



# **CITY LIVES**

The changing voices  
of British finance

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**CATHY COURTNEY & PAUL THOMPSON**

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Methuen

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## City Lives

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## Foreword

There have been many accounts, cursory and detailed, of how the City of London works and of its history both in times of order and of crisis. This volume, however, which deals with a unique period of financial and institutional transformation, is unique also in its approach.

With the help of modern technology, unavailable to previous generations, it draws on the oral accounts of what happened during what were unforgettable days in City history. The accounts are those of participants in the daily operations of the City, not of eye witnesses or of outside commentators; and for this reason they carry with them a very special sense of authenticity. Each participant perceived of what was happening, of course, in the light of his previous experience as well as of his present knowledge and his place in the operational pattern. This is history both from above and from below, history that carries with it a sense of immediacy. It will be read with interest both inside the City and outside.

As Chairman of the National Life Story Collection I am proud to be associated with this project and to write this foreword. It is the task of our small but lively organisation to use the advantages of tape (and of visual) recording in the interests of posterity. What has previously been lost will now be saved. Our previous studies include the steel industry on the eve of fundamental changes. The City of London provided a different kind of challenge. The City is still changing, and it has undergone further crises since the volume was assembled. For this reason alone this book will be far from the last word.

*Asa Briggs*

## Introduction

The success of the City of London in maintaining its pivotal role as one of the world's financial capitals has been an astonishing achievement. In the last fifty years it has stood out as a rare victory against the odds, with first the British Empire's worldwide political and trading network, and then its home base in the domestic manufacturing economy, crumbling around it. It was a success which demanded a radical transformation of the City's financial techniques and culture: a transformation from the old slow-moving system based on the mutual trust of a gentlemanly British élite, to an incessantly demanding struggle with the ruthless instabilities of today's open global markets.

This book is unique in presenting that transformation from the inside, in the words of the working generation which has shaped and experienced it. The power of the City silently influences the pockets and politics of every household in Britain. Yet most people have little understanding of how the financial City works, and what kind of people run it.

There have of course been plenty of commentaries of one kind and another on the City. There are a handful of books which explain clearly how the City functions or used to function technically, and a very small number of histories of particular banks or other institutions. But none of these give much sense of the City's working culture and its people in the twentieth century. There is a surprisingly thin and usually barbed line of novels about the City. Dr Johnson was exceptional among writers in his remark, which Boswell duly noted on 27 March 1775, that 'there are few ways in which a man can be more innocently employed than in getting money'. Novelists from Anthony Trollope's *The Way We Live Now* (1875) and George Gissing's *The Whirlpool* (1897) to J. B. Priestley's *Angel Pavement* (1930) and Margaret Drabble's *The Ice Age* (1974) have seemed eager to focus on how fortunes could be made or lost quickly through booms and crashes, manias and frauds, but none of them has really understood finance. More informed journalistic accounts of the City's culture have also targeted its fashionable weaknesses: shifting in the post-war years, as Anthony Sampson's successive editions of the City chapters in *The Anatomy of Britain* illustrate, from the problems of the over-

protective old boy network to those of unregulated fraud. And astonishingly few long-term City financiers have ever broken into print themselves with autobiographical evaluations of their working lives. It is symptomatic that the autobiographical market has been scooped in exposé form: by *Liar's Poker: Two Cities, True Greed*, whose young American author, Michael Lewis, worked for Salomon Brothers in New York and London for a mere two years in 1985–7; and most recently, in the confessions of Nick Leeson, *Rogue Trader*, on his role in the fall of Barings.

It was because of this extraordinary neglect of inside accounts of the transformation of the City that, when we set up the National Life Story Collection at the British Library's National Sound Archive to create through interviews a living record of the life experiences of both the eminent and ordinary men and women in Britain, we immediately recognized this as a prime gap. The result was our 'City Lives' project, which was led for the first two years by Paul Thompson and from 1990 by Cathy Courtney. The project had to be and was sponsored primarily from within the City itself. We immediately gained crucial and perceptive support from Sir Nicholas Goodison and Sir Robin Leigh-Pemberton, then Chairman of the Stock Exchange and Governor of the Bank of England, and later on we have been particularly helped by Sir Kenneth Kleinwort and by the Esmée Fairbairn Trust. A full list of all who sponsored interviews, the one hundred and twenty-two men and women whose life stories have been recorded and deposited in the National Sound Archive, and of those who interviewed them, is printed at the end of this book. It would have been impossible without the support and time which they gave to the project, and we are grateful to them all.

