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The City of London: functional and spatial unity in the nineteenth century

Throughout the nineteenth and twentieth centuries London has maintained its position as the premier financial centre of Europe, since it replaced Amsterdam during the French Revolutionary/Napoleonic Wars (1793 – 1815). Challenges from Paris and Berlin all failed, helped by the de-stabilising effects on Continental Europe of major military conflicts, particularly the Franco-Prussian War of 1871 and the First and Second World Wars. Illustrative of London's continuing importance, despite the relative decline of the British economy, was the fact that in 1990, while the number of foreign banks with London offices stood at 478, Paris and Frankfurt could attract only around half that number, with 277 and 247 respectively. However, London was not only dominant in the European time-zone for it also ranked as one of the world's major financial centres, being relatively unchallenged before 1914, and vying with New York and, more recently Tokyo, for pole position. Especially in cross-border financial activities London continued to occupy the leading position as in international bank lending, foreign exchange dealing, global bonds and equities, and worldwide re-insurance.[1]

Nevertheless, this impression of London's long-standing financial dominance, at least in Europe, rests upon considerable ambiguity over what constituted, 'The City of London'. In the middle of the nineteenth century contemporaries resorted to the geographical expression – 'The City of London' – in order to describe the wide and diverse range of commercial, financial and manufacturing activity that took place in London, and which was largely located, at that time, in an area covering one square mile, and stretching from the Tower of London to Temple Bar, bordering the Thames. As one writer in 1852 put it, 'The City is a world within itself centered in the heart of the metropolis[2](3).' At that time, therefore, a reference to the City of London was not specific to finance but included a much more numerous grouping, especially trade, shipping and all the industries and services necessary to support them.

It was only over the next 100 years that the expression – 'The City of London' – changed so that it referred to finance alone and, at the same time, widened to cover

[1] *Financial Times*, 7 February 1991.
[2] *The City, or the Physiology of London Business* (London 1852) 1.

all financial activities within Britain, wherever located. As the Financial Times stated in 1987, 'The City of London is a function, no longer a postal address. The function is finance and it does not have to be applied in the square mile'.[3] In this it was merely reflecting the official position for the governments own statisticians used the term, the City of London, as short-hand for the financial sector as a whole, and so included much that was, and always had been, undertaken elsewhere in Britain. Amongst these were the building societies, that were largely provincial in origin and location, and the Scottish banks, insurance companies, and investment trusts that had been long established in such cities as Edinburgh. At the same time many activities that were central to the City of London's operation, and were of growing importance, were ignored, especially the firms of chartered accountants and corporate lawyers.[4]

Consequently, while in the popular mind the term, the City of London, remains identified with a particular place, the officially accepted definition relates to a group of financial institutions and intermediaries. Naturally this leads to confusion, particularly when numerous authors insist upon using the popular and official definitions inter-changeably, depending upon the point they wish to make. For example, in a recent book on the City of London's manpower requirements, Rajan and Fryatt state, 'For a geographical area of its size, the economic significance of the City of London is exceptional. It contributes nearly half the net invisible earnings' in the UK's balance of payments.'[5] Here they are attributing to one place the entire overseas income of the UK financial sector, regardless of where it was taking place, and this error is commonplace in any of the work done on the City of London. The result has been that in Britain the public have come to believe that in one small part of London is concentrated the head offices not only of all the banks and other financial concerns, but also those of the major manufacturing, commercial and natural resource companies, along with the institutions, markets and experts necessary for their successful management and operation. Together, these are deemed to constitute such a powerful group that they could either ignore the wishes of any democratically elected government or even force it to follow policies of the City's choosing.[6] Only in the United States, where the financial sector and the Wall Street district of New York are synonymous, does a similar confusion of place

[3] *Financial Times*, 27 February 1987.
[4] UK *Balance of Payments: The CSO Pink Book* (London 1989) 36.
[5] A. Rajan & J. Fryatt, *Create or Abdicate: The City's Human Resource Choice for the 90's* (Brighton 1988) 17.
[6] See J. Coakley & L. Harris, *The City of Capital: London's Role as a Financial Centre* (Oxford 1983) 2; H. McRae & F. Cairncross, *Capital City: London as a Financial Centre* (London 1984) XLI; J. Plender & P. Wallace, *The Square Mile: A Guide to the New City of London* (London 1985) Preface; A. Hilton, *City within a State: A Portrait of the Financial World* (London 1987) VII, 1 – 2; M. Reid, *All Change in the City: The Revolution in Britain's Financial Sector* (London 1988) 21, See N. Newton & D. Porter, *Modernisation Frustrated: the Politics of Industrial Decline in Britain since 1900* (London 1988). More specifically the following reflect the general belief in socialist circles that the City has been all-powerful in Britain for at least 100 years. P. Anderson, 'The Figures of Descent' *New Left Review* 161 (1987) 34 – 5, 41, 45, 56, 61 – 3, 69, 75; M. Barrat Brown, 'Away with all the Great Arches' *N L R* 167 (1988) 41, 47, 50; G Ingham, 'Commercial Capital and British Development' *N L R* 172 (1988) 55.

and function appear to occur, which also results in a popular perception concerning the concentration of financial and business power. In 1912 US Congress even appointed a Committee to investigate the 'Money Trust' that was felt to exert a central control over economic life, with J.P. Morgan as its principal architect.[7]

Clearly, what is required is a separation of these spatial and functional definitions in order to discover the reality behind the rhetoric. As Goodhart and Grant suggested in a 1988 Fabian pamphlet, '... Critics must stop tilting at a largely imaginary city ...,' and in their account of the present-day situation they stuck rigidly to the functional definition that equated the City with the financial sector.[8] That approach could also be repeated historically, in an attempt to describe how the financial sector has changed and grown over the years, and evaluate the contribution, or otherwise, it made to Britain's economic performance. Conversely, it would also be possible to take the spatial approach, and try to identify what the City of London actually did, and how that changed over time, attempting to judge both what was unique and special about the City and the degree of importance it possessed. Both approaches are equally valid but different, for one takes the financial sector as a whole submerging within it that which took place in the City of London, while the other identifies a grouping of activities in a particular place, and ignores that which took place outside. Until the wholesale destruction of the City of London by aerial bombing during the Second World War, and the planning controls that restricted its re-building and re-population afterwards, this spatial definition does capture the unique and important contribution that the City made not only to the British economy but also to the world economy. Since 1945, the large-scale dispersal of City activities to other centres in Britain and abroad, and the fundamental changes that have taken place in the organisation of economic life, necessitate the abandonment of the spatial definition and its replacement with a functional one.[9] Therefore, a study of the City of London in the nineteenth century, based on the geographical definition allows the historian to capture those central components, and their inter-play, which underlay the successful functioning of a financial and commercial centre of world importance, in an era of limited government intervention and in the absence of large trans-national corporations.

