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The case of retail finance and English Building Societies

Manuel Hensmans

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ABSTRACT

Strategy is the entrepreneurial quest to gain a sustainable competitive advantage. Firms’ dependency on States during systemic economic crises underscores the need to redefine “sustainable”. At periodic intervals, States have to tackle the democratic deficits that spill over from market failures. States hereby support those entrepreneurs that propose democratic solutions most sustainable from the viewpoint of power holders. State support changes the long-term structure of competitive advantage. Accordingly, I redefine strategy as the quest to provide State-sanctioned entrepreneurial responses to democratic deficits. Drawing on historical evidence of English building societies, I demonstrate how entrepreneurial responses that befit State power holders most in face of democratic grievances, are structurally advantaged, be it through fiscal, regulatory or political means. A combination of strategically and fortuitously accumulated State support allowed building societies to leave behind other members of the friendly society movement during the period 1875-1945, only to reproduce this feat with clearing banks in the 1960s and 1970s. I analyse how building societies’ competitive advantage foundered as they failed to adapt to the changing geopolitical framework of British State sanction.
Strategy is the entrepreneurial quest to sustain a competitive advantage for one’s organization that others cannot enjoy (Chamberlin, 1939; Day, 1984; Hofer and Schendel, 1979; Porter, 1985). This apparently consensual statement may have further reaching consequences than originally thought. For one, competitive advantage need not be reduced to market boundaries; broader social, cultural and political dynamics may be at the basis of its sustainability (Fligstein, 1996; Levy and Egan, 2003). Some scholars have hinted at a further possibility, likening the process of gaining a competitive advantage to the management of social movements’ grievances of democratic deficit (Khan, Munir and Wilmott, 2007; Rao, Morrill and Zald, 2000; Hensmans, 2003). In this perspective, strategy is intricately linked with broader processes of democratization. For instance, music majors’ old business model has been severely undermined by the emergence of an embryonic movement of Internet democracy in the form of peer-to-peer file sharing networks. Historically, grievances of democratic deficit have been especially virulent in times of major economic crisis. Economic crisis provided the tipping point for the pro-democracy movement in the Arab world. In the West also, the current economic crisis has renewed age-old grievances of democratic deficit, about an unaccountable global banking class. Bankers refuse to accept State control, yet ask those same States to rescue them by increasing the taxes of less privileged domestic classes. Accused of being out of touch with popular opinion, most banking managers are at a loss about how to reframe their strategic intent. And States are frantically looking for more democratically acceptable solutions to the problems of world finance. Finally, in face of mounting popular pressure for greater social responsibility, and the failure of the largest corporations to demonstrate democratic accountability, governments are starting to work together to reclaim some strategic ground on the global corporate economy (Albareda, Lozano, & Ysa, 2007; Kaplan & Levy, 2008).
This paper adds to previous insights on the nature of competitive advantage, by arguing that strategy exceeds the realm of market failure to include all types of democratic deficit. I propose the following definition. Strategy is the quest to provide entrepreneurial responses to democratic deficits. If they are to lead to a sustainable competitive advantage, such entrepreneurial responses have to be sanctioned by the State, the main guardian of democratic accountability. Sanctions can be fiscal, legal, regulatory or political. In sum, strategy is the quest to provide State-sanctioned entrepreneurial responses to democratic deficits. What is the precise role of the State in democratization dynamics? Historically, competition between States has provided the main impetus to resolve democratic deficits. States hereby have increasingly relied on the autonomous dynamics of private entrepreneurship. States have not given the same amount of freedom and support to all entrepreneurs, however. They have tended to favour those entrepreneurs who proposed democratic solutions that most successfully renewed an age-old ordering principle of socio-economic classes. This is the distinction between the realms of entrepreneurial freedom and structural necessity. The continuity provided by this ordering principle has facilitated acceptance of democratization on the part of powerful elites. It also has had the effect of channeling outsiders’ agendas for radical change in a direction guaranteeing a degree of continuity with the past. Given the pivotal role of money in allowing for such democracy-ordering solutions, I focus on the historical example of English retail finance to flesh out my argument. In particular, I embed explanations of English building societies’ strategic successes and failures in historical evidence of their capacity to reinvent the mentioned democracy-ordering principle.

DEMOCRATIZATION AND STATE-SANCTIONED ENTREPRENEURSHIP

One main function of entrepreneurs is to creatively destroy established practices and innovate the economic, social and political order (Schumpeter, 1942, 1947). To be
successful, entrepreneurs in effect have to democratize societies, and bring a majority of people within the innovated order. Support from the State is necessary to achieve this. Why would the State support entrepreneurs? Western States have been the main perpetrators and beneficiaries of a “world system” of financial, human, agricultural, technological, religious and national community intensification since the late Middle Ages (Jepperson, 2000; Mann, 1986; McNeill, 1963; Thomas and Meyer, 1984; Wallerstein, 1974). The goal of each State in this system is to ensure an advantageous position for the nation it represents: that of a core, rather than a peripheral nation; that of an upper rather than lower civilization. Any process of intensification, especially one which involves the development of a large-scale capitalistic system, requires a fundamental democratisation of purposiveness: an increasing involvement of former outsiders in processes of political, civic and economic organisation (Mannheim, 1935: 44-48). Such democratisation implies the creation of a new level-playing field – a popular opinion – open to contestation and participation by both established and outsider parties (Weber, 1946: 226; cf. Dahl, 1971). Opening up popular opinion to outsiders obviously raises all sorts of problems for incumbent elites. The strife between incumbent elites and outsiders in popular opinion is cyclical. Over time established and outsider positions converge to an extent that a settlement is possible, only to diverge later in renewed grievances of democratic deficit by new outsiders. Democratic settlements generally lead to the setting up of more representative institutional mechanisms and organizations; aimed at promoting a degree of social mobility, and at curtailing the rivalling groups’ ability to monopolise political, civic or economic authority. Obviously, loss of authority by at least part of the establishment is unavoidable with each settlement (Etzioni, 1968). Yet, this does not automatically imply more real influence for outsiders. At stake for both the establishment and outsiders is who will become State-sanctioned representatives of active versus passive
democratisation. That is, who will enjoy the entrepreneurial freedom to create new
democratic solutions; and who will need to adopt democratic solutions devised by others.

**The pivotal role of finance in democratization**

Financial revolutions – most notably the innovation of servicing public debt in the
form of a standardized currency (Dickson, 1967), have facilitated key democratic settlements.
What special properties of money facilitate democratic settlements? Historically, money has
been promoted as a standard means of exchange, by both established and outsider parties.
The financially savvy part of the establishment has allowed for the expansion of monetary
standards to enroll outsiders in a system which encourages politically harmless market
participation. While established leaders may see money as way to expand authority-abiding
citizenship (cf. Simmel, 1896), outsiders may think differently. Money can enable more
outsider influence, precisely because it has a levelling effect on exchanges with established
parties. Money introduces a measure of impersonal market exchange and matter-of-factness
which anyone in principle can join on an equal social footing. This bears two potential
advantages for outsiders. The introduction of money lowers entry barriers to active socio-
economic participation. While the establishment can claim that money is dirty for a while, it
cannot deny money's matter-of-factness in the long-term – unless it is willing to accept its
own financial demise. Second, the introduction of monetary exchange can provide some
outsiders with the economic independence to enjoy social freedoms and even hold political
sway. In other words, the circulation of standardized forms of money can provide
opportunities of social and political mobility. Indeed, throughout history, the most skilled
outsiders have leveraged the social leveling capacity of money as a stepping stone to a
position of active democratisation.