It seems appropriate that the 'City Lives' project has taken on a coherent shape partly precisely because of the way in which it was funded through sponsorship. Essentially, the project has created a collective portrait of the most successful men of their working generation, born between 1920 and 1950, who held senior posts in the City at the end of the 1980s. They gave us a remarkable amount of time, with typically over six hours of interview recorded; and their life stories are the heart, both of the collection at the Archive, and of this book.

Ideally we should have liked to have been able to expand the project, both backwards and forwards in time, and also socially, even though the resulting material could have hardly been squeezed into this book. We were unable to secure funding for this except fragmentarily. We were able to record a few interviews with the older generation, already retired, who had started work in the City between the wars. Most of these were recommended by our core group, and to an extent seen as former mentors, so that they fit well into the same frame. But it would be fascinating to



record a wider cross-section of this older generation of former City leaders while there is time. We were also able to include a small number of interviews with the generation born in the 1950s and 1960s, focusing especially on those, such as women or ethnic outsiders, who were new to the old City culture, and so experienced it from a different perspective. A wider cross-section from this generation too would be well worth recording, and we hope in time to be able to undertake this.

Lastly, of course, the City does not just consist of financiers who get to the top. Even within the financial City, there are far more who stay at a lower level, or who fail disastrously; and there is a range of crucial support workers from clerks and typists, messengers and cleaners, to barbers and preachers, spouses and therapists. And there were, and to a lesser extent are still today, the other branches of City activity outside finance: the press, the law, the food markets, shipping and so on. The City of London is an extraordinary mosaic of separate but interacting worlds, each with its own living history, most of it slipping quietly into oblivion. We see the history which people carry in their life memories as a crucial part of our heritage, as much as the objects and buildings to which they are complementary – and on which we spend infinitely more money. So for us, the 'City Lives' project is a start: a first shaft in this historical gold-mine.

Human memory is well known to be fallible. Eyewitnesses will have different memories of a car crash even minutes afterwards. And people sift, select, discard and rearrange their memories over time, depending on where they have arrived. Just as an account of a marriage by a person who is still married rarely has the openly bitter tone of one divorced, so a working career is viewed much more positively from its apex than after a forced redundancy. (For this reason alone, even before the constraints of libel are taken into account, this book could not have been a hot source on recent City scandals.) Hence historians, like lawyers, argue ferociously about the value of remembered evidence, or 'oral history', and its strengths and weaknesses are discussed at length in Paul Thompson's book *The Voice of the Past*. Here it will suffice to make three comments.

Firstly, it has been shown that memory is on the one hand especially unreliable as a narrative of events, and worse still on chronology; cautions which need to be borne in mind in interpreting the pages which follow. On the other hand it has proved relatively trustworthy on everyday patterns of working practices and relationships in earlier life, and since these are rarely recorded at the time, memory can provide a unique and invaluable source for understanding them.

The second is that memories do not have to be true to be interesting or important. Indeed, the very selections or distortions with which people

recount the past can be especially good clues to how they think about the world. For all of us, even those who write off history as irrelevant, memory is the essential frame for knowing who we are and what we need to do. Thus what we believe about the past is crucial. When City financiers talk now about whether Siegmund Warburg lied to Hugh Kindersley in the street during the British Aluminium Battle in 1958, it does not matter whether he lied or not, but that they see the battle as an epic struggle, a turning point, and still recount it. For the old City order, Warburg's victory was as welcome as King Billy's on the Boyne was to the Ulster Catholics. In the City as in Ulster, our view of the past provides myths we live by in the present.

Lastly, each life is a single thread. That means that memories are very good at showing the connections between different spheres of life: for example, between family, education and training, and work. This is why the earlier parts of this book draw on a limited number of testimonies, making the connections observable. Life stories are also good at evoking the immediate context, whether at home or work. But because they are from a single, individual perspective, they can rarely convey how a system works as a whole. They need to be put in context.