As it took a combination of world war, government controls, and escalating property and labour costs on the one hand, and a revolution in communication facilities and business organisation on the other to break the spatial unity of the City of London after 1945, one must assume that there was a high degree of interdependence in the years preceding. The City of London's workforce did expand steadily before the Second World War, for example, reaching 0.5 million in 1935 compared to 0.4 million in 1911 and 0.3 million in 1866. The expectation of the 1944

[7] US Congress, *Investigation of Financial and Monetary Conditions in the United States* (Washington 1912); US Congress, *Report of the Committee appointed to investigate the concentration of control of money and credit* (Washington 1913).

[8] D. Goodhart & C. Grant, *Making the City Work* (Fabian tract 528, 1988) 3.

[9] City of London Council, *Report by the Improvements and Town Planning Committee on the Preliminary Draft Proposals for Post-War Reconstruction in the City of London* (London 1944) Passim, F. Duffy & A. Henney, *The Changing City Passing* (London 1989) 73.

City planning committee was that this trend would continue because of the need for proximity among City businesses. As a result a total of 0.8 million, or an increase of 60 per cent, was forecast, and it was felt that this could be accommodated in the same area with the use of modern buildings. As it was the City of London's workforce, after the war-time dispersal, recovered to a peak of only 0.4 million in 1961, before falling back to 0.3 million in 1981, by which time there had been a major movement of firms and functions out of the City.[10] Nevertheless a 1986 survey still found that, 'Although most City firms stated they did not consider it important for the services they used to be located in the City, nonetheless the majority of such services were bought from firms located either in the City or in the neighbouring postal districts.'[11] Therefore, despite the restrictions, expenses, and access to means of electronic contact, there continued to be a significant coincidence of spatial and functional unity in the late twentieth century in the City of London. A century earlier, with limited restrictions, relatively lower costs, and only the beginnings of a telephone service, the necessity for close physical contact between the diverse activities of the City of London would have been even greater. However, this leaves unanswered the questions of what was the City of London actually composed of, and why did they need to be in such proximity to each other.

Unfortunately, it is no simple matter to discover the actual composition of the City of London, and how it changed over time. The national census taken every ten years should provide a precise listing of occupations for those who worked in the City. However, as the census counted only the night-time population, and as most of the City's workforce was increasingly resident elsewhere (65 per cent in 1866, 95 per cent in 1911), it is largely useless as a record. Aware of this weakness in the census, The City of London conducted their own from 1866, with those for 1881 and 1911, giving sufficient detail on occupations to provide useable results though not of the reliability or quality of the national census (see table). From an analysis of this data it is clear that the City remained a mixed business community in both 1881 and 1911, engaged in both manufacturing and commercial, financial and other services. Nevertheless, substantial change was taking place in the composition of the City of London in the nineteenth century, leading it to become more and more specialised in the functions it carried out. Already by mid-nineteenth century the City was ceasing to be a place where people lived and worked, to become one where they only worked. Scott, writing in 1877, observed that, 'Private families, with their domestics and children, are giving place to, solicitors, engineers and other men of business ...'[12] With the City's resident population down to 20,000 by 1911 there was little need for all the facilities required to maintain a large permanent community, and so the support activities were increasingly those that catered

[10] City of London, *Report by the Improvement and Town Planning Committee*, 1, 4, 13, 15; J.H. Dunning & E.V. Morgan, *An Economic Study of the City of London* (London 1971) 34; Corporation of London, *City of London: Population Census 1981* (Dept of Architecture & Planning, 1987).
[11] Duffy & Henney, Changing City, 179.
[12] B. Scott, *A Statistical Vindication of the City of London* (London 1877) 37. Booth observed the continuing exodus in 1903 (see C. Booth & G.E. Aves, *Life and Labour of the People of London* (London 1903) vol 5, 96).

for the needs of the day-time workforce, and maintained and serviced the very fabric and operations of the City. At the same time rising wages and rents were undermining the competitiveness of the City's manufacturing base, leading it to seek alternative locations, particularly in other parts of London. Activities like the manufacture of furniture and footwear, book printing, and engineering were all migrating from the City in the second half of the nineteenth century as they sought space within which to expand. A pharmaceutical firm like Allen & Hanbury's, with workshops off Lombard Street, increasingly switched its manufacturing operations to Bethnal Green at this time, leaving its City premises as the administrative and distributive – centre for the business. Nevertheless, the City continued to be a significant manufacturing area in the nineteenth century, especially in such activities as printing and garment making, as these consisted of numerous small firms with a high degree of interdependence, meeting the specific requirements of local customers.[13] Discounting manufacturing as being increasingly distinct from the City's role as a financial and commercial centre, and including support services as representing inputs into other sectors of the City's economy, it can be seen that the City of London was, increasingly, a large and concentrated service centre, specialising in the handling of trade, the supply of credit, the raising of loans, and the provision of the expert knowledge and facilities that all these required. It is also obvious that finance was by no means the dominant activity within the City of London before 1914, though its relative importance was growing rapidly. Up to the First World War the City of London remained, predominantly, a commercial centre. However, with the composition of the City of London established, at least for the late nineteenth early twentieth century, it is now possible to investigate more fully the forces that underlay the desire for spatial unity both within and between individual service sectors.

