of British financial institution on a consistent basis within a single volume. To one who has a strong conviction that theoretical insight in monetary and financial matters depends greatly on knowledge of the institutions and markets which make up the financial system this has seemed a glaring gap. The present volume is a modest attempt to fill the gap. Most of the text is taken up with detailed analysis of the working of different types of financial institution and markets, but the first four chapters set this in context by considering the financial system as a whole and by providing some generalisations on what the different institutions and markets have in common. It is in this last sphere that further research is badly needed.

A work of this nature is bound to have a high factual content, but I have attempted, all too imperfectly in most places, to supplement this with an analysis of the significance of the facts. We are concerned with financial institutions as business organisations, and try to see what factors determine their operation and their development. Even this restricted object has resulted in a lengthy volume; it has been kept down to its present length by avoiding the discussion of the historical background, of monetary theory and of monetary policy except where these were immediately relevant.

I started to write this book some six years ago, but little progress was made until 1971 because of a variety of academic and administrative commitments. As it turned out this was a fortunate thing, because in the middle of September 1971 the Bank of England introduced sweeping changes into its regulation of banks and finance houses which had repercussions throughout the financial system. It has been said that the British financial system has changed more during the last twenty years than during the whole of the preceding century. An author who tries to be up-to-date in this field faces an impossible task: many further changes will have occurred before his work appears in print. This volume was corrected up to the middle of July 1972, and a very few additional corrections were made in the winter of that year. For changes since that

date the reader must find his own way among the sources suggested in the General Notes. I hope that the background knowledge which he has gained from this book will make his task easy.

The writings of previous authors form a smaller part of the raw material on which this work is based than of most economic texts. This is not because of any lack of respect for what has been written by others but arises out of a belief that those who take part in the business of finance have a lot to teach academics. The factual basis thus came from a great deal of 'leg work' in the City of London and elsewhere, meeting and discussing with officers of the various associations of financial institutions and with executives of the institutions themselves. They are far too numerous to mention, but I owe them all a big debt for lengthy discussions, pleasant lunches and their kindness in commenting on my drafts. Many of them will doubtless recognise some of their own ideas in the pages that follow. A special word of thanks is due to my friends in the Bank of England, who spent many hours scanning successive drafts and trying to purge them of errors.

Among academic colleagues I am grateful to Professor Ronald Henderson, who first awakened my interest in this subject and asked me to take over his lectures in Cambridge while he was on sabbatical leave. Professor James Meade, Aubrey Silberston and Professor Richard Stone encouraged me to start writing this book. Professor Andrew Bain, Tony Cramp, Professor Max Gaskin, Stephanie Holmans, Jeffrey Owens, Alan Roe, Professor Brian Tew and Michael Wright made helpful comments on several chapters. My friend and colleague Frank Townson kept track of the drafts in the early stages and spotted many errors. Despite all this help from academic colleagues and friends in the financial world, doubtless some errors persist, and for these I alone am responsible.

The preparation of the final typescript, the typing of the tables and the drawing of the figures were done most competently by Lilian Lund. Lilian Silk, Jenny Bursey and Rosemary Mason typed some of the earlier drafts, and Meriel Jones, Paula Jones and Marian Waters helped in the final preparation. Angela Cooper provided considerable help in proof reading and in preparing the index.

More than convention dictates that the final word of acknowledgement should be to my wife. For years she has cheerfully accepted 'the book' as sufficient excuse for innumerable lapses on my part. As a slight recompense this book is dedicated to her.

General Notes

1. Suggestions for further reading will be found at the end of most chapters, but these are only books which deal with the topics of the chapter. For general background reading a study of the *Report, Memoranda of Evidence* and *Minutes of Evidence* of the Radcliffe Committee will be found a most useful source. They will serve to show how much the financial system of this country has changed over the period since 1959. For changes which have occurred since the writing of this book the reader should consult the current literature. Articles in the *Bank of England Quarterly Bulletin* will be found particularly useful, and a study of current issues of such journals as *Midland Bank Review*, *The Banker*, *The Bankers' Magazine*, *Building Societies' Gazette*, *Money Management and Unitholder* and *Euromoney* will fill in many gaps.

2. Because of the limitations on space a great deal of weight has been placed on the tables in this volume, and they should be studied carefully. It is always a useful exercise to go to current issues of the sources given at the foot of most tables and to fill in recent figures.

3. Abbreviations and notation used in tables

BV	book value
MV	market value
NV	nominal value
—	nil or negligible
...	not available or not applicable

4. Because of rounding totals often differ from the sum of constituent items.

5. References to tables in the *Bank of England Quarterly Bulletin* are to the Statistical Annex unless page numbers are given.