Although the City of London has been a centre of banking and finance since the middle ages, the Square Mile has only become predominantly a financial centre during this century. On the eve of the First World War less than a tenth of the City's work-force were in banking or stockbroking; that is, half the number who were in other professions, or in manufacturing; a third of those in the food and mineral markets. London was then one of the world's greatest ports, and Britain had the largest share of the world's shipping fleet. Even in 1939, a quarter of the City itself was occupied by warehouses. They lined the river front, barges and lighters loading on the mud, while porters carried fish into the Billingsgate market and coal was traded immediately behind it under the elegant cast-iron dome of the Coal Exchange.

London is no longer a port, Britain no longer a maritime nation, and city centres have become too inconvenient for wholesale commercial markets. This has transformed the City's landscape, so that three-quarters of its buildings have become offices, and also its functions. Billingsgate fish market has closed, the Coal Exchange is demolished, the meat market at Smithfield only hangs on as an anomaly, and the only physical trades which really matter in the City any longer are in gold and diamonds.

This means that it has proved very difficult for the City to hold on to most of the trading exchanges which originally developed as part of a real

physical market, even when in principle they could be traded on the basis of samples only, or as 'futures' based on expected later production and distribution. Since 1939 more City markets in commodities have in fact been lost than either retained or created. Not only coal and fish, but corn, wool, tea and cotton have gone. Of the old trading floors, the London Metal Exchange proved the most resilient, set up in 1882, which went on battling for world primacy with New York, holding on to copper, lead and zinc, and opening up new markets in aluminium and nickel. The City also developed a new trade in oil futures from the 1970s, setting up the International Petroleum Exchange; while the newly organized London Commodity Exchange (FOX) won significant trades in futures in sugar, coffee and cocoa. Nevertheless it is now clear that London lost immense opportunities in the international futures markets by failing, in contrast to Chicago, to develop means of trading futures *between* commodities by bringing them all under a single roof, or of hedging currency instability after the freeing of exchange rates in 1972-3. In the previous period of fixed rates London had found a valuable growing market in 'counter-trade', the organizing of barter in exchange for non-convertible currencies. But the London market in currency 'swaps' did not emerge before the early 1980s. Hence by 1980 Chicago already had more than two-thirds of the world's futures trading, and ten years later, after the London International Financial Futures Exchange (LIFFE) had opened its doors, London's share was less than a tenth.

The City had also developed other more specialized functions around London's role as the hub of an empire and a worldwide shipping network. In the mid-1950s the Baltic Exchange was still handling two-thirds of the world's ship chartering business. But by the 1980s, with too many of its members slow to adapt, it had become an elegant but defunct fossil. Lloyd's, on the other hand, had depended primarily on marine insurance, of which it was the world centre, but its members showed much earlier imagination, switched into motor and air insurance from the 1930s, and above all developed a speciality in reinsurance. Lloyd's also became heavily involved in the American insurance market. As a result, although growing less fast than the world insurance market as a whole of which it has a shrinking share, Lloyd's did expand strongly in the post-war decades, and its membership, under two thousand five hundred in 1948, has risen forty years later to thirty-three thousand five hundred.

Historically, the City had pioneered fire and life insurance in the eighteenth century, and some of the biggest insurance companies, such as the Prudential, still keep their headquarters there. But their organization and culture have long been altogether different from the City, institutionally characterized by large-scale paternalistic bureaucracy and calculated

caution rather than by market dealing and individual risk-taking. Most of their work-force has been scattered across the provinces, and many of their head offices have become largely symbolic presences. The changes which they have experienced through the opening up of the finance markets are another story, which we can only hint at here. The same is true of the two other leading client service professions, law and accounting. The lawyers remain nationally entrenched in the mediaeval Inns of Court, again a different world; but there have long been specialized City firms. Accountants are a somewhat newer breed, but of rapidly growing post-war significance as specialists in bankruptcy and merger investigations. Both City lawyers and accountants have increasingly linked up with overseas counterparts, so that once-small leading firms now count their staff – and some even their partners – in thousands.

The interlocking institutional system of the City as a financial centre up to the 1980s was also a legacy which had fused earlier domestic and imperial needs. On the eve of the First World War London was the world's prime centre both for raising long-term capital and for dealing in short-term credit.