Money also plays a pivotal role in the synthesis of international and
domestic State dynamics. We can distinguish between two historical outlooks on
the role of money in this regard: money as a reflection of a real economy, or money as a virtual value. In the first meaning, money is the product of existing social customs, taxation and legislation. It is a symbolic means that can be controlled to some extent by a central state or local governments within a national territory (e.g. Muller, 1816; Knapp, 1924). Within the second perspective, by contrast, monetary wealth is not just an external reflection of the real economy. Rather, money is an independent, quantitative commodity that can lead to the creation of territory-transcending exchanges and practices – for instance in terms of promissory notes, Euromarkets or over-the-counter derivatives. States need to balance real and virtual economy dynamics to ensure both democratic peace at home and a competitive position in the world economy. In other words, money should serve both the functions of propping up the real economy, and allowing for international competitiveness.

THE CASE OF BUILDING SOCIETIES

Clearly, retail financial institutions, as guardians of the circulation of standardized forms of money amongst the general public, have always been of particular importance to processes of democratization. Building societies are amongst the most remarkable English organizations in this regard. Operating in a country and in collaboration with a State that has long favoured international free trade, building societies throughout the period 1790-1980 gradually became the champions of a “real economy” alternative in English finance. The championing of solutions to recurrent real economy deficits and grievances provides one explanation for the phenomenal success of the building society movement. Nevertheless, the strategy followed by building societies to occupy this niche did not emerge intentionally. Overall, building societies’ growing success in the 20th century was equally due to happy accidents than to strategic intentionality; providing additional proof for the hypothesis that strategy is as much about vision than about being at the right place at the right time (Barney, 1986).

Building societies were founded midst the large migration influx to the new industrial
cities in the Midlands, Yorkshire and Humberside and the North West. They emerged during an exceptional period of English history, when the centrality of London in English popular opinion declined (Read, 1964: 50-52). In the period 1790 to 1830, the power of provincial constituencies increased considerably, providing an extra-parliamentary relation between State and English nation. This extra-parliamentary relation had a peculiarly nonconformist, outer province character which transcended differences between the working and middle ranks. This, combined with a rather exceptional demographic situation, provided building societies’ nonconformist leaders with the opportunity to reinvent English traditions of liberty and property. Remarkably, the championing of the property element would long remain a symbolic strategy, given that the great majority of English people could not afford a house before WWII. Nevertheless, the conjunction of the above favourable symbolic circumstances would prove to be a happy accident in the “longue durée” for building societies (Braudel, 1958). It helped building societies legitimize their existence long after pragmatism had substituted nonconformist roots.

Building societies provided entrepreneurial solutions to successive democratic deficits that were particularly valued by the British State. Chronologically, these were the demand for new types of “real bill” finance in face of “Old Corruption”, the need for order in newly enfranchised popular opinions, the need for special purpose vehicles of “Tory democracy”, the need to build a legitimate and efficient taxation system, calls to nationalize property, and the need to guarantee a neutral State apparatus. Building societies’ solutions to democratic problems were especially valued by the State because they implied an element of fait accompli: building societies either were already implementing solutions before democratic problems became tangential for State power holders, or were simply at the right place at the right time with proposed solutions. I visualize the structural effect of State support on building
societies’ total deposits in the 20th century in figures 1a and 1b (compared to clearing banks’ total deposits).

“Old Corruption” and “real bill” finance

For much of the nineteenth century, building societies piggybacked on the much broader shoulders of joint-stock banks. From unsteady beginnings, joint-stock banks gradually became recognized by the State as purveyors of financial stability for the steadily enlarging franchise. They grew in this role by virtue of being associated with the movement against “Old Corruption” in the country (Rubinstein, 1983). For much of the first half of the nineteenth century, the British State and Bank of England were beset by accusations of such corruption. Self-confessed English democrats accused the British government of defending despotic monarchies abroad while suppressing basic traditions of liberty and property at home (Harling, 1996: 56-57). Likewise, the Bank of England became the target of fierce attacks. The outbreak of war with France in February 1793 had found the British public and country banks unprepared, leading to one of the worst financial and commercial crises in English financial history. The Bank of England was criticised by various pamphleteers and both Houses of Parliament for its failure to act in support of country banks. All talk was of the exaggerated dependence of the national banking structure on the Bank of England; a private bank with greater interest in providing war loans and fuelling international speculation than in sound finance (Fetter, 1965: 12-16). In the wake of this crisis, a new wave of provincial retail joint-stock banks and building societies, helped bring about a more nation-wide retail finance system. By default of a strong Bank of England, such provincial entities laid claim to English liberty and property slogans. The 1821 Restoration Act would reinforce the position of
The Act was the result of moderate Tories winning the argument in favour of a return of sound finance. Sound finance meant that retail finance institutions should also only lend on real bills, by keeping tab on the financial habits of their customers (Alborn, 1998: 57). Given their closeness to industry and the irregularity of financial behavior in the provinces, joint-stock banks were better able to champion the real bill principle – and its direct democracy consequences – than existing London-based intermediaries. Building societies echoed the joint-stock banking model with its direct democracy, real bill principles and membership of better-off nonconformists. Yet, building societies were fewer, had a terminating membership nature, and posed a larger barrier to entry – given the high property costs of housing. While joint-stock banks joined up with the London-based clearing system, building societies remained on the edges of the financial system.

Ordering popular opinion: from direct to virtual democracy

The moderate Whig elites that frequented State circles were not happy about the trend of their time whereby legislation followed the demands of popular opinion. They complained that the increased power of the provinces, and especially the constituencies was undermining the independence of Members of Parliament. MPs were in danger of becoming mere delegates, dictated by constituency committees or meetings passing messages to Westminster (Bagehot, 1902: 342-343). After the passage of the first Reform Act (1832), working and middle classes gradually separated. This coincided with the centre of gravity of English popular opinion moving back to London. Both dynamics served emerging leaders of the British Empire such as Peel and later Gladstone hand and foot. These leaders disliked the problem of having to face either a variety of provincial popular opinions, or an unpredictable mass popular opinion. Instead, they preferred the dilution of popular opinion into a set of predictable, minority interests adhering to a few general principles. Distinguishing the realms of freedom and
necessity, and promoting self-sufficient classes was one way to achieve this. Joint-stock banks would pioneer this compartmentalization of popular opinion in predictable minority classes in retail finance practice. New banking legislation helped set joint-stock banks on this strategic track. In a further bid to counter claims of Old Corruption and disentangle political and economic vested interests, Prime Minister Peel championed the 1844 Bank Charter Act and the Joint-Stock Bank Act. The latter Act listed several new conditions that in effect precluded the further establishment of joint-stock banks on direct democracy principles: a minimum paid-up capital of £50,000, a minimum share price of £100, a ban on the practice of lending on the security of shares, and a requirement that banks issue monthly statements of their assets and liabilities (Collins, 1988: 72-3). Such new entry barriers would effectively call an end to cut-throat price competition between joint-stock banks – one of the culprits of scandals and liquidity instability in the retail finance sector. Joint-stock banks like London & Westminster could now publicly side-step direct democracy principles and carry forward less populist growth strategies (cf. Alborn, 1998: 114). In sum, the 1844 Joint-Stock Bank Act was a happy accident for a generation of joint-stock bank leaders eager to get away from the volatile mix of local politics and business of the past, and intent on administrative efficiency and large-scale growth.

A new generation of building societies would follow suit; although from within the margins of the English financial system, and in very gradual, spontaneous fashion given the decentralised character of the movement. As the centre of English popular opinion moved back to the South from the mid-19th century onwards, building societies were increasingly founded in the South West and home counties. These societies differed from their predecessors in that they had a “permanent”, and increasingly “secular Anglican” character. Up to 1845, most building societies were of a terminating nature: their purpose was to raise subscriptions of members and allocate shares to members from accumulated funds until all
members were serviced and the society could be terminated. Building societies started shaking off their nonconformist roots as early as the mid-nineteenth century, concurrent with the joint-stock banks’ riddance of their direct democracy roots. The development of permanent building societies, in which the rigid tie between investors and borrowers typical of the terminating society system was broken, enabled this movement. As investors could now join at any time and withdraw money at will, the character of the societies would gradually change from self-help vehicles to agencies for the investment of capital. Crucially, the building societies started compartmentalising their services to the different classes, in line with joint-stock banks’ departure from their direct democracy roots, and the break between working and middle classes that followed the Reform and Representation Acts.