The City of London had grown in importance as Britain's principal port handling the country's exports, imports and re-exports, and acting as the central distribution point for internal trade. By the 1850s its importance in domestic distribution was already on the wane with the development of an integrated railway network and telegraph communication. It became progressively easier to arrange delivery direct from source to consumer, without the intermediation of City markets and merchants. Even within London it was the railway termini outside the City, such as Kings Cross, that were acting as distribution points.[14] For imports, which did arrive by ship, the City was losing its role as they could be directed to their final destination without trans-shipment. Much wool now went directly to Yorkshire textile mills via Hull, having previously broken the journey in London. Even a new and specialised trade, like that in frozen meat, also gravitated from the

[13] London School of Economics, *The New Survey of London Life and Labour* (London 1930) Vol 1, 215, 357; P.G. Hall, *The Industries of London since 1861* (London 1962) 103, 145; D.J. Olsen, *The Growth of Victorian London* (London 1976) 123, 310 – 11, 318; D.F. Stevens, 'The Central Area', 190 & P. Hally 'Industrial London: A General View', 231 in J.T. Coppock & H.C. Prince (eds), *Greater London* (London 1964), G. Tweedale, At the Sign of the Plough: *Allen & Hanburys and the Pharmaceutical Industry, 1715 – 1990* (London 1990) 52, 72.
[14] Hall 'Industrial London', 227; Hall, Industries of London, 23, 25, 119.

City. In 1882/6 the City's Smithfield market handled two-thirds of the meat imported into the UK but only 41 percent in 1910, by which time it largely served the southern half of England.[15] Nevertheless, London as a port continued to handle 33 per cent of UK imports by 1913, reflecting the consuming needs of the South East, especially London with a population in excess of 7 million. In exports London was not well situated for the northern industrial areas, and so the flow of cotton textiles, iron and steel and coal went via Liverpool, Glasgow and Newcastle. By 1913 London was handling only 19 percent of UK exports. In re-exports London retained its dominant position with 54 percent of the UK total in 1913. However, the trade London continued to handle was increasingly by-passing the City of London and instead was located in new dock facilities downstream, such as Tilbury, or directly from ships moored in the Thames. It was only the most high value items like furs, diamonds and curios that warranted space in the City. Clearly there was a growing separation between the City of London and the physical conduct of trade but the City remained a major commercial centre judging from the number of merchants who continued to operate from there. The existence of such a large re-export trade, indicates what underlay the City of London's continuing importance as a commercial centre before 1914. With a growing volume and variety of goods entering international trade, and that trade encompassing more and more countries, there was an increasing need for a wholesale centre to which goods could be sent and despatched from. Bulk commodities like wheat, cotton, coal or iron and steel could justify direct transit but a huge number of other commodities and manufactures could not, and so needed to be assembled and re-assembled in part loads. At the same time other commodities were produced on a seasonal basis and so had to be stored close to market while awaiting use, or required inspection and grading before being made ready for sale. Consequently, whereas London lost bulk trades it continually picked up others in such areas as tropical produce or speciality manufactures. What the City could offer was an unparalleled range and depth of expertise that continued to attract trade to London, though less to the wharves and warehouses of the City itself.[16]

The very growth of a global communications network by the late 1870s, which undermined London's role in the movement of bulk cargoes, also allowed the City to play a greater role in the organisation of international trade. Through the use of the telegraph it became possible to conduct worldwide trading and shipping business from an office in the City, maintaining regular contact with agents and ships

[15] P. Perren, *The Meat Trade in Britain, 1840 – 1914* (London 1978) 197 – 203, 211; C. Maughan, *Markets of London* (London 1931) 145; W.J. Passingham, *London's Markets: Their Origin and History* (London 1934) 47, 71; J.B. Jefferys, *Retail Trading in Britain, 1850 – 1950* (Cambridge 1954) 9 – 11, 30.
[16] S.W. Dowling, *The Exchanges of London* (London 1929) 106, 130, 140; J.G. Broodbank, *History of the Port of London* (London 1921) Vol II, 498 – 9; G.L. Rees, *Britain's Commodity Markets* (London 1972) 144 – 5, 173, 229, 234, 241 – 4, 269, 274, 269 – 70, 325, 334, 351, 417; Economist Intelligence Unit, *The London Metal Exchange* (London 1958) 10, 14, 61 – 2; Maughan, *Markets of London*, 78, 85 – 6, 94, 98, 108, 127 – 8, 203; Passingham, *London's markets*, 149 – 151; J.G. Smith, *Organised Produce Markets* (London 1922) 147; D. Barnard, *The Australian Wool Market, 1840 – 1900* (Melbourne 1958) 133 – 4, 164 – 8; *Statistical Abstract for the United Kingdom* (London 1914) 94 – 6.

captains around the world. The City of London established itself at the very centre of the world communications network, and so attracted shipping and trading firms to it not only from elsewhere in Britain, such as Liverpool, but also from abroad. A firm such as Harrison and Crossfield moved to London in 1854 and ran from there an international distribution network in tea and coffee. Also in that year Julius Czarnikow arrived from Germany and established in the city a worldwide business trading in sugar and coffee.

The very complexity of international trade required organisation and intermediation, and, in the absence of either multi-national companies or government agencies, the numerous merchants, brokers and dealers of the City of London fulfilled those functions. One of the problems of the continued growth of intermediaries, and their increasing specialisation in terms of either product or place, was a means by which they could come together to focus on any particular trade. Clearly physical proximity was an important aid to by-passing the problems of specialisation for it facilitated both competitive behaviour between firms in the same trade and complementary activity among those in allied areas. Mincing Lane, for example, was an especial haunt of firms dealing in such tropical produce as coffee, tea, sugar, spices and rubber with the result that there was common pool of expertise and information that could be quickly tapped as well as a competitive environment which served the customer well. This informal network was strengthened in many trades by the establishment of organised markets . The Baltic Exchange, for example, developed as the market for shipping and grain while the London Metal Exchange, established in 1882, dealt in copper and lead. Though each exchange or market organisation had their own membership and means of operation, their physical proximity ensured that they served the City as a whole. In grain, for instance, entire shiploads were traded on the Baltic Exchange for clients worldwide while the Corn Exchange dealt in less than shiploads for mainly domestic clients like flour millers.[17]

However, the formal markets did more than provide a convenient forum for contact for they also developed facilities which, in turn, enhanced the City's attractions as a centre for international commerce. In particular, a number of commodities lent themselves to trading in standard amounts and grades, such as wheat, coffee, cocoa, tin and copper. As a result, the trading process was reduced to one involving simple price determination of identical lots. Combined with the telegraph, which gave advance notification of expected production and supply, it be-