The Stock Exchange had risen primarily as a market for long-term government stocks, expanding into local municipality and foreign government loan stocks, and joint stock companies for constructing railways, telephones, gas and electric supply, both at home and overseas; and later more generally into trading and merchandising enterprises. The Edwardian Stock Exchange was truly international: more than half of its trade was in foreign securities, at a time when a third of Britain's assets were calculated to be in foreign investments. But from the First World War onwards it went into a slow decline. Although London has a crucial international role in the cross-border trading of securities, this increasingly bypassed the Exchange. It was initially unable to deal in Eurobonds. By the 1980s both the New York and Tokyo exchanges, based on much more powerful domestic economies, had daily volumes of trade ten times greater than that of London's Stock Exchange. Its membership was restricted to British nationals, and falling from five thousand five hundred to under three thousand five hundred by the 1960s. There was a traditional sharp division between the brokers, who handled clients, and the jobbers, who actually bought and sold, and there were fixed commissions, which were off-putting to the biggest corporate investors. Consequently its business shrank to simply trading in British-based securities – and by the early 1980s it was even losing some of this trade to New York.

In the Edwardian era the Bank of England, although still a private corporation, issued sterling as the world's prime currency, and kept a watchful eye over the other banks, whose head offices clustered around it.

These were of two types. The first were the clearing banks, with their branches now not only in high streets throughout Britain but also in the bigger cities through the Empire and in Europe. They had to keep a proportion of their money liquid rather than on long loan in order to meet crises, and the best place for putting short-term money to use was London. The clearing banks were consolidating into giant slow-moving pyramidal corporations rather like the big insurance companies.

The discount houses and merchant banks, by contrast, were small but specialist. Discount houses had originated as sellers of one month's or three month's credit notes, or 'bills of exchange', for immediate cash at a discount. The merchant banks had developed this system which eased domestic transactions into a key instrument for financing international trading, operating through webs of contacts across the world, sometimes strengthened – as with Hambros – through cross-ocean marriages and cousinages. Later some of the merchant banks such as Kleinwort and Helbert, Wagg became specialists in international currency dealing, for which London was the principal centre between the wars. Others developed the techniques of raising money through the creation and issue of new securities and using their contacts to place them with buyers, as opposed to offering them on the stock market. 'The secret of an issuing house is distribution,' one former merchant banker has written, and then, as now, 'The traditional Old Boy Net still played its role, in shifting large blocks of shares.'<sup>1</sup>

From the First World War onwards the experience of a progressively weakening British economy, compounded by the 1929 Wall Street crash and the Depression years which followed, led to a much more defensive and restrictive system. The Accepting Houses Committee set up in 1914 became a closed ring through which the Treasury sold government bonds to the discount houses, who in turn sold them on to the clearing banks, taking up the liquidity. The Bank, nationalized immediately the Labour government came to power in 1946, guaranteed the system as the ultimate source of loans, but insisted that the clearing banks keep over a quarter of their deposits liquid. This was good for the domestic economy because it helped to keep the pound stable at relatively low interest rates, but it rigidified the established finance system.

No doubt this partly explains why the City finance houses in the 1950s seemed so irredeemably conservative in their ways. As always, however, the City was made up of a mix of types. The division between brokers and jobbers on the Stock Exchange was based on the social disdain between stockbrokers, who needed gentlemanly airs to deal with rich individual clients, and energetic loud-voiced dealers, who might indeed turn out to be the mythical ex-street market barrow-boys made good. Similarly, in the

foreign money markets the more cultivated merchant bankers would have felt ill at ease with the dealers on the market floor itself, which one observer described in 1940 as 'the nearest thing to Bedlam that I know – half a dozen men in a little room, shouting in incomprehensible jargon into telephones, pushing switches up and down all the time in response to the flashing indicator lights'.<sup>2</sup> But in fact most young merchant bankers had to try their hand at dealing, and some of them relished it. They also had the energy and enthusiasm for the tough travelling needed to re-establish or win foreign markets in the post-war years. It was young men like these who began to open up key new finance markets from the late 1950s onwards.