**Legal recognition as special-purpose vehicles of democratization**

While other representatives of the friendly society movement – most notably co-operative organisations, pledged their allegiance to the increasingly radical stream of Liberalism in the North, building societies followed in the footsteps of Christian Socialist leaders in the South. The latter leaders felt closer to traditions of consensus and restraint than to puritan ideals. In many ways, permanent building societies through the latter part of the nineteenth century and the twentieth century functioned as the heirs of the Christian Socialists, those Anglicans who tried to bring nonconformists back into the fold of traditions of an organic English society. Indeed, building societies were rather unique in that they mobilised investments for different classes of investors and borrowers: from working class to upper middle class investors, and from nonconformists in the North and Midlands to Anglicans in the South. All this made building societies an up-and-coming force of an organic English nation. This is also the way Conservatives such as Macmillan saw it; particularly since building societies appeared to be harbingers of Disraeli’s “Tory democracy” (Bentinck, 1918). Tory democracy was a solution proposed by Disraeli to the establishment’s insecurities about the Reform Acts. The acts were
hailed by enlightened elites around the world as a sign of the inherent democratic superiority of Great Britain. Nevertheless, Conservatives would long remain suspicious of the extension to outsiders and individualisation of the suffrage. Unity would only be refound when the Tories discovered that the 1867 franchise had not meant the end of the Conservative Party. The much wider male franchise of tenants and small property-owners was not intent on undermining the established order after all. This brought credibility to Disraeli’s gamble to “extend the franchise to the urban masses” (Feuchtwagner, 1968: 10). Gamble turned master move, Disraeli gave weight to his attempts to pre-empt the Liberal cause with speeches and campaigns about “Tory democracy » in 1872 and 1873. This helped the Conservative party win the elections of 1874, something it had not done since 1846. For building societies, the spill-overs of Disraeli’s successes were considerable. Trapped in a Red Queen race with Labour for the “progressive” vote, Liberals’ aggressive attitude towards the Building Societies Association drove the latter in the arms of the Conservatives. Thus, with the help of Conservatives, the 1874 Building Societies Act was passed against the wishes of Liberals – allowing building societies much more financial freedom than friendly societies in general, and Co-operatives in particular (Boddy, 1980: 7-10).

**Taxation freedoms bring large strategic dividends with a long delay**

Furthermore, in 1895 the Building Society Association reached an agreement with the government, allowing building societies to pay interest free of income tax in exchange for a composite tax payment from the societies themselves. This agreement would prove crucial for building societies’ success, although with a long delay, and largely unintentionally. The original intention of the arrangements was no more than to simplify the administrative procedures concerning the taxation of building society interest. The assumption was that such simplification would not cause the Inland Revenue to lose any tax revenue. After all, the vast majority of building society investors were small investors who were not liable to the
standard taxation rate anyway. While building societies were granted more administrative taxation freedoms than their retail finance counterparts, they went through a particularly troubled period from the last quarter of the nineteenth century to WWI. Confronted with falling prices, interest rates and property values, most societies reacted by maintaining mortgage rates. Increasing volumes of savings notwithstanding, falling property values and the rising volume of surplus funds meant that demand for loans backed by adequate mortgage security was inadequate to absorb the societies’ funds. In response, building societies extended their business into increasingly risky areas. Competition between building societies soared in the form of more generous advances against poorer security, and ventures in banking business – including for commercial enterprises. Unsurprisingly, many building societies ran into difficulties. The demise of the societies “Liberator” in 1892 and Birkbeck in 1911, shook investors’ confidence in the building society movement. Following a further Building Societies Act in 1894, the boundaries of legitimate building society activity were more sharply delineated from other financial activities. This allowed the movement to recoup its lost membership and asset base by 1919.

The 1920s ushered in a new dawn for building societies. The origins of this change in fortune lay in the greater administrative taxation freedoms granted two decades before. When income tax rates rose after WWI, building society shares and deposits became more attractive to those liable to this tax, i.e. the middle classes. More substantial investors became more interested in building societies’ services. Some of these were people who before 1914 had invested in houses to let and who had now to find an alternative – the Lib-Lab coalition’s stance on rentiering had effectively destroyed the private rental option in England. Building societies provided one such alternative. Finally, after a last happy accident, the collapse of the international stock market, the average shareholding in building societies by 1930 was considerably higher than in the various popular savings institutions and close to that of the
average investor in industrial securities. Immediately after WWII, the Board of the Inland Revenue proposed to abolish the income tax arrangements, but in 1950 the Chancellor of the Exchequer announced that he intended to bow to the “fait accompli” and give the arrangements permanent effect and statutory sanction – especially in view of the need to stimulate housing in post-WWII England (cf. Price, 1958; BSA, 1973; BSA, 1978). Fiscal policies that actively encouraged home ownership followed each other in a fast tempo. Testifying to the level of support for home ownership by governments of both parties since the mid-1950s, the building societies received their biggest fiscal break when Harold Wilson’s Labour Party came to power in 1964. The budgets of 1965 and 1966 introduced a new Capital Gains Tax – designed to collect 30 per cent of gains realised on assets - with some notable exceptions, most notably owner-occupied houses and life insurance policies. From unintentional beginnings, fiscal policy now intentionally favoured building societies over other types of retail financial investments.

**Regulatory freedom and the threat of nationalization**

By the 1930s, building societies provided mortgage, saving and investment services to a variety of populations and. The movement offered an “ideal form of investment in a stormy world”, and “the response was at times embarrassing” (Elkington, 1935: 55; Cleary, 1965: 190). Different from bank or industrial company shares, there was no variation in the capital value of a building society share, while the rate of interest was consistently above that of gilt-edged securities. While all this contributed to the movement’s popularity, it also left it exposed to a recurrent criticism from Labour and Liberal politicians: building societies should focus more on their original core business of mortgage savings. To legitimize their diverse endeavours, building society leaders presented themselves as champions of an English democracy based in “Liberty and Property”: “born and nurtured in the English tradition, the building society has proclaimed a practical ideal of self-help which has spread across the
seven seas” (Bellman, 1928: 5). Geopolitical Commonwealth overtones were rife in this discourse, building societies’ domestic focus notwithstanding. According to some building society leaders the idea of home and home-ownership was « characteristic of the English-speaking race …our proverb 'An Englishman's house is his castle' is typical of the mental attitude of the race, and it is not be wondered at that the Building Society is essentially an English invention and has reached its greatest developments in English-speaking Countries” (Hodgson, 1929). 26 A token of very skilful manoeuvring, this discourse effectively provided an alternative for Labour’s property nationalisation option27 - an option Conservatives abhorred. Calls for nationalization had been a scourge for the British establishment since the first origins of the Land Nationalization movement in the early nineteenth century (Barry, 1965: 17). 28 Because of the geographical spread of their portfolio, building societies were remarkably adept at playing the role of champion of an English type of democracy. Already in 1871 had James Higham, Secretary of the Fourth City Mutual Building Society in London, drawn attention to the fact that, while there were over 2,000 building societies in England, very few had been established in Scotland. This evolution would persist, with England subsuming virtually the entire building society asset base, downgrading both Scotland and Northern Ireland to a highly symbolic fringe status. The movement was very strongly represented in as diverse English regions as Yorkshire and Humberside, the Midlands, the South West and the home counties. In sum, building societies were amongst the very few private organisations that would manage to bridge the North-South divide in England well into the 1980s (see tables 1a and 1b). 29

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As early as 1929, the Chancellor of the Exchequer, Winston Churchill expressed his admiration for the way building societies were helping to turn England into a nation of savers and homeowners. Clearly, admiration referred more to ideal than to reality. It is only during the housing boom of the 1950s and 1960s that the building society movement reaped the fruit of its strategic endeavours. By 1961, the building societies mobilised and canalised the money of all classes, merged it with the surplus funds of solicitors, societies, churches, clubs and companies and made it available to wage and salary earners willing to undertake the purchase of a house (see table 2). The fact that building societies did not have to make profits as such, enhanced their popularity even more. Instead of maximising profits, building societies tried to maximise mortgage loans. That is, while maintaining a stable, socially acceptable interest level – which since the mid-fifties lingered below economic equilibrium levels. Having highly liquid liabilities greatly helped in this regard. Since many investors were prepared to trade off liquidity against yield, building societies had access to relatively cheap money, and as a result were able to reduce the net cost of funds (Moreh, 1966: 2).

