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For all their rhetoric about free markets, the Thatcher Treasuries picked a winner in the 1980s: the financial sector. That winner has been backed ever since. Decisions taken by Thatcher's Treasuries effectively abandoned the regions and their industries, while greatly benefiting finance in the south east. The Treasury has not been passive in the rise of UK finance, and it cannot be passive in the 'rebalancing' that politicians now claim to want. It needs to pick, and make, other winners.

British finance has long been dominant over British industry, even at the height of the industrial revolution, and while this relative weakness did not always place industry at great disadvantage, it was never the favoured child. Throughout the 20th century, British governments tolerated large trade deficits resulting from policies that supported the City's role as an international clearing house. The Treasury's political commitment to tighter budgets and the foundations of the post-war economy, agreed at Bretton Woods, drew the City, the Bank of England and the Treasury close together. But By the 1970s, British industry was ailing in the face of foreign competition, and (with the exception of the arms sector) state interventionism was neither a coherent strategy nor consistently applied. The inflation and currency crises of the 1970s proved pivotal points at which the British state capitulated to international financial pressures and relinquished some of its policy autonomy, in part to maintain the City's position among the world's leading financial centres.

Even against this background, Margaret Thatcher's election in 1979 brought real and radical change. Repeated state interventions propelled finance while industry was left to its own devices. Although the groundwork for monetarism had been laid by the Labour government's acceptance of the terms of the IMF's loan in 1976, the high interest rates that accompanied Geoffrey Howe's aggressive and explicit monetarism strengthened sterling and made borrowing for capital dear. This hurt physical manufacturers and especially exporters, all the while making British finance comparatively more powerful. Howe was the first chancellor to persistently champion small shareholders and the individual investor, groups whose characterisation became a significant part of the Treasury's pro-finance public relations. In his budget speeches he spoke of industry only one-third as often as his predecessor, Denis Healey, had. Although Howe's successor, Nigel Lawson, cut corporation tax from 52 per cent to 35 per cent, this was explicitly paid for by removing capital investment allowances for machinery and plant, measures which hit industry but not finance. Similarly, the Treasury raised general VAT rates on basic goods and services, while finance and insurance services were VAT-exempt. The signals from the top of the Treasury showed that industry mattered less and finance more.

The activist Thatcher Treasuries directly oversaw or heavily influenced a slew of other pro-finance changes. Among Howe's first acts were exchange and dividend control reforms, for which the City had lobbied for years. The liberalisation of hire purchase and personal credit were free market Treasury initiatives, accomplished through profit-taking financial firms. The Treasury also reduced stamp duty on the purchase of shares and bonds, from two per cent down to 0.5 per cent. The negotiations for the liberalisation of the London Stock Exchange – most unwelcome in that closed shop – took years of effort by Thatcher's team to achieve, and it turbo-charged the stock exchange when it abolished many of the barriers

between financial investing and banking in 1986. London's equity markets developed a much larger turnover, and the lower profits for gilt dealers meant that they became more speculative to make up their shortfall. In the newly-created futures markets, the banks became dominant over other brokers and were now able to 'short' the cash markets, and the gilt and securities markets underwent a merger-and-acquisition phase. In a speech in 1986, the chairman of Wood Gundy, Ian Steers, named "a positive and welcoming government attitude" as one of the City of London's "natural" advantages. He explained that "the infrastructure which is in place is so big and the number of people directly involved so large, that only a major change in government policy as to tax or regulation could cause the market to move."

Sir Nicholas Macpherson, the permanent secretary to the Treasury, has argued that free trade, a preference for the consumer, and opposition to protectionism and mercantilism were positions that reduced distortions, advanced competition, and marginalised special interest groups. Certainly the 'protections' removed from British industry in the 1980s did marginalise them, just as the series of 'enhancements' offered to British finance advanced competition between the two for capital, a competition that industry lost. "To govern is to choose," George Osborne is fond of saying, and indeed it is. For any sector to have any hope on 'balancing' finance in the UK's future, that sector will have to be chosen too.