The first crucial move was the creation of a market in Eurodollars and Eurobonds (loans in dollars for the developing European Community's institutions), in London rather than in New York. Although Warburgs had already started in Italy, the London market was initiated from 1957 by Hambros with the connivance, but outside the control, of the Bank of England.<sup>3</sup> In the 1970s this was followed by the development of trades in OPEC petrodollars, which after the first oil crisis were lent to Third World and Communist banks, and in direct international inter-bank loans. The inter-bank loans were based on a new financial instrument invented in the 1960s, the sellable certificate of deposit (CD), which enabled banks to lend to each other without any ultimate collateral to guarantee the loan.<sup>4</sup> And finally London reasserted itself in international currency dealing, from the early 1980s creating alongside it a market in currency swaps, enabling the hedging of bets against fluctuating exchange rates by balancing risk and return.

All this was uncontrolled: indeed, much of it had come to London simply because New York was more strictly regulated, and the smaller European finance markets still more so. Paradoxically, although part of London's appeal was its reputation for trust and political stability, it was at the same time functioning as an offshore banking centre between Europe and North America. Before long, indeed, it also became clear that time zones gave London an additional advantage in its position between Tokyo, Hong Kong and New York. These new markets proved explosively prosperous, and new foreign banks and finance houses flooded in to set up their London branches.

The new money markets were the City's most dramatic post-war success: but they were also the undoing of the old City. By the 1980s there were essentially two finance capitals on the Square Mile. There was the old regulated domestic City, still under the benign supervision of the Governor of the Bank, its 'headmaster, whose frown could terrify grown men and whose handshake could launch a career', who had headed off the threat-

ened 1974 bank crash by summoning the top bankers and insisting that they funded 'lifeboats' to rescue the victims.<sup>5</sup> If the Governor now seemed less frightening, he kept up his style, his office guarded by tail-coated attendants and furnished with paintings and furniture like a country house drawing-room, with scarcely a symptom of modern technology. On his wooden desk were still 'twin crystal pots of black and red ink' and a silver handbell to summon assistance.<sup>6</sup>

Yet now, side by side with the old City but outside the Governor's domain, was the new international finance City. By the mid-1980s there were over five hundred foreign banks operating in London, most of them as multi-purpose finance houses. They were rapidly attempting to extend the technique of worldwide dealing by computer-backed telephone calls, which had been established for currency dealing, into bonds and equities, futures and options. At the same time new ways of raising money were being developed, such as 'junk bonds' in take-over bids and 'securitization' against the value of companies, house mortgages and commercial property – and ultimately, in the case of some bluffing tycoons like Peter Clowes, on sheer ability to generate a flow of money. Once the credit boom burst in the late 1980s it emerged that some of them had never had the resources they claimed, but were simply recycling credits faster and faster through unregulated channels. It should have also been obvious, especially to the large banks whose fingers had been burned by the property crash of the early 1970s, that credit based on the assumption of ever-rising property prices was bound to be unsafe.

The walls between the two Cities were demolished by the Thatcher government. Exchange controls were completely lifted in 1979, so that major companies and pension funds could invest on a global market. Most of the key subsequent reforms, such as of the building societies, were intended both to open up their own territories to outsiders and to free them to compete in the most attractive current markets. 'Big Bang', the reform of the Stock Exchange negotiated by its chairman Sir Nicholas Goodison with the government in 1983 and carried out three years later, which abolished the demarcations between banking and finance, and between brokers and jobbers on the Exchange itself, symbolized the optimism with which both the old and the new City embraced deregulation. It was characteristic of these years that in 1980 the Exchange had already set up a new market in 'unlisted' securities for newly established firms; and that when it opened a giant new trading floor with electronic screens displaying share prices in 1979, few anticipated that within six years the historic floor would be empty of dealers because the new technology made it easier to trade from one's own office, or that many of the leading members of the old club would have been taken over by giant national or



international finance houses and sent out to grass. As the epic moment of hope which preceded doom, 'Big Bang' still symbolizes the earlier eighties, just as the ignominious failure in 1993 of Taurus, the Stock Exchange's long-overdue attempt to develop a wholly computerized system for dealing, may come to stand for the nemesis of the nineties.