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**Keeping up appearances of a neutral State**

What sets the British State tradition apart from its Continental European counterparts is a staunch belief in the geopolitical virtues of “neutrality” (Dyson, 1980: 230). To avoid perceptions of political, or moral preference, the British State developed the habit of delegating difficult regulatory decisions to the civil service and self-regulating economic bodies. Building Societies Association’s strategy was entirely attuned to this tradition. The Association shunned any direct involvement with party politics, and avoided conspicuous lobbying endeavours. In the same vein, the Association would always downplay the
societies’ preferential tax treatment (Building Societies Year Book, 1962: 26).\textsuperscript{31} The Associated was surprised by the post-WWII election of a Labour government. This result signalled a possible break with the neutrality tradition.\textsuperscript{32} War hero Churchill and his Conservative fellows had clearly underestimated the desire of the English people to create a new Jerusalem out of the rubble of war (Jefferys, 1997). This did not bode well for building societies. Towards the end of 1940s housing had emerged as the centrepiece of Conservative social policy proposals. The Labour government, however, placed severe restrictions on building for owner-occupation and encouraged local authorities to meet the mortgage needs of house purchasers, a traditional building society competence. This policy reflected the opinion of prominent Labour leaders such as Aneurin Bevan that building societies were “voracious money-lenders”. Societies supported speculative house builders and encouraged people to take on mortgages that would turn into “gravestones around their necks” (Redden, 1986: 51). Labour hopes of a new Jerusalem quickly gave way to practical problems. Congestion and materials shortage in the building industry led to public disaffection with socialist housing policy. Conservatives jumped on this opportunity to use housing policy as a showcase of the virtues of free enterprise. Under the Conservative governments of Eden and Macmillan, home-ownership finally became an actively pursued fiscal policy (cf. Daunton, 1987: 76-78; 2002). Building societies played a central role in this policy. Conservatives went as far as to coin the movement “the antidote to all disease that threatens the body politic » and the stability of the English nation: « bad houses breed Bolshevism: good houses make for civil content and peace…Building Societies are rendering untold service in this direction » (Boddy, 1980: 24-25). Eventually, Conservatives hoped, their housing policy would not only turn the nation into a property-owning democracy, but also help to bridge north–south divides through wealth creation rather than redistribution.\textsuperscript{33} Again, the help of building societies came in handy. Piggybacking on Conservative “every man a capitalist” policy\textsuperscript{34}, the movement
managed to mobilize the emerging propertied groups in the provinces and consolidate the investments of the propertied in the suburbs of the South-East.\textsuperscript{35}

In a post-WWII world of grand words and new Jerusalems, the Building Societies Association remained phlegmatic. It showed no sign of conceding to short-term impulses. A staunch supporter of the neutrality tradition, the Association adopted a distinctive cartel position; a position that appeared to run counter to the economic model of a price setting cartel. Orthodoxly, the cartel agreement entailed a deliberate rationing of the mortgage loan supply.\textsuperscript{36} Unorthodoxly, the cartel did not raise prices. On the contrary, it kept lending rates below the market clearing level. Also in defiance of the economic price-setting model, the cartel was not used by the very large societies\textsuperscript{37} to drive out their comparatively inefficient small counterparts. Clearly, the overall aim of the building society cartel was to pre-empt criticisms of inflationary practices and profiteering. Governments, trying to combat inflation through policies of influence and persuasion, closely watched building society rates and on one occasion paid a subsidy to prevent their rising (Reid, 1992: 12). Beyond government influence, the cartel was sticky in that it made the supply of mortgages dependent on the supply of deposits (Pawley, 1993: 28-31).\textsuperscript{38} In recognition of continued service to the neutrality tradition, British governments from the mid-1950s ensured building societies total dominance of housing finance. Banks were fenced off the field by regulatory lending curbs. And exchange controls excluded foreign financial groups from the housing market. Representatives of the Building Societies' Association and the Bank of England would meet once a month to discuss the movement of the bank rate from September 1957 onwards.\textsuperscript{39} This increased building societies' influence on both housing and bank rate policies. Meanwhile, building societies’ strictly non-party policy helped them remain on a good footing with both the Conservative and Labour Parties. Tellingly, both parties regularly mentioned their influence on building society policy in electoral manifestos of the 1960s and 1970s.
Building societies’ success at appearing neutral to both sides of the political spectrum was remarkable. The Conservatives were especially content that building societies managed to persuade several millions of people – who were hourly paid and who perhaps thought, financially, no longer than a week ahead – to undertake a regular commitment for up to twenty-five or even thirty years. The Labour Party also came to appreciate building societies’ work. In spite of the acrimony between the Labour government and the movement after WWII, Labour leaders realised that the building societies not only maintained socially acceptable rates, but also “got down to the business of housing the low-paid classes”. Building societies provided everyone with a rightful place in the Commonwealth by “severely attenuating” the property rights granted to both investor or borrower members (Thompson, 1997). While building societies’ compulsory adherence to statutory law restricted property rights (Wurtzburg and Mills, 1976: 3), it was tremendously effective in solving the inherent conflict of interests between investor and borrower members. In particular, it provided a long-term answer to the needs of homebuyers for low-cost loans and the needs of investors in search of a low-risk form of saving with an above average return (Cook et al., 2001). This meant that the government could entrust a large chunk of housing policy responsibilities to building societies, and credibly present intervention in the housing market as a last recourse mechanism.

Given all this support, building societies quickly outgrew fledgling beginnings to become a dominant player in the politically sensitive field of housing. The societies played a part in all the services connected with housing provision - planning, building, finance, and the sale of property. The political sensitivities of this field should have made the societies vulnerable to political criticism in the 1950s and 1960s. Testifying to its strategic skill, the Building Societies Association kept manoeuvring the societies into the role of guarantor of a steady supply of homes of a reasonable quality. For instance, building societies helped the
government in its quest to ensure that houses were built to acceptable standards and purchasers protected against shoddy work. Pressure had long been exerted on the National House Builders Registration Council (NHBRC) to take care of this matter. Established in 1936, the NHBRC’s purpose was to set standards and to control by inspection and certification the houses erected by house building firms subscribing to the scheme. But only about 30 per cent of all new private houses were covered by the scheme. The issue was resolved by the BSA recommending to its members that from 1st September 1968 no advance should be made on a new house unless it was certified by the NHBRC or had been erected under the supervision of an architect. Once this had been done, housebuilders throughout the country rushed to join the certification scheme (Ashworth, 1980: 185).