[17] J.A. Findley, *The Baltic Exchange* (London 1927) 39; H. Barty-King, *The Baltic Exchange: The History of a Unique Market* (London 1977) 133, 153, 360 – 3, 387; C.A. Jones, *International Business in the Nineteenth Century: The Rise and Fall of a Cosmopolitan Bourgeoisie* (Brighton 1987) 68, 80 – 2, 106, 110 – 4, 142, 155 – 7, 160 – 2; *One Hundred Years as East India Merchants: Harrison's & Crossfields 1844 – 1943* (London 1943) 3, 15, 17, 18, Maughan, *Markets of London*, 24, 34, 85 – 6, 108 – 13, 118 – 9, 127 – 8, 131,; Smith, *Organised Produce Markets*, 97, Passingham, *London's Markets*, 156; Dowling, *Exchanges of London*, 35, H.J. Sayers, *The Story of Czarnikow* (London 1963) 9 – 25, K.M. Stahl, *The Metropolitan Organisation of British Colonial Trade: Four Regional Studies* (London 1951) 293; S.J. Nicholas, 'The Overseas Marketing Performance of British Industry, 1870 – 1914', *Economic History Review* 37 (1984) 496 – 8, 506.

came possible to deal for future delivery with reasonable confidence. Consequently, the operation of active commodity markets in the City reduced the risks attached to trade and this increased the supply and lowered the cost of the credit that was essential to bridge the gap between production and sale, especially of seasonal products. By making the ownership of such stocks transferable they could be sold to an intermediary who undertook the risk of finding an eventual purchaser. With a guaranteed sale, banks and other financial institutions were now happy to provide credit at low cost and with little margin, making London an attractive centre from which trade could be organised or goods stored until sold. As the Tea Buyers' Association noted in 1900, 'Warrants for tea are like bank notes and change hands frequently,' indicating the degree of activity in a commodity that did not even possess a formal exchange.[18] Consequently, while in commerce the spatial and functional unity of the City had originally derived from the existence of facilities for loading and unloading ships and the storage of goods, increasingly in the nineteenth century, it was replaced by an unmatched ability to organise trade that came from long experience and an easy access to shipping, insurance, communications and, especially, cheap credit. In turn, this relied upon close proximity of those involved in order to counter-act the specialisation that existed not only within the commercial sector itself but also between it and those who provided the other inputs that were becoming essential for success. A shipbroker, Percy Hartley, remembered, '... it was part of my duty in the rice season to run around the Burma market two or three times daily offering steamers.'[19] This indicates the close connection between trade and transport and the necessity of a constant presence in a fast moving market if opportunities for business were to be gained on behalf of clients. Though the telephone was eroding the need for physical proximity to markets or inter office visiting, the system remained very limited in coverage and quality, with only 10,000 subscribers in the entire central London area by 1905. Before the First World War there existed no substitute for an office in the City itself, and especially one in the most appropriate district, if those in commerce expected to play a full and committed role in a particular trade. Even if the decentralisation of the communications system was reducing the significance of proximate location, the growing importance of cheap credit in international trade, and the necessity of having rapid and reliable access to it, acted to maintain the spatial and functional unity of the Commercial City.[20]

[18] Passingham, *London's Markets*, 136 – 7, 156, 160; Economist Intelligence Unit, *Metal Exchange*, 3, 42 – 6, 63, Maughan, *Markets of London*, 22 – 4, 26 – 7, 36, 39, 85 – 6, 98, 106, 115 – 7, 119, 122, 189 – 191, Rees Britain's Commodity Markets, 170, 205, 397; Swiss Bank Corporation, *Commodity Markets* (London 1935) 7, 14; Dowling, *Exchanges of London*, 153, Barty-King, *Unique Market*, 181, Smith, *Organised Produce Markets*, 4, 11, 41, 44 – 5, 86, 96 – 7, 147. Economist Intelligence Unit, Metal Exchange, 17 – 19, 42 – 7. Rees, *Britain's Commodity Markets*, 52, 133, 170 – 171, 208, 348, 416 – 7, 437. Maughan, *Markets of London*, 31 – 3, 106, 108, 122; S. Chapman, *The Rise of Merchant Banking* (London 1984) 106, 125, 137; Dowling, *Exchanges of London*, 158; London Chamber of Commerce, *Tea Buyers' Association Minutes*, 22/Feb/1900.
[19] P. Hartley, *My Life in Shipping, 1881 – 1938* (London 1938) 65.
[20] Maughan, *Markets of London*, 36, 119; Holden and Holford, *City of London*, 177, 182; Barty-King, *Unique Market*, 181.

Essentially, there was a growing degree of inter dependence between the City of London as a commercial and as a financial centre before 1914, rather than a position of rivalry. Certainly, the physical trade was threatened with the competition for space between offices and warehouses, but this did not mean that those who organised trade had to migrate, for the forces that led them cluster in the City of London remained very strong. Only the extensive destruction of the commercial districts during the Second World War, as they were close to the Thames, and the post-war restrictions that prevented their return, broke the link between the City and Commerce, while the growth of trans-national corporations and government agencies removed many of the functions they had performed. Thus, within the City of London before 1914, it was the operation of the money market that was becoming of crucial significance in maintaining, and reinforcing, the spatial and functional unity that had existed for other reasons in the past. Within a market economy money was continually being released and absorbed by different sectors and locations in the daily, weekly or monthly cycle of activity, while periodic booms and slumps created fluctuations from year to year. This led to a constant need to redistribute money from one sector or location to another as circumstances altered, in order to make maximum use of the available supply. In particular, there were always substantial balances that were being held idle in order to meet a wide variety of expected needs in the near future, as well as contingency funds for unpredictable demands. Consequently, there did exist a vast potential supply of cheap finance available for short-term use, as in the provision of trade credit. Initially, this was done through connections between private City banks and their provincial counterparts but increasingly it became submerged within the operations of the major commercial banks with their extensive branch networks. By 1913 the London based banking groups, like Barclays and National Provincial, possessed 4,716 branches (58 per cent of the total) and had 660 million in deposit (64 per cent of the total). Though a large proportion of these deposits were advanced directly to customers in the locality of each branch or retained as cash to meet withdrawals, a significant proportion was collected centrally and employed in the London money market where it could be lent for as little as a day at a time, and so could be called back at very short notice to meet either the demands of depositors or the needs of customers. Naturally, for such short-term lending the banks received a low rate of return but previously, this money would either have had to be kept as cash, upon which no return was obtained, or advanced to customers on a longer term basis with the risk that, in a crisis it would not be available to repay depositors. Banks had to balance risk and return in order to survive, and the London money market offered a very useful facility in its ability to employ large sums for short times.[21]

