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Introduction

I venture to call this Essay "Lombard Street," and not the "Money Market," or any such phrase, because I wish to deal, and to show that I mean to deal, with concrete realities. A notion prevails that the Money Market is something so impalpable that it can only be spoken of in very abstract words, and that therefore books on it must always be exceedingly difficult. But I maintain that the Money Market is as concrete and real as anything else; that it can be described in as plain words; that it is the writer's fault if what he says is not clear.

This introductory passage from Bagehot's 70-year-old classic¹ expresses the objective of the present essay. It, too, deals with "concrete realities." It considers problems connected with the functioning of the British financial system in war and reconstruction, and with the effects of war and its aftermath on British financial institutions.

The institutions comprising the London money market are much the same today as they were 70 years ago. "The objects which you see in Lombard Street, and in that money world which is grouped about it," Bagehot stated, "are the Bank of England, the Private Banks, the Joint Stock Banks, and the bill brokers."² These institutions have a long and venerable history, and they have played a prominent part in the shaping of world affairs. Before World War I, London was the undisputed center of world finance; when World War II broke out, she was sharing this distinction, and the accompanying privileges and responsibilities, with New York.

In Britain, perhaps even more than in other countries, conditions in the money market reflect conditions in the British economy as a whole. British prosperity, power, and prestige are founded upon international trade and finance. The London money market has grown and flourished through the financing of foreign trade and investment. A distinguished French economist has stated, "The complete significance of the banking system cannot be properly realized unless we keep constantly before our eyes the body which this blood stream of money and credit is continually nourishing. Behind the City of London, it is

¹ Walter Bagehot, *Lombard Street* (London, revised edition, 1909) p. 1. The study was first published in 1873.

² *Ibid.*, p. 21.

necessary always to imagine The Port of London, Great Britain, the whole Empire."³

During the period between the two World Wars, the growth of economic nationalism retarded the expansion of international trade and finance on which Britain is so dependent. Consequently, British prosperity is increasingly dependent upon economic policies undertaken elsewhere. If conditions in other countries are such as to threaten the recapture by Britain of her position as a major exporter of goods or services, and of capital, Britain will almost certainly think it necessary to rely more heavily on policies of economic nationalism and self-sufficiency. What happens in the United States is especially germane to developments in Britain. Nothing is feared more there than American policies that would perpetuate a "chronic shortage of American dollars," or bring about an American depression. There is no lack of recognition on the far side of the Atlantic of the importance to Britain of American economic policy, or of the importance of Anglo-American cooperation for the success of new adventures in international finance.

For the six years of World War II the activities of the British financial system, and of the British economy as a whole, were concerned not with foreign trade but with war. Now that war is over, will Britain regain her position as a leading foreign trader and lender? Upon an answer to this question depends not merely the future of Lombard Street, but the future of the whole British economy, and of the entire international economic structure.

The primary concern of the present essay is with the institutions of Lombard Street during World War II, the effect of the war upon them, and their possible future role in reconstructing Great Britain and the world. To scrutinize developments with the proper perspective, however, it is necessary to know something of the organization and significance of the London money market before World War I, and of how the market was affected by that war and by the Great Depression of the thirties.

³ R. J. Truutil, *British Banks and the London Money Market* (London, 1936) p. 20.