The demise of building societies

Much of building societies’ historical success was due to the Building Societies Association finally getting a grip on the movement in the 1930s. A long history of individual society self-interest came to a close (Bellman, 1928: 21). Armed with this new clout, the Building Societies Association proved very skilful in resolving democratic problems in a way befitting State power holders. This allowed the movement to decisively pull away from the other members of the 18th and 19th century friendly society movement. The movement would repeat this feat with clearing banks in the 1960s and 1970s. Clearing banks felt obliged to follow the flag with investments in the losing proposition of a British Commonwealth. In addition, they relinquished ever more strategic autonomy to facilitate the Bank of England’s monetary policy. Building societies, by contrast, served the English Commonwealth, merely by embodying the Liberty and Property slogan. Furthermore, they were left free to pursue their own goals as long as they were able to curtail inflation, while keeping the flame of property-ownership alive. Astonishingly, by the 1970s the building society movement amounted to a larger deposit pool than that held by clearing banks. Even more amazing, by 1970 net
investment in building societies exceeded real net manufacturing investment – the former stood at £1213 million, the latter at £1040 million. After the crisis of 1973-1974 the gap only widened. Private housing investment was the only vehicle effective enough to fight that most dangerous of enemies of real wealth, namely inflation. Housing prices in England did not just keep pace with inflation; they outstripped it. As a result, by 1976 manufacturing investment amounted to a modest £365 million, compared to a staggering £2448 million invested in building societies. (Pawley, 1978: 128-129).

This overwhelming success lost building societies many friends. Especially since success seemed to be built on a faltering core competences. Building societies were no longer able to attenuate inflationary pressures and avoid overheating of the housing market. Attacks on building societies’ privileged position gained resonance. Some Labour politicians were incensed with building societies’ unwillingness to embrace trade union interference and lower their liquidity ratio for the sake of extending mortgages. (Swabe and Price, 1983, 15-16). Also, building societies perpetuated an old-boy network in the property market, rather than serve “customers, particularly working people” (Barnes, 1984: xiii-xv).

Building society leaders’ responses lacked conviction, leaving them at the mercy of regulatory changes imposed by less sympathetic interests. Clearing banks joined the chorus of discontented. The Committee of London Clearing Banks complained that building banks enjoyed unfair and artificial competitive advantages (Committee of London Clearing Banks, 1978: 189). The State’s failure to maintain a situation of “competitive neutrality” was not in the interest of customers (Llewellyn, 1979). Under the Conservative governments of the 1980s these criticisms proved impossible to fend off any longer. During the 1960s and 1970s, the Building Societies Association’s cartel had embodied the best possible compromise between freedom and structural necessity for English “property-owning democracy” aspirations. This was no longer true in Thatcher’s era of speculative shareholder wealth. Housing soon lost its quality
of being a fiscally privileged investment option. Home ownership was still a desired outcome, but only within a larger geopolitical framework of liberty and property democratisation – one that did not privilege those with a “share” in building societies over those with a share in other financial investments (Rigge and Young, 1981: 41). In 1983, steps were taken to phase out fiscal discrimination in favour of home-ownership; the ceiling on which mortgage interest payments were tax exempt was fixed in nominal terms, thus rapidly reducing the tax advantages accruing to mortgagors relative to other investment assets (Banks et al., 2000: 27).

Ultimately, building societies’ demise was due to their inability to make sense of the changing predilections of soon-to-be State power-holders. Building societies long suffered from a negative approach to politics; they felt “about [the British] government as Thomas Campion thought about women: ‘Lost is our freedom, When we submit to women so ; Why do we need them, When in their best they work our woe ?’” (Holmes, 1973: 218-219).

Although clearing banks’ leaders were not exactly avant-garde modernizers, at least their attitude to politics had long been more positive: “a sense of partnership and mutual benefit with government and with the public at large is essential for the success of banks and bankers in fulfilling their special role in the mixed economy”. Building societies’ comparative insularity from politics would cost them dear. By default of dynamic relations with the Conservatives, Labour, the Liberal Party, or even the Bank of England, building societies found themselves estranged of the political scene at a time of great turmoil. Especially since the relevant political scene was quickly internationalizing; content to monopolize the English mortgage industry, building societies never disputed the statutory prohibition to engage in overseas activities. As a result, building societies remained strangely out of touch with for instance changes in EC competitive standards in the 1970s (Freyer, 1992). The latter changes would fatally undermine building societies’ cartel practices.
Building societies’ insularity first became apparent during the pinnacle of their economic success in the 1970s. Leaders of the Building Societies Association failed to appreciate the shifting macro-economic mood in Britain. While inflationary cycles propped up building societies’ total assets, political support for the movement – and fiscal home-ownership incentives – dwindled across the board. If the societies were not able to provide a non-inflationary framework for the real economy, property-owning democracy solutions had to be found elsewhere. Of course, building societies were powerless in face of the inflationary pressures that ensued the collapse of the Bretton Woods system (1971), the oil (1973) and dollar (1978) crises. Still, building society leaders were ill-prepared first Labour’s and later the Conservatives’ decision to become junior partners in the new US geopolitics of monetarism (Panitch, 2000: 13). A monetarist common sense was taking hold of a new generation of power-brokers. Once in government, this generation declared control over the money supply not to be a State responsibility anymore: changes in the money supply – interest rates – no longer were to blame for changes in real output – the real economy. This new common sense was counterproductive for building societies. Banks were relieved of much responsibility for managing the national money supply. This may have temporarily weakened banks’ status in society. By the same token it liberated them from the shackles of the Bank of England “corset”, and vastly increased their freedom to target wealthy minorities and engage in crude profiteering. Another consequence of monetarist beliefs taking hold in popular opinion was even more troublesome: building societies’ self-appointed role as guardians of a low mortgage rate was rapidly losing its electoral significance. The mortgage rate was now supposed to be at the market clearing level, not below it. In other words, mortgagors should not be protected anymore from fluctuations in market rates (Pratt, 1980: 7-8). On the contrary, they should be fully exposed to it. Governments across the Atlantic worked at accelerating the free flow of capital between London and New York. Building
societies’ core competence suddenly turned out to be a core rigidity. In the wake of inflationary pressures in the housing industry, the US government decided to deregulate the savings and loan industry. The British government followed suit; it decided a new level-playing field was needed between building societies and commercial banks. Britain was to become a nation of shareholders. The singular search of profits was considered a superior property-owning democracy objective – over and above home-ownership.

In face of attacks on its special purpose character, the Building Societies Association lost its bearings. The Association had always chosen to steer away from political controversy, and focus its efforts on a few issues of central importance, with great success (Cleary, 1965: 166-167). Having failed to anticipate the central geopolitical change of the 1980s, the Association lost its strategic grip. Compounding the Building Societies Association’s problems, the 1980s were characterized by an individualization of interest group politics. This did not suit the Association, with its comparatively dispersed membership structure. The Conservative Bow Group advised building societies to change to company status. The Bow Group blamed the lack of a “clear objective” in building society legislation for the societies’ “many inefficiencies” (Gough and Taylor, 1979: 53). In response, the Building society Association established its own working group to review the societies’ constitution and powers and the law governing them. The working group’s arguments – summarised in the 1983 Spalding Report found a receptive hearing in conservative government circles – especially the possibility of conversion from mutual to company status, and the abolition of the cartel. Ultimately, these recommendations would be translated in the 1986 Building Societies Act.

By default of a credible alternative to the new monetarist and “nation of shareholders” ideologies of State power-holders, the building societies’ cartel collapsed in 1983. Opportunities were created for building societies to “demutualize”, that is to abandon their
traditional member-owner status, float themselves on the stock market, and convert into PLC companies. At the heart of the argument for conversion was the claim that investor-owned status provided a stricter performance focus, clearer lines of accountability and a more efficient solution to the problem of divergence of interests among classes of claimants (Hird, 1996). A new generation of building societies leaders stepped forward that increasingly embraced the PLC solution. For them, the move towards demutualization and conversion reflected the replacement of an archaic and decaying business form – the mutual – by a more modern and efficient one – the shareholder-owned company. Remarkably, this new generation did not make much of the savings and loan crisis that was sweeping away the thrift industry in the US. On the contrary, some leaders embraced the waves of carpetbagging that would have a similar value-destroying effect on the building society industry. Many of the largest building societies (with assets rivalling those of the major banks) demutualized since the 1989. Building society demutualisation was heralded as the main mechanism to create a British nation of shareholders in the 1990s - it coincided with the exhaustion of the Conservative governments’ privatisation programme.  