[21] M. Friedman & A.J. Schwartz, *Monetary Trends in the United States and the United Kingdom: Their Relation to Income, Prices and Interest Rates 1867–1975* (Chicago 1982) 262; P. Ollerenshaw, *Banking in Nineteenth Century Ireland: The Belfast Banks 1825–1914* (Manchester 1987) 81, 94; F. Capie & A. Webber, *A Monetary History of the United Kingdom, 1870–1982* (London 1985) Vol. I, 130, 576–7, P.W. Matthews & A.W. Tuke, *History of Barclays Bank Ltd* (London 1926) 1; R. Reed, *National Westminster Bank: A Short History* (London 1983) 14; A.R. Holmes & F. Green, *Midland: 150 Years of Banking Business* (London 1986) 56, 100.

The very scale of the City's operations as a commercial centre created remunerative openings for money available for the shortest of periods, because there was constantly new stocks – ashore or afloat – needing to be financed while others were being sold and the credit repaid. Such was the volume of credit business in London that there was the assumption that, in normal times, the supply and demand for credit could be matched with the withdrawal of supply from one lender being counter balanced by an increase from another. Consequently, trade credit could be provided on a permanent basis by tapping continually changing sources of finance. Central to this process was the market in short-term debt because this ensured that the funds coming to London could be quickly and easily employed while those that were leaving could do so smoothly and without causing major repercussions in obtaining replacement finance. These short-term debts were normally in the form of bills of exchange, which were promissory notes given by the purchaser to the vendor. They were often guaranteed by a bank or other acceptor, which made them more marketable since it provided a guarantor that was better known and trusted than any individual trader or manufacturer. By selling these bills at a discount to its face value – hence the name the discount market – the vendor obtained immediate payment for the goods sold, the purchaser was given time to dispose of them and the holder of the bill obtained remunerative employment for temporary funds, measured by the level of discount obtained. These bills normally ran for 30 to 90 days and represented a reasonably liquid asset which matured at a specified time and at a fixed price. For even greater liquidity, though smaller profit, banks could purchase bills with only part of their term left to run, or simply lend to the bill-brokers or discount houses that specialised in borrowing short term, usually on a day-to-day basis, and used the money to purchase and hold bills until maturity, benefiting from the differential between the cost of borrowing and the return on the bill. These money market intermediaries operated in the expectation that, normally, they would always be able to employ any money lent to them in the bills constantly appearing in the market, and that they would always be able to finance a portfolio of bills, using the money continuously offered to them, for as one loan was recalled another became available. Their faith in this was further reinforced by their ability to borrow from the Bank of England on the strength of their bill portfolio, though at high rates of interest which they were willing to pay because their other sources of finance were so cheap. In turn, the Bank of England gained in being a lender of last resort for, though it could be left with substantial idle balances, when it did lend these it obtained a very favourable rate of return.[22] Thus, by the mid-nineteenth century, there had already evolved a complex and sophisticated money market in London that could mobilise the nation's idle short-term funds and employ them in providing the credit necessary for the successful operation of the economy. Thus the City of London's need to provide trade credit created opportunities which attracted short-term money throughout Britain, which enhanced

[22] W.T.C. King, *History of the London Discount Market* (London 1936) 9, 30, 42, 48, 99, 117, 175, 183; C.A.E. Goodhart, *The Business of Banking* (London 1972) 31.

London's position as a commercial centre, because it was easier and cheaper to obtain the necessary credit there than elsewhere. This, in turn, attracted further short-term funds as the openings for their profitable employment grew, bringing in new commercial business in its wake, and so the cycle continued. There was a constant interaction between the demand for, and the supply of, credit which greatly enhanced the City of London's ability to employ money remuneratively, even if available for the shortest of times. Consequently, access to this money market was a major consideration for those requiring credit in large amounts and low cost, and this dictated a presence in the City, certainly before 1914.[23]

However, national banking groups also possessed the ability to bypass the London money market itself. With the existence of their extensive branch networks, directed from a London head office, the national banks could link savers and borrowers by means of transfers within the group, rather than by resorting to the London money market. Domestic bills of exchange, for example, ceased to grow in volume after 1880, even though the expansion of the economy would have suggested a greater need for them. Increasingly each bank was in the position to meet the needs of those merchants and producers among its customers itself by tapping into, directly, the deposits existing within its entire branch network. Nevertheless, this still left the banks with substantial funds which they either wished to keep as liquid as possible, but still remunerative, or were unable to employ within their own network at any one time. Collins has estimated that banks had around 14 per cent of their assets in the form of money at call or short notice by 1914, and most of this was lent out in the London money market. However, simultaneously with these changes in domestic banking the London money market was already finding additional and alternative uses for the funds at its disposal and the expertise and facilities it possessed. This was in the realm of international commerce, which expanded rapidly in this period with Western Europe's demand for raw materials and foodstuffs and its ability to supply manufacturers and services worldwide. Consequently, as the London bill of exchange declined in relative importance domestically it developed into the prime means by which international trade was financed, beginning with Britain's own foreign transactions. From the mid-nineteenth century onwards there was a growing international orientation of the London money market. For example, by 1913 – 14, of the commercial bills outstanding in London, totalling £ 518m, two thirds were foreign, representing trade that did not touch Britain at all. The London money market was thus providing the commercial

[23] W. Howarth, *The Banks in the Clearing House* (London 1905) 118, J.W. Lubbock, *On the Clearing of the London Bankers* (London 1860) 5; S. Chapman, *The Rise of Merchant Banking* (London 1984) 137; Capie & Webber, *Monetary History*, 221, 291.

credit necessary to finance not only British exports and imports but also those of countries like the United States and Germany as well as the Empire.[24]