The deregulation of the 1980s, the explosion of credit, the take-overs of so many old City landmark companies, and the subsequent implosion, collapse of confidence, and large-scale redundancies, marks the end of an era, the culmination of the progressive logic of post-war change, as well as the last working years for many of the generation we have recorded here. At the time when they were interviewed it was not yet clear whether in the leaner City of the 1990s the merchant banks like Barings or Rothschilds or Hambros, or stockbrokers like Cazenove's, who resisted takeover in the boom years, could continue in their leading roles, providing the institutional threads between past and future which had so characterized the old City. The more recent collapse of Barings in 1995, and almost simultaneous take-over of Warburgs, makes such an outcome now seem even less likely.

Certainly in the 1980s, history had looked increasingly irrelevant in the new global finance market. 'It was a young people's world, for global dealing and hustling needs stamina and optimism. Older bankers who remembered earlier crashes deplored the hype, the rash loans and the short horizons' – but were ignored while the money flowed in. 'Just to dip a fingernail into the stream generated super-profitable commissions.' The yuppie became 'the cultural hero of the eighties, the embodiment of the "go for it" enterprise culture'.<sup>7</sup> The illusion was created that dealers were 'somehow free of the constraints of organization', when they were in fact overloaded human flashpoints in the highly sophisticated technological and institutional system through which 'the vast global pot of financial assets restlessly surges'.<sup>8</sup> Michael Lewis's *Liar's Poker* well conveys the atmosphere of this 'modern gold rush' at its worst, the trading floor 'a jungle' of gambling and obscenities, 'a minefield of large men on short fuses waiting to explode'.<sup>9</sup>

Such traders certainly had no time for reflecting on the past. But it is important to remember that the atmosphere of the 1980s was certainly not a new experience for the City's finance markets. Thus in the first Baring crisis of 1890 the Bank of England did decide to bale out the merchant bank, then threatened by Argentinian debts. But a contemporary bemoaned that they were but one of many victims of over-optimism: 'We are run over with rotten liability companies, flooded with swindling "bucket shops", crashes and collapses rain upon us, and the "promoter" and the "guinea-pig" still and ever enjoy impunity.'<sup>10</sup> And in the aftermath



of the bursting of the 1980s credit bubble, for which we are all still paying, who can deny, on reflection, that there was some wisdom in the caution urged from the experience of those 'older bankers'?

Having said that, let us hasten to add that our purpose in editing this book is not to provide financial instruction, for which we have neither the intention nor the competence, but to select from the rich and extensive collection of interviews at the National Sound Archive a range of intrinsically interesting extracts which we have edited from the memories of the City's older generation. Above all, they vividly convey the changing culture of the late twentieth-century City. These are mostly confident voices, which speak for themselves without the need for explanations from us. It will suffice to add a few more preliminary comments.

We open with a small number of 'ancestral voices'. Bagehot observed in *Lombard Street* in 1873 of bankers that 'the calling is hereditary. The credit of the bank descends from father to son: this inherited wealth soon brings inherited refinement. Banking is a watchful but not a laborious trade.' Immediately after the Second World War the merchant banks were not only typically still headed by family members, but many of them were ageing men 'in their early eighties or late seventies': for 'age was a good deal more fashionable then than now'.<sup>11</sup> Thus Alfred Wagg, Lord Kinderley, Chairman of Lazards, and Lord Bicester, Chairman of Morgan Grenfell, had been active young men under Queen Victoria. Hence the working generation financiers who were young after 1945, seeking to revive a City which seemed still half wrapped in mothballs, felt an especially strong need to wrestle free from the past and to distance themselves from it.

The images which they convey of earlier City 'characters' are thus not of models to admire, but of cautions: counter-myths. Among these ancestors are men portrayed as doing little work and making little effort: rode downhill to the office, read cattle herd books rather than bank accounts, refused to converse with other partners, and left for home in the early afternoon. They uttered adages such as 'Buy something and sit on it', or 'Never read a balance sheet . . . Look at the board'. Those who were not born gentlemen pretended to be. In these recollections one man stands out especially as an exception, Siegmund Warburg, 'an upsetter of the existing Establishment' who seriously wanted change. He was said to run his bank in a 'truly Prussian' style, with every conversation and telephone call monitored.<sup>12</sup> Warburg was a reviled outsider, ridiculed by the Establishment for his foreign accent and his lack of a sense of humour, dismissed as 'a squirt, an upstart'. But his was the ancestral voice which heralded the future.