Reality eventually bit back with a vengeance. Initially, demutualisation seemed to work. By giving free shares to all their saver-members, the building society conversions to PLC status created almost double the existing base of UK shareholders - the flotations of Abbey National in 1989, Halifax and four other societies in 1997, created respectively 4 and 12 million shareholders. However, most of these new “demutualisation” shareholders cashed in all or part of their shareholdings soon after receiving them – an estimated 50 percent of members in 1997. And most of the shares sold by members outside the home counties were bought by institutional and corporate shareholders established in the City of London (Martin and Turner, 2000: 230-231). By the late 1990s all evidence suggested building society demutualization had not brought the UK closer to the US
ideal of a shareholder democracy. If anything the UK in the 2000s counted less individual shareholders than before the 1980s.

Initially, building societies held their own in the 1980s. Ultimately, demutualization and fierce competition from commercial banks would precipitate their demise. After the Mexican debt crisis in 1982, commercial banks decided to focus more on domestic activities in an effort to stop the erosion of their marketshare in domestic deposits. Banks came up with several innovations: they introduced interest-bearing accounts, “free banking” and a much greater variety of savings accounts (Mullineux, 1987: 12-19). Fast adopting a universal scope, banks in particular targeted the building societies. Initially, they had limited themselves to granting “bridging loans”, i.e. loans to allow the purchase of a new house before sale of one’s present house is completed. In the 1980s, however, they more decisively entered the mortgage market, rapidly sending many building societies ‘down market’ in their own lending. By 1985, the relative newcomers in the mortgage market – principally the clearing banks and the TSB – had captured 10 percent of all mortgage balances outstanding. This percentage would go up rapidly in the 1990s, especially after the demutualisation of several major building societies – who joined the ranks of commercial banks after two rounds of demutualisation in 1989 and 1997 (see table 3).

CONCLUSIONS
State support matters in strategy. In the long durée it may mean the difference between a sustainable and unsustainable competitive advantage. The case of the rise and fall of English building societies provides abundant proof of this proposition. Building societies’ astonishing success was grounded in an underlighted strategic ability: the ability to solve democratic
deficits. These solutions renewed the society-ordering distinction between freedom and necessity in a way that suited successive State power-holders better than other alternatives. In particular, building societies pre-empted property right conflicts between higher classes (free investors) and lower classes (savers out of necessity) by providing the former with an above average return, and the latter with low-cost security. At the end of the day, the movement would provide “a good deal of the ballast that kept the ship of state on an even keel” (Bellman, 1928: 31). By championing democratic values of “liberty and property”, building societies helped the British State fend off threats of class war and calls for the nationalisation of property. Building societies helped resolve another problem that each State experiences in the face of democratization (Joppke, 1996; Schwab, 1981; Smith, 1986; Weber, 1976): how to facilitate a relation of the heart and mind between State and national identity. The societies’ centrality in many towns across the country provided a practical sense of belonging and community to an English nation unable to claim its distinctive relation with the British State – given Welsh, Scottish and Irish susceptibilities about the dominance of England in Great Britain. While the building societies movement helped the English claim a special type of freedom, it also helped frame this freedom within the structural confines of the British State.

Building societies’ demise was due to their inability to make sense of geopolitical changes and their impact on State power-holders’ predilections in the 1970s and 1980s. Once monetarism was adopted as a core political ideology, building societies’ role in maintaining the “long-run neutrality of money” became obsolete. The latter was now best left to the unfathomable workings of global markets. Building societies’ ability to protect the real English economy suffered blow after blow. The financial liberalisations of the 1980s led to enormous fluctuations in house prices (Miles, 1992), and created a worrisome source of instability. In 2004, the Barker Report, commissioned by Deputy Prime Minister John Prescott, found that housing prices had been increasing at more than double the continental
European rate for 30 years. Furthermore, since 1980 the UK has experienced a stronger negative relationship between saving and house price inflation than any other European country, with little connection in the period before 1980 (Farlow, 2005: 21). Secured borrowing and equity withdrawal rose rapidly, leading to a sharp fall in the UK household saving ratio during the late 1980s. And UK household sector debt as a proportion of disposable incomes more than doubled during the course of the 1980s and 1990s (Muellbauer and Lattimore, 1995). At the end of the day, this means British consumers were less protected from the present “credit crunch” and housing crisis than consumers in several other European nations. Predilections for real economy solutions are cyclical. The one advantage of the current financial crisis is that it has ushered in the beginning of a new cycle. State power-holders again are looking for real economy solutions. It may be time for a revival of building societies, or a similar movement.
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Figure 1a: The structural advantage of State support (thousands of £)

Figure 1b: The structural advantage of State support (thousands of £)
Table 1a  Distribution of Building Society Branches by Region, 1978
(Source: Boleat, 1981: 7)

<table>
<thead>
<tr>
<th>Region</th>
<th>No of Branches/Population</th>
<th>% Adult population with BS Accounts</th>
<th>Population</th>
<th>Population / Branch</th>
<th>% UK average</th>
</tr>
</thead>
<tbody>
<tr>
<td>London &amp; SE</td>
<td>1,513</td>
<td>48</td>
<td>16,834,000</td>
<td>11,126</td>
<td>94</td>
</tr>
<tr>
<td>West Midlands</td>
<td>572</td>
<td>45</td>
<td>5,154,000</td>
<td>9,010</td>
<td>76</td>
</tr>
<tr>
<td>North West</td>
<td>512</td>
<td>34</td>
<td>6,519,000</td>
<td>12,732</td>
<td>107</td>
</tr>
<tr>
<td>South West</td>
<td>486</td>
<td>53</td>
<td>4,729,000</td>
<td>8,805</td>
<td>74</td>
</tr>
<tr>
<td>Yorks &amp; Humb</td>
<td>347</td>
<td>51</td>
<td>4,876,000</td>
<td>14,052</td>
<td>118</td>
</tr>
<tr>
<td>East Midlands</td>
<td>321</td>
<td>47</td>
<td>3,747,000</td>
<td>11,673</td>
<td>98</td>
</tr>
<tr>
<td>North</td>
<td>255</td>
<td>31</td>
<td>3,116,000</td>
<td>12,220</td>
<td>103</td>
</tr>
<tr>
<td>East Anglia</td>
<td>145</td>
<td>41</td>
<td>1,827,000</td>
<td>12,600</td>
<td>106</td>
</tr>
<tr>
<td>Wales</td>
<td>218</td>
<td>38</td>
<td>2,768,000</td>
<td>12,697</td>
<td>107</td>
</tr>
<tr>
<td>UK</td>
<td>4,688</td>
<td>43</td>
<td>55,852,000</td>
<td>11,914</td>
<td>100</td>
</tr>
</tbody>
</table>

Table 1b: Regional breakdown of Building Societies in 1989
(source: McKillop and Ferguson, 1993: 42)