Within the City, merchant, colonial, foreign and UK clearing banks each developed their own specialities in trade finance, either by area or commodity, or a combination of both, giving the London money market a spread and depth of knowledge and expertise that was unmatched anywhere else in the world. They acted not only as passive intermediaries between the City and the rest of the world, bringing to London those seeking trade credit at the best terms, but also filtered this business, using their judgement to vet the standing of customers and the quality of bills. Collectively they were acting as bankers to the international trading community, using their own experience to reduce the risks to acceptable levels. These banks and their contacts not only brought business to London they also brought money. As banking systems developed around the world all banks experienced the same need to maintain liquid funds in case of crises and the same desire to employ these funds where they would obtain some positive return, in order to help profitability and competitiveness. For this reason they also began to make extensive use of the London money market in the same way as had British banks. By 1914 the deposits of the foreign and colonial joint-stock banks operating in London totalled £1.9bn, or almost twice the level of the UK bank deposits. German banks, like Deutsche Bank, for example, not only used their London branch as a means of financing German trade, but also to employ the short-term funds that their extensive German branch network was continuously producing. Thus, the London money market became the dominant centre for the finance of world trade before 1914, and did so by drawing the funds necessary for such an operation from throughout the world's banking systems. As in the domestic situation in 1850, so internationally by 1914, it was only London that could offer the blend of liquidity, security, mobility and return that allowed otherwise idle funds to be employed, and so drew them to it even from other major financial centres such as Paris, New York and Berlin. In turn, this reinforced London's position in the provision of trade finance. At the same time it was increasingly important for these banks to have a presence in the City of London for that gained them ready access to the fast mov-

[24] C.P. Kindleberger, *A Financial History of Western Europe* (London 1984) 79, 85; S. Nishimura, *The Decline of Inland Bills of Exchange in the London Money Market, 1855 – 1913* (Cambridge 1971) 72, 79; Capie & Webber, *Monetary History*, 280, 310; King, *Discount Market*, 39, 273; M. Collins, *Money and Banking in the UK: A History* (London 1988) 106; E. Nevin & E.W. Davis, *The London Clearing Banks* (London 1970) 136; W.M. Scammell, *The London Discount Market* (London 1968) 162, 193; G.A. Fletcher, *The Discount Houses in London: Principles, Operations and Change* (London 1976) 17 – 34; E. Seyd, *The London Banking and Banker Clearing House System* (London 1872) 61; Chapman, *Merchant Banking*, 106; W.T.C. King, 'The London Discount Market' in: Institute of Bankers, *Current Financial Problems and the City of London* (London 1949) 12 – 14.

ing money markets.[25] It was not only banks that were in this position but other financial institutions like insurance companies and investment trusts for they were continually receiving new funds, either through premiums or interest on their holdings, which they needed to employ remuneratively before being re-invested or paid-out to policy holders or share-holders. This presence could be accomplished by either locating the head office in London, as with the major UK international banks and many insurance and investment companies, or by devolving responsibility to a major branch, as happened with the Scottish and foreign banks. Whatever method was chosen a presence in the City became essential for the operation of a financial institution in the more complex and cosmopolitan world of the late nineteenth century. As the City was also ideally placed for the overall direction of a financial institution, with its worldwide communications and its support facilities, the easiest course of action was often to locate the head office there, as happened with an increasing number of British banks and insurance companies before 1914.[26] However, the continuing independence of the Scottish banks and the existence of major insurance companies in such centres as Edinburgh, Liverpool, Manchester and Norwich, does indicate that a City head office was not essential for success, as long as other means were used to maintain an intimate contact with the London markets. Also, in order to retain its competitive position as a home for short-term funds, and as a source of credit, the City had to develop new facilities and devices continually to facilitate the matching of supply and the demand for credit. This had to be done over all the variables of type, amount, time, location and price. This forced those in the money market to look for alternative means of employing the funds at their disposal, when the demands of trade were low, if they were to continue to attract short-term money through their ability to pay interest on it. The problem was that though the need for short-term funds were continuing to grow, proportionally there was an even greater need for long-term capital. Throughout the world there was a progressive development of railway lines, telecommunications networks and urban facilities which all required a very large fixed investment that had to be made at the outset if the systems were to operate successfully. Similarly, in manufacturing industry and mining the scale of operations necessitated a growing initial investment in plant and equipment rather that a slow build-up fi-

[25] Holmes & Green, *Midland Bank*, 132; Collins, *Money and Banking*, 149; A.G.J. Baster, *The Imperial Banks* (London 1929) 140, 144, 216; A.G.J. Baster, *The International Banks* (London 1935) 76, 258; K.E. Born, *International Banking in the Nineteenth and Twentieth Centuries* (Leamington Spa 1983) 117; R.J. Truptil, *British Banks and the London Money Market* (London 1936) 142, 149, 155, 178–80; D. Williams, 'The Evolution of the Sterling System' in: C.R. Whittlesey & J.S.G. Wilson (eds), *Essays in Money and Banking* (Oxford 1968) 286; A.I. Bloomfield, *Short-term Capital Movements Under the pre-1914 Gold Standard* (Princeton 1963) 35, 46; E.G. Peake, *An Academic Study of Some Money Market and other Statistics* (London 1923) 7, 21, 24, 37, 39; M.C. Myers, *Paris as a Financial Centre* (London 1936) 162; *Enemy Banks (London Agencies): Report of Sir William Plender 16 December 1916* Cmnd 8430 (London 1917) 6, 12, 31; G. Rozenraad, 'The International Money Market' *Journal of the Institute of Bankers* vol 23 (1902) 197–8, vol 24 (1903) 101, vol 25 (1904) 266; Kindleberger, *Financial History*, 70, 264.
[26] C. Clegg, *Friend in Deed* (London 1958) 6, 33, 39; J.D. Simpson, *1936: Our Centenary Year – The Liverpool, London & Globe Insurance* (London 1936) 11, 14, 26, 45; E.V. Francis, *London and Lancashire History* (London 1962) 1, 2, 4, 28.

nanced by credit and ploughed-back profits. There had always been a need for the provision of long-term finance but it had been small when compared to the requirements of commercial credit or the use of self-finance in business.