<table>
<thead>
<tr>
<th>Region</th>
<th>No. of societies</th>
<th>Total assets, £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>London</td>
<td>13</td>
<td>59,839.8</td>
</tr>
<tr>
<td>South East</td>
<td>21</td>
<td>4,292.9</td>
</tr>
<tr>
<td>South West</td>
<td>9</td>
<td>15,732.5</td>
</tr>
<tr>
<td>East Anglia</td>
<td>3</td>
<td>1,325.7</td>
</tr>
<tr>
<td>West Midlands</td>
<td>12</td>
<td>15,040.8</td>
</tr>
<tr>
<td>East Midlands</td>
<td>13</td>
<td>2,205.2</td>
</tr>
<tr>
<td>Yorkshire and Humberside</td>
<td>11</td>
<td>83,069.0</td>
</tr>
<tr>
<td>North West</td>
<td>7</td>
<td>1,277.2</td>
</tr>
<tr>
<td>North</td>
<td>12</td>
<td>5,392.0</td>
</tr>
<tr>
<td>Scotland</td>
<td>3</td>
<td>558.8</td>
</tr>
<tr>
<td>Wales</td>
<td>3</td>
<td>878.4</td>
</tr>
<tr>
<td>North Ireland</td>
<td>2</td>
<td>169.5</td>
</tr>
</tbody>
</table>

Table 2: Proportions of social classes who invest in building societies (1961/2)
Source: Moreh, 1966: 170

<table>
<thead>
<tr>
<th>Social Class</th>
<th>% investors per social class</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upper middle class</td>
<td>21</td>
</tr>
<tr>
<td>Middle class</td>
<td>16</td>
</tr>
<tr>
<td>Lower middle class</td>
<td>14</td>
</tr>
<tr>
<td>Skilled manual workers</td>
<td>9</td>
</tr>
<tr>
<td>All classes</td>
<td>12</td>
</tr>
</tbody>
</table>
Table 3: Numbers of mortgage advances per year in the UK (in thousands)
(Source: Wilcox, 1999: table 38; Wilcox, 2001: table 39)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Building-societies</strong></td>
<td>950</td>
<td>1,231</td>
<td>867</td>
<td>531</td>
<td>589</td>
<td>396</td>
<td>225</td>
<td>197</td>
</tr>
<tr>
<td><strong>Banks</strong></td>
<td>179</td>
<td>246</td>
<td>300</td>
<td>327</td>
<td>431</td>
<td>674</td>
<td>963</td>
<td>967</td>
</tr>
</tbody>
</table>

1. Due to its enormous physical growth, its fragmented administrative and political structures, and an intense subdivision of local identities and interests, London could no longer play the role of domestic centre of opposition and representative of popular opinion. In fact, as the financial and governmental apparatus became ever heavier, wealthier and more centred on the city, London gradually became associated with British state interests, rather than with the second movement of nonconformism that was sweeping England (Keene, 2004: 477).

2. During the eighteenth century the demands of trade, industrialisation, and shortage of coin during periods of war encouraged the growth of country banks and the use of paper money. In view of the long period of virtual demonetisation of the historic silver standard, and the loosely enforced but still economically significant prohibition on the melting and export of British coin, country banks’ practice of issuing paper notes that could not be fully backed by precious metal became their Achilles heel.

3. This act reacquainted the Bank with the discipline of the gold standard - by imposing full convertibility of banknotes into gold.

4. That is, a system in which the Bank of England would always be able to redeem paper money with gold, and would only lend on “real bills”. Real bills were those which represented actual commercial undertakings, rather than speculative undertakings with no relation to the productivity of the real economy.

5. Attacks on the Bank of England lingered, and gained strength again during the 1825 liquidity crisis. Eager to fend off criticisms that credit was too concentrated in the Bank of England, Lord Liverpool’s ministry encouraged the setting up of provincial joint-stock banks as providers of sound finance in the provinces.

6. When these joint-stock banks started joining up with the London-based clearing system – in which the Bank of England played a prominent lender of last resort role, England gradually acquired fame as the home of the soundest, most democratic financial system in the world. Ultimately, the 1821 Act would greatly amplify London’s international stature as the home of the gold standard (Fetter, 1965; Knafo, 2006).

7. Knowing full well that popular opinion could not be ignored, these leaders saw its function in modern politics as being no more that the passing of a crude general election verdict every few years. As argued by Joseph Chamberlain in 1886: “The problem is to give the democracy the whole power, but to induce them to do no more in the way of using it than to decide on the general principles which they wish to see carried out and the men by whom they are to be carried out. My Radicalism, at all events, desires to see established a strong Government.

8. While granting the Bank of England the national monopoly on the issue of banknotes, the Act restricted the Bank’s liberties of note-issuing to its ability to convert notes in gold – a restriction which was regularly eased in times of banking crisis (Marchal and Marchal, 1977).

9. The practical vehicle for this shift to administrative efficiency was the inland bill of exchange, which by the mid-nineteenth century replaced the bank note as the dominant form of currency in England.

10. According to the 1836 Building Societies Act, a building society is established —for the purpose of raising, by monthly or other subscriptions of the several members of such societies, shares not exceeding the value of £150 for each share….a stock or fund for the purpose of enabling each member thereof to receive out of the funds such society the amount or value of his or her share or shares therein, to erect or purchase one or more dwelling house or dwelling houses, or other real or leasehold estate, to be secured by way of mortgage to such society until the amount or value of his or her shares shall have been fully repaid to such society! (1872, Royal Commission on Friendly and Benefit Building Societies (2nd report), Parliamentary Papers, XXVI).

11. As the Liberal Party grew out of the Whigs, so the Conservative Party grew out of the Tories.
Rule. As soon as the Liberal Party had its act together again, at the beginning of the 1890s, they regained power, more sharply delineated from other financial activities. This allowed the movement to recover its membership.

Following a further Building Societies Act in 1894, the boundaries of trustworthy building society business were extended into increased finance of commercial enterprises and an increase in more purely banking.

Not surprisingly, as a result, many building societies ran into difficulties. The demise of the societies purportedly was in danger of discrediting the whole concept of a Building Society.

Following a further Building Societies Act in 1894, the boundaries of trustworthy building society business were extended into increased finance of commercial enterprises and an increase in more purely banking.

As a result, a given rate of building society interest represented a higher gross (of tax) rate when there was an increase in income tax rates, and it was this gross rate which was relevant to an income tax payer keen to compare the yields of alternative investments.

The intention of the arrangements was to save the Inland Revenue from routine clerical work in taxing or paying rebates to investors, many of whom did not understand income tax, but they also gave to building society members the advantage of a simple straightforwards investment free from tax complications.

The arrangements began in 1895 and continued until 1932 – afterwards the same basic principles were retained on more informal grounds.

Confronted with falling prices, interest rates and property values, building societies reacted by by maintaining mortgage rates. While this allowed them to attract increasing volumes of savings, falling property values and the rising volume of surplus funds meant that demand for loans backed by adequate mortgage security was inadequate to absorb the societies’ funds. Hence, building societies extended their business into increasingly risky areas. Competition between building societies soared in the form of more generous advances against poorer security, an extension into increased finance of commercial enterprises and an increase in more purely banking business. Not surprisingly, as a result, many building societies ran into difficulties. The demise of the societies “Liberator” in 1892 and Birkbeck in 1911, shook investors’ confidence in the building society movement.

Following a further Building Societies Act in 1894, the boundaries of trustworthy building society business were more sharply delineated from other financial activities. This allowed the movement to recover its membership and asset totals by 1919.

In sum, although building societies benefited clearly from certain taxation policies from the 1920s onwards, this was not the result of an active pro-home-ownership. Rather, fiscal advantages accrued to owner-occupation by fit-of-absentmindedness: for reasons of administrative simplification, and because home-ownership had become the only the only real option between the rent-option which the Liberal and Labour Parties eschewed and Labour’s nationalisation option which the Conservatives abhorred.

The average shareholding in the industrial societies varied from £250 to £700 whilst the average shareholding in the building society movement as a whole was £208. The returns for the average of the 47 large societies was even larger, and was actually £240.