The question was how could the money market, which was abundantly supplied with short-term funds, use these to finance long-term capital-intensive projects, where the funds were required for years, or even decades, and could not be withdrawn in the interim. As with the link to the commodity markets this brought the money market into intimate contact with another City operation, namely the Stock Exchange. As Hichens, a broker who represented the London J-S bank, put it in 1848 'The Stock Exchange is the channel through which all the money business of London flows, ...'[27] The Stock Exchange was the market in securities, such as shares, stocks, bonds and debentures. These represented long-term debt created by governments, often to finance wars, or by corporations, such as the railways, which could not be liquidated on demand, but could be sold to another at the prevailing market price. What was being bought and sold on the Stock Exchange were the claims to these debts. To the issuer of the securities the debt created was a long-term one because any date of redemption was far in to the future, if it existed at all. In contrast, as long as the purchasers of these debts were convinced that they were easy to re-sell, without any serious alteration in price, the length of time for which the investment was made depended upon the investor's desire or ability to hold the securities. Thus, though the investment itself could not be liquidated, the owner of the claim to the return on that investment could sell it to another. Those requiring long-term finance could obtain it from those only willing to make short-term loans through the device of a market in the claims to the product of the investment. Consequently, the creation and efficient operation of a securities market removed the distinction between short- and long-term investments, creating instead a single market in assets of varying liquidity. This opened up the opportunity in London for the placing of short-term funds into long-term securities for limited periods, profiting from the fact that the price would rise as the dividend or interest-paying date approached. This did involve an element of risk as the price could fall in the interim through general economic circumstances or events peculiar to the issuer of the securities. There thus developed a group of intermediaries, particularly jobbers on the Stock Exchange, who made a practice of borrowing short-term money, available at low rates of interest, and investing it in long-term securities, yielding a higher rate of return, and so profiting from the interest-rate differential. Obviously they took the risk that the securities might fall in value and that they might have to realise at a loss if it became impossible to renew the loans during the panic. However, because of the size of London money markets there was every expectation that short-term money would always be available, and as the Stock Exchange grew in size and turnover, it became easier to buy and sell with little variation in price. It was only the safest and most liquid of securities in which these operations were conducted, so as to limit the likelihood of price fluctuations and increase the pos-

[27] London Stock Exchange: Committee for the General Purposes 16/Feb/1848.

sibility of rapid realisation. At first, these were principally the various issues of the National Debt, because they were the largest and safest securities traded in the market. By the late nineteenth century they had been complemented by the loans raised in London by foreign and colonial governments and, increasingly, the various securities issued by large railway, industrial and mining enterprises, both from home and abroad. In particular, the securities created by the world's major railway companies to finance their operations were available in such magnitude as to make them suitable for temporary investment, especially as the scale and nature of their operations virtually guaranteed their ability to service their debts and make regular dividend payments.[28]

Thus the London Money Market became adept at employing volatile funds in long-term investment with only minimal risk, and so increased its attractiveness as a home for such funds since it could always employ them at some positive rate of return. To do this successfully required a location in the City itself as it was important to be within easy reach of both the stock exchange and the offices of the banks, discount houses, and other intermediaries. In 1848, for example, the stockbroker, Mullens had a regular stroll around different banking houses between 10.30 and 11 o'clock, picking up buy and sell orders.[29] In fact, it was to be the late twentieth century before the existence of rapid, reliable, and extensive electronic networks finally replaced the inter-office contacts, and the market floor, as the principal means of dealing in fast-moving money and securities markets.[30] The consequence was that London attracted investment bankers from all over the world who recognised in the City a market where they could more easily raise and direct finance than anywhere else in the world. These included firms like Kleinworts from Germany or Flemings from Scotland. In turn, the existence of so many specialists in foreign investment in London, and their extensive contacts, helped to make the City an even more dominant force in international investment, which attracted more finance houses from abroad. Essentially, what the City was very good at was the raising of large amounts of capital for the likes of governments and railways wherever they were located. For example, between 1860 and 1904, Barings and Rothchilds issued between them 250 loans worth £ 1.9bn, or with an average size of £ 7.7m. Established firms like these were specialist issuers of large loans and when an industrial issue came into that category they would handle that as well, such as Barings' issue of £ 6m in securities for Guinness in 1888. Beneath them there existed numerous other merchant banks that specialised in smaller issues. J S Morgan, reflecting their US origins, concentrated upon loans for the principal US railroad companies and, later, industrial enterprises where issues of between £ 0.1m and £ 0.2m were common, with few being over £ 0.5m. Smaller still were firms like Dunn, Fischer & Co, or the Canadian Agency, with interests in Latin American

[28] For more detail on the links between the money and capital markets see, R.C. Michie, *The London and New York Stock Exchange 1850 – 1914* (London 1987) 139 – 56.
[29] London Stock Exchange: Committee for General Purposes 12 Jan 1848,
[30] Duffy & Henney, *Changing City*, 18 – 19, 99, 104, 108; N. Sowels, D. James & I. Hunter, *Britain's Invisible Earnings* (Aldershot 1989) 146.

tramways and Canadian industries respectively. Again, for all these firms of investment bankers a presence in the City was of major importance as few were large enough to handle an issue alone, and so needed the co-operation of those in a position to pass on the resulting securities to their clients, like stockbrokers and other merchant bankers, or absorb them into their investment portfolios, like the insurance companies or investment trusts. At the same time a company flotation or government loan was a complex undertaking and required not just the expertise of an investment banker and their associates, but the likes of accountants and lawyers to handle the intricate financial and legal detail. Similarly a railway project necessitated the involvement of surveyors and civil engineers while a mining venture required geologists and mining engineers. The City possessed these in abundance, so that a meeting could be quickly and easily arranged to include all the expertise relevant to the proposal. Even in the late twentieth century it was important to have this range and depth of talent available in the one place for the sequence of consultations necessary before a prospectus could be laid before the public. Consequently, within the City's financial operations before 1914 there was a constant requirement to be located near the Stock Exchange, as the central market for buying and selling securities, and this in turn attracted those firms and institutions that were involved in both the issue of new securities, like the merchant banks, and the investment of large sums in stock and shares, such as the insurance companies and investment trusts. In turn this drew in experts like accountants, lawyers, surveyors and engineers who could provide that pool of knowledge and expertise required in either floating companies or handling government borrowing.[31]

In 1903, when Booth, assisted by Aves, was examining the question of London life and labour, they came to the conclusion that, 'The economic advantages of localization largely consist in grouping around the main process of an industry those allied and subsidiary trades and processes which, combined with adequate means of distribution, go to secure the maximum of aggregate and efficiency.'[32] This explanation was the result of their observations concerning London's manufacturing industry as they sought to understand the dense concentrations that continued to exist even with improved transport. However, once the principal features of the City of London before 1914 are identified it becomes clear that the same processes operated there, and help to explain both why the City itself continued to expand in numbers right up to the Second World War, and what underlay the desire of so many diverse activities to retain a high degree of physical proximity. Essentially,

[31] S. Chapman, *The Rise of Merchant Banking* (London 1984) 16, 43, 49, 70–81, 103, 170–2; v P. Carosso, *The Morgans: Private International Bankers, 1854–1913* (Cambridge, Mass 1987) 221–2, 390, 395–6, 403, 461, 596, 606, 612; P. Ziegler, *The Sixth Great Power: Barings, 1762–1929* (London 1988) 199–200, 287; J. Orbell, *Baring Brothers and Co Ltd: A History to 1939* (London 1985) 51–2, 65; R.C. Michie, 'Dunn Fischer & Co in the City of London, 1906–1914', *Business History*, vol 30 (1988) 195–6, 213–4; Duffy & Henney, *Changing City*, 28, 159, 177; Rajan & Fryatt, *Create or Abdicate*, 5, 20; E. Jones, *Accountancy and the British Economy, 1840–1980: The Evolution of Ernst & Whinney* (London 1981) 47, 56 ,99, 141, 147, 156, 158, 163, 168–9, 174–7, 180; J. Slinn, *Linklater & Paines: The First One Hundred and Fifty Years* (London 1987) 1, 7–10, 16, 31, 41, 52, 99, 109.
[32] Booth and Aves, Life and Labour Vol 5, 97.

the explanation rests upon a combination of physical infrastructure and human resources. The physical infrastructure originally consisted of the docks and warehouses, that reflected the City's role as a port, but in the nineteenth century, especially after 1850, it consisted more and more of custom-built buildings and especially a worldwide communications system. Together, these provided the City of London with the accommodation from which to carry out business, whether it was from numerous small offices or markets and exchanges, and the international contacts and intelligence that was essential in the directing and managing of flows of commodities, manufactures, credit, capital and ships. In the course of the century there was a constant interaction between growth and infrastructure as new buildings replaced old and the post gave was to the telegraph and the telephone. However, the physical infrastructure of the City, was, itself, the least important part of its continuing success, though it did help to sustain its spatial unity before 1914 by accommodating an ever growing number of people and providing centralised communication facilities. Of much more importance were the activities that took place within and between these offices and markets, and which the worldwide communications served. As the trade in physical goods migrated from the City of London the pull of a City location centred upon the services that City merchants, markets, and intermediaries could offer and this was dependent upon their expertise due to both a long-familiarity with the business and a high degree of specialist knowledge. Though that alone was sufficient to preserve the City of London as a major commercial centre it was increasingly supported by an array of other services, of which shipping, insurance and finance were the most important. The City of London's ability to call upon such a wide array of specialist services increased its competitiveness against rival commercial centres, as they enhanced its expertise and lowered its costs. In particular, the existence of a large and active money market in the City of London gave merchants' access to the volume of credit which was becoming necessary if the world's expanding trade was to be financed. Thus, though commerce had given birth to the financial element in the City of London, it was the availability of credit that helped to sustain the commercial element in the second half of the nineteenth century. However, the money market did not just service commerce, for its existence in the City itself stimulated a wide range of other activities related to the raising of long-term finance, initially for the British government but later for important areas of the world economy as a whole. Key to this linkage was the stock exchange which, by creating a market for long-term debt, made it a suitable investment for short-term funds, and this brought it into contact with the money market. As a result the City attracted those who wanted to borrow, such as governments and railways, and those who wanted to invest, like insurance companies, investment trusts, banks, or the individually wealthy. Finally, in turn all these activities required advice, and so in the City were located the accountants, lawyers , and others who could provide it.

The end result was that the City of London achieved a critical mass that allowed it to achieve self-sustaining growth, as its very success, for example, in employing otherwise idle funds, attracted more and more of those needing to place or to use such funds. In the process the City of London lost its residents and its manufacturing, but gained a world role as a commercial and financial centre. Events in the twentieth century, after 1914, removed from it the commercial function and left it with a changed and reduced financial function, within which the operations of the money market continued to be the vital force preserving what spatial and functional unity there was left. As Goodhart and Grant observed, 'The City fulfills a need in the world economy as a place where providers of capital can be brought together with its users, where companies can rely on finding a pool of financial expertise, and where markets that have been driven out of other centres by an excess of regulation can flourish.'[33] The reason that the City of London continues to fulfill this role by the late twentieth century, despite all the vicissitudes of the last 100 years, rests largely with the critical mass it had built up before 1914 and the central importance of the money market as a centripetal force. After the First World War the City of London had to share that money market with New York and, eventually Tokyo, whereas before it had been virtually unchallenged internationally.[34]

Appendix

City of London: Changing Composition 1881 – 1911.

Year	Manufacturing	Support Services	Commercial Services	Financial Services	Business Services
1881	30%	10%	38%	4%	19%
1911	8%	28%	27%	9%	19%

Manufacturing:	Production of all goods and materials including printing, publishing, clothing.
Support Services:	Servicing the needs of the City: retailing, transport, secretarial, maintenance.
Commercial Services:	Commodity markets, merchants, dealers, agents, brokers and others handling merchandise and produce.
Financial Services:	The Stock Exchange: Banks, discount houses, investment companies, stockbrokers and others handling money and finance.
Business Services	Insurance, accountancy, law, surveyors, architects & engineers

(The 1881 data only identified firms or separate units while that for 1911 identified all employers and employees. The result of this would be to undercount for 1881 Financial' and Business as the banks and insurance companies were among the largest single employers in the City of London.)

Sources: Corporation of London, Report of the City Day – Census, 1881 & 1911.

[33] Goodhart and Grant, *Making the City Work*, 6.
[34] See R.C. Michie, *The City of London: Continuity and Change since 1850* (Macmillan, London 1992).