Other taxes were introduced. The Selective Employment Tax (SET) was more complicated tax, designed partly as a revenue-raising device, partly to defact labour from service industries to manufacturing industries, and partly as a ‘payroll tax’ to control what was popularly called ‘over-full employment’. All employers would be required to pay a tax of 25 shillings (£1.25) a week for each adult male employee, and smaller sums for women and young people. The tax would be refunded to manufacturing industry, with a bonus on top; while it would be refunded to certain other kinds of industry without a bonus. By contrast, the new Corporation Tax was designed essentially as a streamlining operation, or a belated recognition of the enormous part played by corporate bodies in modern life. Instead of corporations paying both Income Tax and Profits Tax, the revenue would be collected in the form of a consolidated tax (Douglas, 1999: 134).

Through the 1920s the the yield on Consols and on building society shares ran very much together. After 1931 there was a sharp divergence; building societies become more attractive than Consols. This gave investments in societies a further attraction after 1931.
In even grander terms: « it is significant that the origins of the Building Society Movement date from the closing years of the eighteenth century, and it may be regarded as an English symptom of the general urge towards freedom and democracy which produced the French Revolution. It is coincident also with the advent of the industrial age » (Hodgson, 1929: 5-16).

The First War was a major watershed for the Labour Party: the war had exposed previously obscured weaknesses in the British economy and industry. This has led to a new, albeit ill-defined emphasis on planning the economy. Above all, it gave a new grounding and new force to the claims for nationalisation entrenched in the new constitution. Nationalisation was to be the way both to detach the rentier from his monopolistic surplus, but also to make possible the application of science and the realisation of economies of scale blocked by private ownership. In sum, Labour's New Social Order was to a significant degree a society based on greater efficiency, secured largely by municipalisation and nationalisation, but also via regulation of private industry (Tomlinson, 1993: 23) For the Fabians the nationalisation of landed property and rent was the ultimate road of « transition to Socialism » (Shaw, 1889: 167).

The land nationalisation movement that emerged in the early nineteenth century was the earliest and most complex of nationalisation movements in England. To remove or curtail the income of great landowners was a popular battle-cry for reformers. This view of land as the source of income and power to landowners remained a popular view right into the twentieth century – long after landowners had ceased to be the dominant governing class and had learnt to draw income from other sources than rentiering.

One divide in Britain was between what can broadly call the north and south of England, the former comprising the —manufacturing heartland of the country – the West Midlands, North West and Yorkshire Humberside, the latter London and the old agricultural heartland that had become the home of the new services, light engineering, electrical and consumer goods industries – the South East, East Anglia, South West and East Midlands (Martin, 1988).

Nevertheless, with regards to Churchill’s goal of building a nation of home-owners, building society leaders were still enviously looking at the United States – where the movement of home-ownership had advanced more than in England.

Building societies maintained that they did not receive a preferential tax treatment. For instance, they noted that :”despite the [Building] Association’s repeated claim that building societies as bodies which do not work for profit, should not be subject to profits tax, this burden, known in its earlier days as the National Defence Contribution, has been continuously imposed on societies by the Government since 1937 and, indeed, twice increased since the new basis was settled in 1958. (“Building Societies 1961-1962”, Building Societies Year Book 1962: 26]).

The electoral loss to Labour fast-tracked a generation of Conservative leaders who were conscious that their party would not recover its working class support unless it addressed itself to the social conditions of the depressed industrial areas. In other words, MPs such as Anthony Eden, Harold Macmillan and Robert Boothby, sought a revival of Disraeli’s —one nation politics, but this time based upon more government planning (Macmillan, 1938, 1966; MacMillan et al., 1927).

This implied amongst other that economic growth would be prioritised, even at the expense of growing inflation, eventually leading to the infamous stop-go patterns of growth and regulation in the 1950s and 1960s (Martin, 1988: 407). Finally, the Party, in alliance with civic organisations such as the People’s League for the Defence of Freedom and the Middle Class Alliance, committed publicly to the anticommunist and pro-family measures enshrined in US policy.618 This commitment transpired in calls to « set the people free » from socialist controls, and achieve greater national unity in face of the Cold War (Butler, 1963: 3-7; Jones, 1997: 242-243).

“The movement for wider investment in industry by wage earners and other small investors” (Conservative Political Center, 1959 Everyman a capitalist. London).

The London area functioned as something of a go-between. It was from this center of speculative finance that building booms emerged – for instance in the 1930s, in the 1970s and in the late 1980s with the conversion of some major building societies to PLC status. At the same time, it was in London that the house price/wage ratio rose most during speculative booms (cf. Speight, 2000).

The availability of loans undoubtedly played a part in raising the costs of house purchase, also because some lenders had to take recourse to high interest loans from other financial intermediaries because of the scarcity of building society funding (Boleat, 1986: 177).

As soon as 1970, the largest five building societies accounted for more than 50% of all building society assets (BSA Bulletin, October 1987).

Building societies’ interest rates on deposits tended to lag behind increases in the general level of market interest rates, resulting in a loss of competitiveness and a reduction in inflows to shareholders’ accounts. With a fall in inflows, the building societies generally employed non-price rationing devices to limit mortgage supply. This caused excess demand for mortgages to run high (Pawley, 1993: 31).
Building societies had interlinking relationships with landowners and builders/developers through common directors. They distributed largesse to local accountants, solicitors, bank managers and surveyors in the form of instructions and commissions on deposits received and clients introduced. It was almost impossible for an outside shareholder or depositor to have any say in the management of the society.

An exception to this rule were the events leading to the Building Societies’ Act of 1939. The excesses of the building boom and the unease expressed in Parliament about the close relationship between the builders and the building societies had led to the passing of this Act (The Building Societies Act 1939, 2 and 3 Geo 6, Ch 55). The 1939 Act would regulate matters and put into statute many of the provisions of the Building Societies’ Association code of conduct which the societies themselves had been unable to enforce. It also made other changes to the manner in which the societies operated. For example, it became impossible for one solicitor to represent both sides. The common practice was that the building society’s solicitor would be used by the society and the buyer and often the seller too, enabling the speedy processing of the building society application forms and the issue of a Land Registry certificate. More importantly the 1939 Act made it very difficult for the societies to accept collateral security, and therefore the builders’ ‘pool’ method of arranging addition security for the purchaser was ended.

Established in 1936, this Council was not solely a builders’ organisation; building societies, architects and others were represented on the governing body.

This catchphrase was first pronounced by Mr. Eden in 1945 (Lewis, 1954: 3), and more prominently Winston Churchill.

“The services of the housing market have long been organized to suit the professionals who sell them rather than the consumers, particularly working people, whose hard-earned savings buy them. This is sad, for the building societies could have used their financial clout to get expensive burdens off our backs...Who, however, could have expected anything better, given the self-perpetuating boards of directors - often composed of individuals with extensive property interests themselves - who have run the societies with an almost unbelievable lack of managerial talent” (foreword by Ken Weetch, Labour MP for Ipswich In Barnes, 1984: xiii-xv).

For instance, on a television chat show in May 1983, the Chief General Manager of the Abbey National Building Society rather desperately claimed that building societies were the “highest form of socialism”.

All in all, Thatcher’s moves would prove highly paradoxical. In spite of the phasing out of mortgage tax deductibility, England and later Scotland experienced a dramatic surge in home-ownership, pushing the country from a legacy of relative tenure neutrality to one of tenure-specialisation – home-ownership. Home ownership grew from 55% of the population in 1980 to 64% in 1987. By the time Margaret Thatcher left office in 1990 it was 67%. However, the number of public houses built went down to 35,000 in 1990 from 170,000 in the mid-1970s, with most of these built by housing associations rather than councils. 1.5 million council houses were sold by 1990, by 1995 it was 2.1 million.


By 1989 the number of shareholders created through privatisation efforts had retreated somewhat to 9 million.